ANNUAL REPORT 2009

VATTENFALL

VATTENFALL AT A GLANCE

Vattenfall is Europe's fifth largest generator of electricity and largest producer of heat. Consolidated sales in 2009 amounted to SEK 205,407 million. Vattenfall's main products are electricity, heat and gas. In electricity, Vattenfall works in all parts of the value chain: generation, transmission, distribution and sales. In heat, Vattenfall is active in production, distribution and sales. Vattenfall is also engaged in production and sales of gas, energy trading, and lignite mining. The Group has approximately 40,000 employees, and the Parent Company, Vattenfall AB, is 100%-owned by the Swedish state. Operations in 2009 were conducted in Sweden, Denmark, Finland, Germany, Poland, the UK, the Netherlands and Belgium.

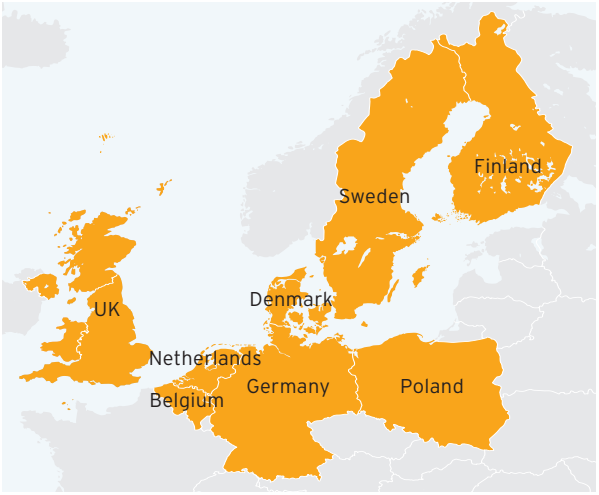
Vattenfall's vision:
To be a leading European energy company

Vattenfall's mission:
To improve our customers' competitiveness, environment and quality of life by providing effective energy solutions and world-class service

Vattenfall's strategic direction:
Making electricity clean

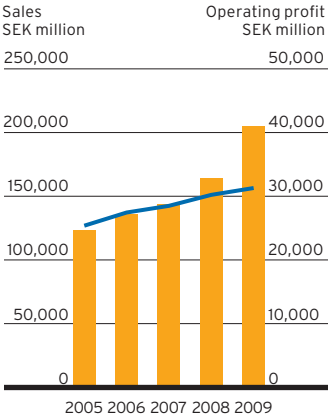
Vattenfall's core values:
Openness, accountability and effectiveness

Vattenfall's markets



Vattenfall is well diversified geographically as well as in its balance of energy sources and electricity, heat and gas production. Being active in several markets reduces sensitivity to drops in demand in individual countries. A well balanced production mix comprising hydro power, nuclear power, fossil-based power, wind power and biomass-based power reduces sensitivity to price changes or regulations that could affect the profitability of the individual sources of energy.

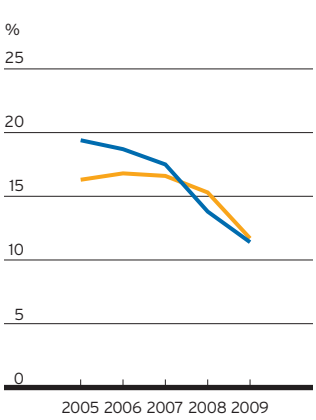
Sales and operating profit



Net sales
Operating profit[1]

1) Excl. items affecting comparability.

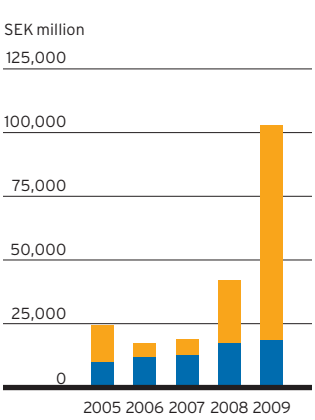
Profitability



Return on equity[1]
Return on net assets[1]

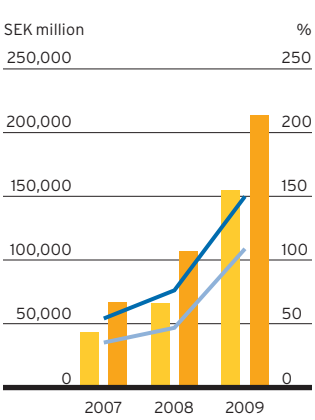
1) Excl. items affecting comparability.

Investments



Maintenance investments
Growth investments

Debt/equity ratio

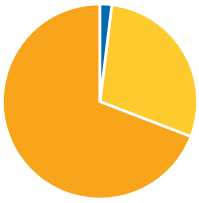


Net debt
Total interest-bearing liabilities
Debt/equity ratio, %
Net debt/equity ratio, %

Electricity generation, %

Other[1] 2
Hydro power 21
Nuclear power 26
Fossil-based power 51

Heat sales, %

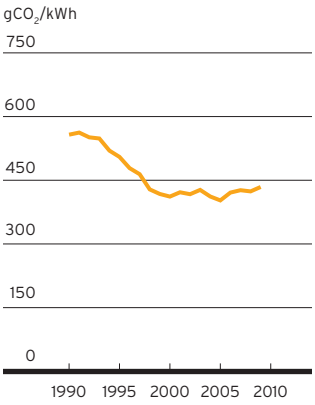


Business Group Benelux 2
Business Group Nordic 29
Business Group Central Europe 69

1) Wind power, biomass and waste.

The breakdown of electricity generation and sales of heat is based on generated electricity and sold volume in TWh, respectively.

CO_2 emissions per generated unit of electricity and heat



Key data

	2009	2008	Change, %	2009, MEUR[1]	2008, MEUR[1]
Net sales, SEK million	205,407	164,549	24.8	19,840	15,894
EBITDA, SEK million	51,777	45,960	12.7	5,001	4,439
Operating profit, SEK million	27,938	29,895	–6.5	2,699	2,888
Operating profit excl. items affecting comparability, SEK million	31,294	30,220	3.6	3,023	2,919
Profit before tax, SEK million	17,734	23,498	–24.5	1,713	2,270
Profit for the year, SEK million	13,448	17,763	–24.3	1,299	1,716
Earnings per share, SEK	97.92	129.8	–24.6	9.46	12.54
Return on equity, %	9.5	13.6			
Return on net assets, %	10.0	15.1			
Total assets, SEK million	602,127	445,827	35.1	58,160	43,063
Equity/total assets, %	23.7	31.6			
Funds from operations (FFO), SEK million	36,700	30,735	19.4	3,545	2,969
Free cash flow, SEK million	27,566	18,963	45.4	2,663	1,832
Investments, SEK million	102,989	42,296	143.5	9,948	4,085
Electricity generation, TWh	158.9	162.1	–2.0		
Heat generation, TWh	37.9	35.6	6.5		
Number employees, full-time equivalents	40,026	32,998	21.3		

1) Exchange rate SEK 10.35=EUR 1

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Financial calendar

10 February 2010	Year-end report 2009
31 March 2010	Annual Report 2009
29 April 2010	Interim report for January–March
29 April 2010	Annual General Meeting
29 July 2010	Interim report for January–June
28 October 2010	Interim report for January–September
10 February 2011	Year-end report 2010

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Other publications

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

All reports can be ordered or downloaded from Vattenfall's websites

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

Reports can be ordered from
Vattenfall AB, SE-162 87 Stockholm
Tel. +46 8 739 50 00

The English version of Vattenfall's Annual Report is a translation of the Swedish original, which is the binding version and shall take precedence in the event of any discrepancies.

VATTENFALL 2009

Vattenfall reported **a good underlying operating profit for 2009** despite difficult market conditions during the year, with lower industrial demand for electricity and significantly lower electricity wholesale prices.

One of the most noteworthy events during the year was the acquisition of Dutch energy group N.V. Nuon Energy (Nuon). The deal was presented on 23 February 2009, and as from 1 July 2009, Nuon is part of the Vattenfall Group. The Benelux area makes up a new geographic market for Vattenfall and entails a further diversification of risk in the operations.

In 2009 Vattenfall invested heavily in electricity and heat production, and total investments, excluding shares, amounted to SEK 38 billion. Investments in wind power generation totalled SEK 8 billion, an increase of SEK 5.4 billion. In addition, during the year Vattenfall worked on further safety improvements and on restoring trust in the company's nuclear power operations.

The main challenges for Vattenfall in the years ahead continue to be to **reduce the environmental and climate impact of operations, improve profitability and strengthen cash flow.** Strong cash flows are a prerequisite for the major investments that Vattenfall is facing in the work on adapting its production portfolio to the environmental requirements of the future. Vattenfall is convinced that a realignment of the generation portfolio will provide a significant competitive advantage and thereby help **Vattenfall realise its vision of being a leading European energy company.**

HIGHLIGHTS 2009

14/1 Vattenfall acquires 51% of the Irish development company for ocean energy, Pandion Ocean Power.

18/2 Vattenfall and BMW unveil electric car project in Berlin.

23/2 **Acquisition of Nuon opens up new market for Vattenfall**

The acquisition of Dutch energy group N.V. Nuon Energy (Nuon) is one of the largest events for Vattenfall in 2009. The deal is presented on 23 February 2009, and as from 1 July 2009 Nuon is part of the Vattenfall Group.

The acquisition of Nuon is an important milestone in Vattenfall's strategy. Benelux becomes a new, main geographic market for Vattenfall, and through Nuon, Vattenfall gains key competence in natural gas. In renewable energy, Nuon adds additional knowledge to Vattenfall's investments primarily in wind power.

Nuon, one of the three major players in the Dutch electricity market, is active in production and sales of gas, electricity, heat, district cooling and energy trading. Nuon had 2.6 and 2.1 million electricity and gas customers, respectively, in 2009, with approximately 6,100 employees. Nuon owns several coal- and gas-fired power plants with 3,743 MW of installed capacity. Wind power capacity amounts to 321 MW.

1/6 Vattenfall and Volvo announce development collaboration on plug-in hybrids.

3/6 The Swedish Nuclear Fuel and Waste Management Company (SKB) announces its choice of Forsmark as the final repository for spent nuclear fuel in Sweden.

9–11/6 Vattenfall arranges a Climate Days conference in Stockholm in association with the company's centennial celebrations.

1/7 Acquisition of Nuon completed – Business Group Benelux becomes new arm of Vattenfall.

4/7 The Krümmel nuclear power plant in Germany is scrammed following a short circuit in a transformer station.

17/9 Vattenfall and forest products company Stora Enso sign electricity supply agreement for the period 2013–2022.

30/10 Industrikraft AB, owned by Boliden, Eka Chemicals, Holmen, Stora Enso and SCA Forest Products, signs letter of intent with Vattenfall on joint energy generation in a move to secure the long-term future of industrial operations in Sweden.

25/2 Groundbreaking for new combined heat and power plant in Jordbro, outside Stockholm, which will be fuelled with biomass.

15/3 Planned outage begun of Ringhals 1. Restart of the reactor is subsequently delayed due to additional work and time-consuming tests.

26/3 Vattenfall acquires the Stor–Rotliden wind park project in northern Sweden.

22/4 The Swedish Radiation Safety Authority (SSM) announces that it is lifting its special oversight of the Forsmark nuclear power plant.

5/5 Vattenfall signs agreement with glass maker Pilkington on portfolio management and physical deliveries of electricity in Sweden, Finland and Norway.

24/5 Planned outage begun of Ringhals 2. Restart of this reactor is also delayed due to additional work and time-consuming tests.

16/11 Vattenfall announces the appointment of Øystein Løseth to succeed Lars G. Josefsson as President and CEO of Vattenfall prior to summer 2010.

20/11 Very favourable results of OSART review of the Forsmark nuclear power plant.

9/12 Vattenfall's planned CCS demonstration plant in Jänschwalde, Germany, is granted up to EUR 180 million in funding from the European Commission.

17/12 Vattenfall and Pelamis Wave Power present plans for a wave power project offshore the Shetland Islands.

100 YEARS OF DEVELOPMENT

2009 was a year filled with changes and challenges. Despite difficult market conditions and lower industrial demand for electricity and considerably lower wholesale electricity prices, Vattenfall showed a good underlying operating profit for the year. Positive earnings effects from price hedges contracted in previous years more than compensated for the negative effect of lower production volumes. Impairment losses and other items affecting comparability hurt operating profit by approximately SEK 3.4 billion. Net sales rose 24.8% to SEK 205,407 million (164,549), while operating profit fell 6.5% to SEK 27,938 million (29,895). Excluding items affecting comparability, operating profit rose 3.6% to SEK 31,294 million (30,220). Profit for the year (after tax) fell 24.3% to SEK 13,448 million (17,763). Excluding items affecting comparability, profit for the year decreased by 10.7% to SEK 16,054 million (17,968).

Given the prevailing market conditions during the year, our operating profit was good, especially considering that it was affected by items affecting comparability. In addition to the adverse effects of the recession and lower generation volumes, low availability of the Swedish nuclear power plants also had a negative impact. Price hedges had a favourable effect on Vattenfall's profit, as did favourable earnings from the operations in Germany and Poland. Higher interest expenses associated with the acquisition of Dutch energy group N.V. Nuon Energy (Nuon) also put a burden on net profit.

In step with society's development

Vattenfall was established 100 years ago. The instruction for the then Swedish State Power Board that was issued by the King of Sweden on 31 December 1908 states that the company's board of directors shall be made up of a chairman and four other directors "who shall represent technology, industry and business, and thereby lend the capacity for initiative, strength of purpose and experience in the various areas of practical life". From the very start, the idea was to organise the business on commercial terms. A look back clearly shows that we and the generations before us have far exceeded these expectations. Vattenfall's development goes hand-in-hand with the progress of modern society. A highly developed electricity system and access to effective solutions at competitive prices are prerequisites for society of today and tomorrow.

Most of Vattenfall's first 100 years have been characterised by major technical and commercial challenges. In modern time, deregulation and internationalisation have changed the fundamental conditions of doing business. The major challenge for the future involves contributing to sustainable development – climate change is the driving force that is changing our business.

Many small steps on the path to a sustainable future

The scope of the challenges that we at Vattenfall face, as does society in general, is succinctly pointed out in the book *A One Tonne Future. A Guide to the Low-Carbon Century*[1], which two Vattenfall employees authored ahead of our centennial celebrations in Stockholm last June. Greenhouse gas emissions must be reduced to very low levels – and even cease where possible over the long term. Such a major change will take place in many small steps, but the direction is clear. Our own and others' analyses show that such a development is fully possible and that the cost – from society's perspective – is manageable. Achieving a sustainable future is first and foremost a matter of human power – our ability to co-operate and find common solutions.

Energy to meet tomorrow's needs

Vattenfall's ability to contribute to sustainable development in the countries in which we work is determined by our knowledge about future solutions and the resource base that we have for our activities. We must work along both these lines at the same time. During the ten years that I have led Vattenfall, we have worked hard at creating business volume that can bear the investments that need to be made through strong cash flows, at the same time that we have broadened our business substantially – geographically as well as in terms of operations. A comparison of key figures between 1999 and 2009 shows in concrete terms the transformation that Vattenfall has undergone.

SEK million	1999	2009
Sales	27,754	205,407
Operating profit	5,483	27,938
Profit for the year attributable to the Parent Company	2,538	12,896
Cash flow (FFO)	6,224	36,700
Dividend payout	1,500	5,240[2]
Investments	7,916	102,989

Vattenfall's production volume has doubled many times over, and so has the company's financial might. The Vattenfall of today is a powerful resource with a cash flow that enables the investments required by the challenges of the future. Our operating profit today is as large as our entire sales were ten years ago. The scope of our operations

1) The book can be ordered from www.vattenfall.com.

2) Proposed dividend.

and the breadth of the competence that 40,000 employees in eight countries represent show that we, too, have the human power which will ultimately determine how well we succeed in our efforts to contribute to a more sustainable world.

Broad palette of solutions

Our major contribution to sustainable development will be made by reducing emissions – that is to say, our company's operations will be climate-neutral. It will take time – this we know – but we also know that we must work with this vision in everything we do, in every step we take. During the last ten years we have dedicated extensive work to broadening our know-how about future solutions and creating paths into the future. Today Vattenfall is working on developing its competence in a broad spectrum of solutions. Our role is to take technical solutions from laboratory scale to the market by building pilot plants, accelerating commercialisation and also by working together with colleges and universities. We are working with wind power, wave power, nuclear power of the future, co-combustion of biomass, Carbon Capture and Storage, effective customer solutions, smart grids and electric vehicles. We will make electricity emission-free, because we know this is necessary for sustainable success and profitability. Electricity is a vital resource for building a society with very low emissions. We also know that it will take time.

During Vattenfall's one-hundred year history, our operations were not built up in a few major steps. On the contrary, it has been a matter of how the combination of entrepreneurship, advanced know-how about possible solutions and foresight regarding future needs has gradually opened up new opportunities. The same conditions will apply in our work on contributing to the shaping of a future society in which emissions of greenhouse gases will be a thing of the past. Vattenfall's climate vision, which entails that operations are to be climate-neutral by 2050 at latest, can only by realised if we succeed in using our resources to meet the needs of today and tomorrow by running a commercially successful enterprise.

Lars G. Josefsson
President and CEO

A LEADING EUROPEAN ENERGY COMPANY

In 2009 Vattenfall celebrated its 100-year jubilee – the company started out in 1909 as the Swedish State Power Board, in Trollhättan. Since then, Vattenfall has evolved to become Europe's fifth-largest generator of electricity and largest producer of heat. Vattenfall took its modern form in 1992 when the Swedish State Power Board (Statens Vattenfallsverk) was restructured and incorporated to form a public limited liability company. The company's evolution during the last twenty years can be encapsulated in four main phases, described below. The work on Vattenfall's vision of being a leading European energy company has intensified in recent years. The main challenges in the years ahead are to reduce the Group's climate impact, improve profitability and strengthen cash flow.

Phase 1: 1990–1995

The modern Vattenfall takes shape

The state enterprise Statens Vattenfallsverk is restructured into a state-owned limited liability company in 1992. In connection with this, the national grid – the Swedish high-voltage network – is detached and transferred to Svenska Kraftnät, a newly formed state utility.

Phase 2: 1996–2001

Strong growth

The Swedish electricity market is deregulated in 1996. Vattenfall's board decides to embark on an international growth strategy, beginning with the acquisition of Finnish company Häämen Sähkö. In Germany, Vattenfall acquires the companies HEW, Bewag, VEAG and Laubag, and thereby becomes Germany's third-largest generator of electricity and largest producer of heat. In Poland Vattenfall acquires the heat producer EW and the distribution company GZE. Vattenfall's international establishment is concentrated in northern Europe, and holdings in various projects in Asia and Latin America are divested.

Phase 3: 2002–2006

Consolidation

Vattenfall focuses on consolidation and integration of its newly acquired companies and builds a uniform brand. Starting in 2006, all operations in Germany and Poland are conducted under the Vattenfall name. A number of combined heat and power and wind power assets are acquired in Denmark.

Phase 4: 2007–2009

Climate issue and renewed growth

Awareness about the risks of climate change rises around the world. Vattenfall formulates its climate vision, which entails that operations are to be climate-neutral by 2050 at the latest. In 2008 Vattenfall inaugurates the world's first coal-fired pilot plant for Carbon Capture and Storage employing oxyfuel technology, in Schwarze Pumpe, Germany. Vattenfall completes wind power facilities and also acquires several wind power companies in the UK 2008. In 2009 Vattenfall acquires Dutch energy company N.V. Nuon Energy.

MAIN CHALLENGES 2010–2014

CCS pilot plant, Schwarze Pumpe, Germany.

Reduce environmental and climate impact of operations

The EU's climate goals call for a shift in the European energy market towards a more sustainable society. By 2020, 20% of energy production shall be renewable, CO_2 emissions shall have been cut by 20% (compared with 1990 levels), and energy consumption shall have been made 20% more efficient.

Vattenfall was the first energy company to establish a climate vision, calling for its operations to be climate-neutral by 2050 at the latest. One goal along the way is to halve CO_2 emissions per generated unit by 2030 at the latest, compared with 1990 levels. The shift to climate-neutral operations will require a radical change in the production portfolio in favour of low-emitting technologies. This will take a long time due to long lead times; it will also require financial strength and cutting edge technological expertise. Today a substantial share of Vattenfall's energy generation is still based on combustion of fossil fuels, and the Group is thereby one of Europe's largest emitters of carbon dioxide.

Improve profitability and strengthen cash flow

Value creation and long-term profitability that is in line with the market are the overarching demands that Vattenfall's owner, the Swedish state, puts on the company. However, during the last two years Vattenfall's earnings have fallen and the company has not achieved the required 15% rate of return on equity. At the same time, the company's debt has mounted while its cash flow has decreased. Vattenfall intends to improve profitability and strengthen its cash flow through concrete measures in the following three areas:

- Reprioritisation and reduction of investments
- Divestment of non-core assets
- Productivity improvement programme

Vattenfall's work on strengthening the brand and instilling trust in its operations is a prerequisite for improved profitability, since this will lay the foundation for continued value creation. Vattenfall is also working intensively on further improving safety at its nuclear power plants. High safety is a prerequisite for the company's ability to maintain high availability and production, and thereby generate a stable stream of revenue.

MAKING ELECTRICITY CLEAN – A LONG-TERM COMPETITIVE ADVANTAGE

The challenges of reducing the climate impact of operations and improving profitability are expressed in Vattenfall's strategic direction: Making electricity clean. This strategy is not only a matter of setting ambitious environmental and climate targets – it is also a business strategy for long-term profitability and growth, which will improve profitability and lead to Vattenfall's vision of being a leading European energy company. Energy companies that adapt their generation portfolio and operations to tomorrow's operating environment will have a major competitive advantage in the energy market of the future.

Vattenfall's work on reducing the environmental and climate impact of its operations is a prerequisite for strengthening its long-term competitiveness. The company's work with these matters is expressed in its strategic direction: Making electricity clean. A key part of this strategy involves Vattenfall's climate vision, that is, that operations shall be climate-neutral by 2050 at the latest. As a goal along the way, Vattenfall has also set the goal of halving its emissions of CO_2 per generated unit of electricity and heat by 2030, compared with 1990 levels. This means that Vattenfall will gradually be reducing the climate impact of its operations.

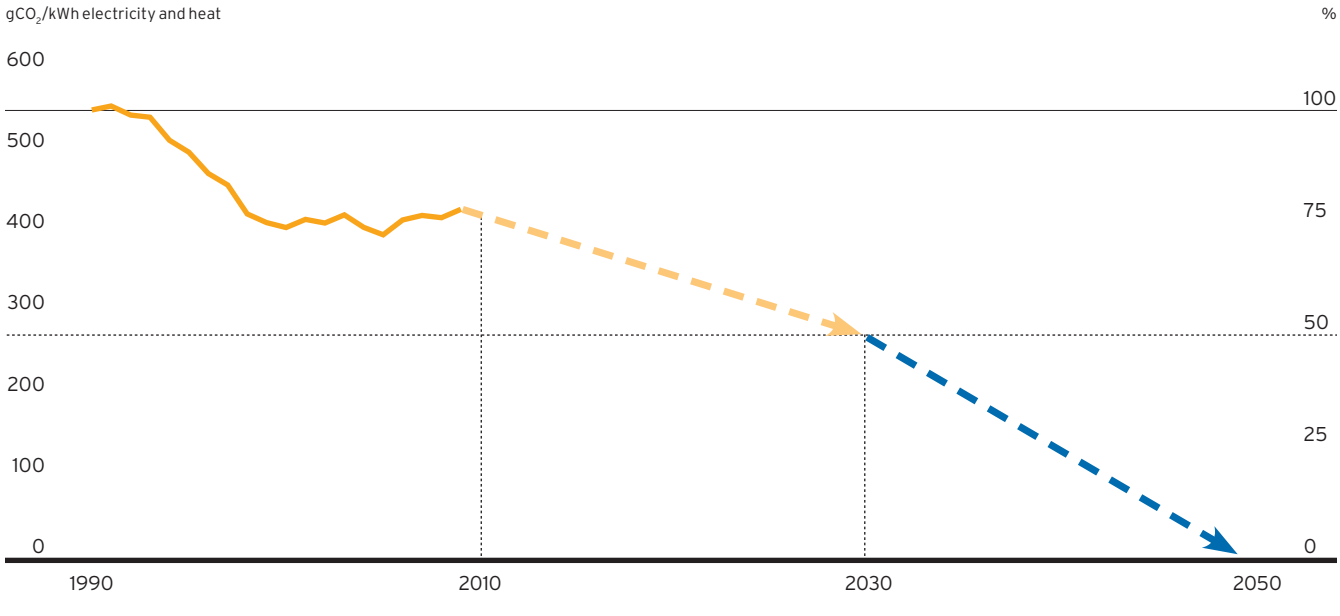
In Europe, the framework for future energy generation has been set through various EU directives. The long-term goal can be summarised with the formula 20–20–20: by 2020, the share of renewable energy shall be 20%, CO_2 emissions shall be reduced by 20% (compared with 1990 levels), and energy efficiency shall be improved by 20%. These standards will be gradually sharpened in the future. The EU is currently discussing a target to cut CO_2 emissions by 80%–95% compared with 1990. Energy companies that adapt their production portfolios and operations to tomorrow's conditions will have a major competitive advantage in the energy market of the future.

Shift in production portfolio

A shift is taking place in the production portfolio through development of the portfolio towards low-emitting technologies, such as nuclear power and renewable energy sources, like hydro power, biomass, wind power and – in time – ocean energy. Since many of Vattenfall's geographic markets (Germany, Poland and the Netherlands in particular) are largely dependent on fossil-based forms of energy – like coal and natural gas – for their energy and heat production, development of CCS technology for the capture and permanent storage of carbon dioxide is play-

Vattenfall's climate vision

Vattenfall's target is to halve specific emissions from its existing operations by 2030, compared with 1990 levels. The vision is to be climate-neutral by 2050.



ing a key role in Vattenfall's work to radically reduced its emissions of carbon dioxide and other gases.

New technologies for low-emitting generation will take time to develop. Many technologies are not yet commercially viable and are dependent on support systems and subsidies. Consequently, bridging solutions are needed ahead of energy systems of the future, such as CCS technology, to ensure stable energy supply at a reasonable price, at the same time that environmental and climate impact must be reduced already today.

Moreover, lead times in the energy industry are long, and it commonly takes many years before investment decisions show any effects in the form of, for example, lower CO_2 emissions and higher production volume.

Vattenfall has a good starting position

The massive investments that Vattenfall needs to make to bring about a shift in its production portfolio require good profitability and strong cash flows.

Vattenfall has a good starting position. The Group is well-diversified, both geographically and in terms of its balance of electricity, heat and gas production. Being active in several markets also reduces Vattenfall's sensitivity to declines in demand in individual countries. A well balanced mix of hydro power, nuclear power, fossil-based power, wind power and power from biomass reduces the company's sensitivity to price changes or regulations that could affect the profitability of an individual type of energy.

A large share of Vattenfall's energy is generated from the Group's own resources – hydro power and coal-fired power using lignite from own mines – which makes the Group highly independent of fluctuations in commodity prices.

Measures to improve profitability and strengthen cash flow

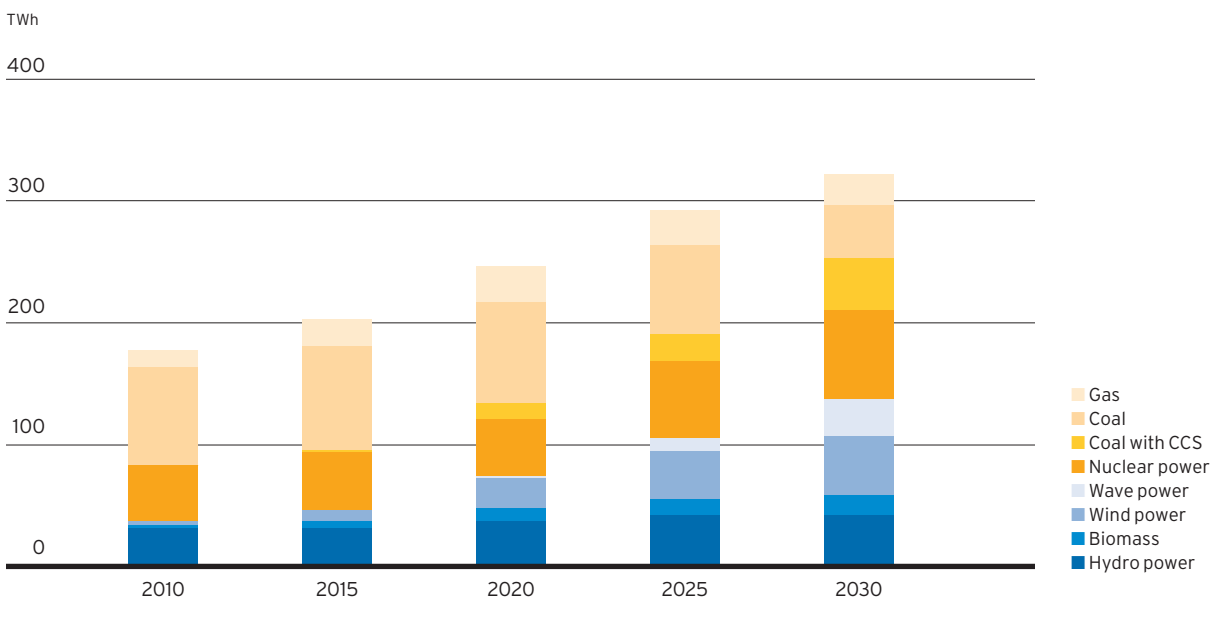
Vattenfall enjoyed good profitability for a number of years, which enabled ambitious investment plans. However, during the last two years Vattenfall's earnings have declined at the same time that its investment challenges remain great. The work on improving profitability and strengthening cash flow is mainly being conducted along three lines:

- Reprioritisation and reduction of investments
- Divestment of non-core assets
- Productivity improvement programme

Reprioritisation of investments

The Group's investment volume must be in line with the set financial parameters and must be steered in a direction that

Vattenfall's shift in the production portfolio



generates the best return. Every planned investment must meet a number of criteria in order to be carried out. Among other things, investments must meet demands for good profitability and acceptable risk profile. In addition, it is imperative that society has confidence in the planned investments.

Vattenfall's investment plan 2010–2014

The energy industry is generally charachterised by long lead times and planning requirements, and as a result, investments decisions made today will not take affect until quite some time into the future.

Vattenfall's investment plan for the period 2010–2014 is worth SEK 201 billion, excluding any acquisitions. The investment plan also encompasses the acquired operations in the Netherlands and Belgium. In this plan, investments in fossil-based power amount to approximately SEK 100 billion. The investments in the coal-fired Moorburg and Boxberg plants in Germany, which were decided on several years ago, are now in an intensive phase. The Group's investments in gas-fired plants – primarily the Magnum plant in the Netherlands – are a consequence of Vattenfall's acquisition of N.V. Nuon Energy during the year. The investments in these conventional plants will increase Vattenfall's generation capacity and contribute to security of supply in Germany and the Netherlands.

The major investments being made also include Vattenfall's wind power ventures in the UK, such as the Ormonde offshore wind farm outside the North West region in the Irish Sea and Thanet, off the south-east coast of Kent. As many wind power projects are in the planning and development phase, they will bear greate weight in Vattenfall's investment plans some time in the future, after 2015. This is due in part to a strategic repriorisation from land-based wind power to more profitable offshore projects in the UK, among other places.

Vattenfall is also investing in efficiency improvements at the Forsmark and Ringhals nuclear power plants in Sweden in order to boost generation capacity. In addition, work is being conducted to improve safety in the nuclear power operations, which is a prerequisite for Vattenfall's ability to maintain high availability and thereby generate a steady stream of revenue.

Of the total investment plan for 2010–2014, nearly 80% pertains to investments in electricity generation and heat production. The rest pertains to investments in electricity and heat networks, among other things.

Divestment of non-core assets

One part of the work on strengthening profitability involves divesting non-core assets that are not aligned with Vattenfall's future strategic direction or which do not meet the required rate of return set by Vattenfall's owner. The largest divestment made in 2009 was the sale of Vattenfall's stake (80%) in the German electricity trading and network company WEMAG. The deal was completed on 5 January 2010.

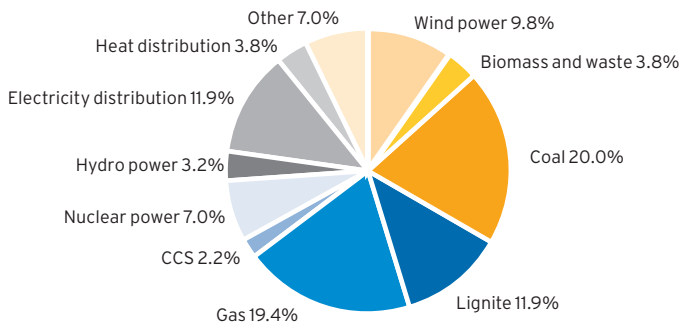
In November 2009, the decision was made to leave the Zuidwending gas storage project for profitability reasons. The project was a co-operation venture between N.V. Nuon Energy and Gasunie.

In 2009 Vattenfall also sold its stakes in the three Swedish energy companies Luleå Energi AB, AB PiteEnergi and Jämtkraft AB.

Productivity improvement programme continues

Vattenfall is also working on improving productivity throughout the Group. Since 2007 the company has been conducting an initiative called Operational Excellence, with the goal of improving productivity by 11% during the period 2006–2010, corresponding to a reduction in costs

Investment programme 2010–2014

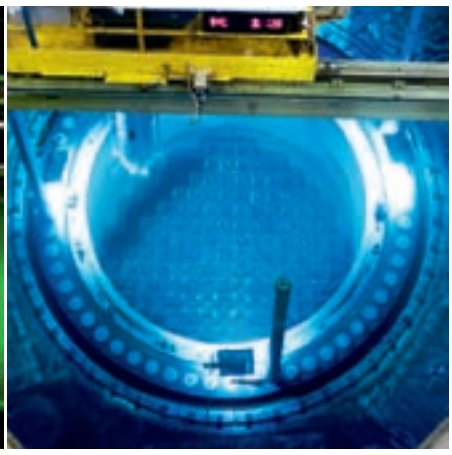


SEK billion	
Wind power	19.7
Biomass and waste	7.6
Coal	40.2
Lignite	23.9
Gas	39.1
CCS	4.3
Nuclear power	14.1
Hydro power	6.5
Electricity distribution	23.9
Heat distribution	7.6
Other	14.1
Total	**201.0**

Renewable energy, development of CCS technology and nuclear power are vital in the shift of the generation portfolio

Vattenfall is investing in renewable sources of energy, such as wind power, hydro power and bioenergy. Substantial sums are therefore being invested in several areas, above all in wind power. Vattenfall is today one of the world's largest wind power operators.

Coal will continue to be an important source of energy in Europe for many years to come. Consequently, CCS technology, involving the capture and storage of carbon dioxide from coal combustion, will be a key technology for reducing future CO_2 emissions. With CCS, carbon dioxide from fossil-based power plants can be captured and permanently stored deep underground. Vattenfall has taken a leading position in the development and demonstration of CCS technology through its Schwarze Pumpe pilot plant in Brandenburg, Germany.



Vattenfall is working continuously on restoring trust in the company as a nuclear power operator and on attaining world-class nuclear power safety and generation. High safety is a prerequisite for the ability to maintain a high level of availability and thereby generate stable revenue. Nuclear power is also an important component in Vattenfall's work to achieve climate-neutral operations.

by SEK 5 billion. In addition to its goals for 2006–2010, Vattenfall expects that synergy effects from the integration of Nuon will generate another EUR 100 million in value creation starting in 2015.

Long road lined with challenges

In summary, the challenges that Vattenfall is facing – both in the near and long term – are substantial. The path from today as one of the companies in Europe that emits the most carbon dioxide to that of an energy company with climate-neutral operations in 40 years is long. The challenges are of many types – technological, financial, but also communicative. By being the first in the energy industry to adopt a climate vision, Vattenfall has taken a pioneering role. Vattenfall has thereby also taken upon itself a heavy burden to explain: to create an understanding that the shift from today's energy generation to tomorrow's climate neutrality will not be achieved with leaps and bounds, but through many small steps in the right direction.

The major and costly investments that are needed will require stronger profitability that is achieved through measures that perhaps do not always point unequivocally to the final goal. Along the way, Vattenfall will also be making investments in new, modern, conventional technologies that do not take the Group all the way to its climate goal, but which nevertheless constitute the attainment of important partial goals through higher degrees of efficiency, lower emissions and the ability to out-compete older, less climate-friendly production plants.

At the same time, there is no getting around the fact that some of the planned investments in the coming years will be made in renewable energy that will not immediately realise its profitability potential. However, in pace with legislation and regulations that make emitting carbon dioxide and other greenhouse gases financially unprofitable, these far-sighted investments will grow increasingly competitive. Vattenfall is convinced that a change in the production portfolio, adapted to the conditions of the future, will give the Group a major competitive advantage and thereby contribute to the realisation of Vattenfall's vision to be a leading European energy company.

FINANCIAL TARGETS AND PERFORMANCE 2009

Vattenfall's vision to be a leading European energy company is conditional upon economic value creation and profitable growth. Based on this, Vattenfall's owner – the Swedish state – has set four financial targets. Together with Vattenfall's five strategic ambitions, these form the foundation of Vattenfall's business control.

Vattenfall's overarching financial goal is to create economic value by generating a competitive return over time. Based on this, Vattenfall's owner has set four financial targets for profitability, interest coverage, credit rating and the dividend. The targets are long-term, which means that they are to be evaluated as averages over a business cycle (approx. 5–7 years). They are also the foundation for the business planning process within the Group.

In addition to the financial targets set by Vattenfall's owner, Vattenfall has defined five strategic ambitions: Number One for the Customer, Number One for the Environment, Profitable Growth, Benchmark for the Industry and Employer of Choice. These are described on the following pages. Each ambition has a set of quantitative goals that are followed up yearly. Vattenfall has also defined long-term goals for each ambition, such as the goal of halving CO_2 emissions per produced unit of electricity and heat by 2030, compared with 1990 levels.

The financial targets and the goals for the strategic ambitions together form the framework for Vattenfall's business control.

Financial target

Profitability

- The owner's long-term target for Vattenfall's earnings is that profit after tax should amount to at least 15% of average equity.
- Internally, Vattenfall also uses a target for return on net assets of 11% before tax.

Interest coverage

The owner's long-term target for Vattenfall's interest coverage is that the cash flow interest coverage ratio after maintenance investments should amount to 3.5–4.5. This target has been set to ensure that Vattenfall always has sufficiently high cash flow to be able to cover its interest expenses even after bearing the cost of maintenance investments. By maintenance investments is meant primarily investments in maintenance and productivity improvements in existing plants.

Rating

Vattenfall's goal is to maintain a long-term credit rating in the single A category from both Moody's and Standard & Poor's (S&P). A rating from these rating agencies is a balanced assessment of a company's creditworthiness based on quantitative credit metric analysis as well as qualitative assessment of the company's business risk. Ratings are therefore a good indication of a company's financial position. The single A category is defined as A3 – A1 by Moody's and A- – A+ by S&P. The ratings are monitored continuously by the rating agencies.

Dividend

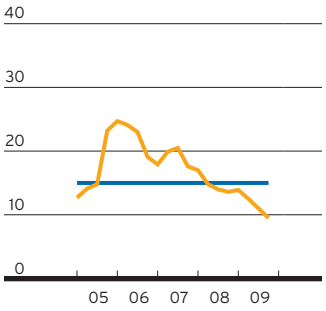
Vattenfall's dividend to the owner should amount to 40%–60% of profit after tax. However, the yearly decisions on the dividend shall take implementation of the company's strategy, financial position and other economic targets into account.

Outcome 2009

- Return on equity after tax was 9.5% in 2009.
- Return on net assets was 10.0%.

The decline from a year ago (13.6%) is mainly attributable to lower operating profit and higher financial costs. For an analysis of Vattenfall's income statement, see page 53.

Return, %



Target

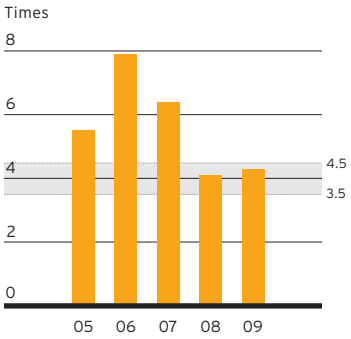
15%

Return on average equity

- The cash flow interest coverage ratio after maintenance investments was 4.3 in 2009.

The improvement compared with a year ago (4.1) is attributable to an increase in cash flow from operating activities. For an analysis of Vattenfall's cash flow, see page 56.

Cash flow interest cover after maintenance investments



3.5–4.5

Cash flow after maintenance investments shall amount to 3.5–4.5 times interest expense

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Vattenfall's current ratings are A2/P-1 from Moody's and A/A-1 from S&P. On 1 July 2009 S&P upgraded Vattenfall's credit rating for long-term borrowing from A– to A and for its short-term borrowing from A-2 to A-1, in accordance with its new methodology for the rating of government related entities. The outlook for Vattenfall's rating is stable from Moody's and negative from S&P. S&P changed its outlook from stable to negative on 23 December 2009.

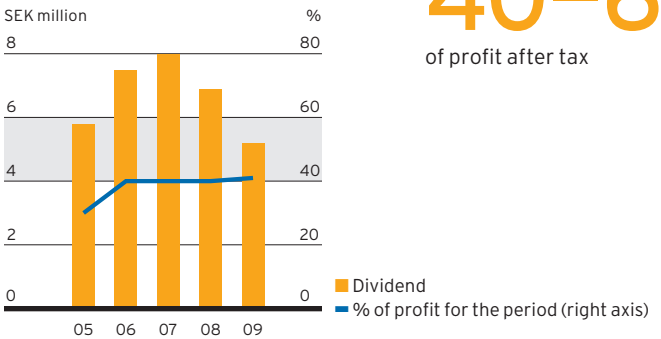
	Long-term Moody's	Long-term S&P	Short-term Moody's	Short-term S&P
2009	A2	A	P-1	A-1
2008	A2	A–	P-1	A-2
2007	A2	A–	P-1	A-2
2006	A2	A–	P-1	A-2
2005	A2	A–	P-1	A-2

A

"Single A" category rating

The proposed dividend for 2009 is SEK 5.2 billion (40.6% of profit after tax). The pay-out ratio is on par with the preceding year (40.4%).

Dividend as % of profit for the period



40–60%

of profit after tax

STRATEGIC AMBITIONS

Vattenfall's five strategic ambitions	Activities during the year
Number One for the Customer Increase customer orientation and win market shares while boosting cost effectiveness • Make sure Vattenfall has the right products, services and prices • Increase awareness about and strengthen the Vattenfall brand • Continue growing the customer base and market shares • Increase cost effectiveness • Increase customer orientation in all of Vattenfall's business areas	• Further development of co-operation with the cities of Berlin and Hamburg in Germany • Automation of the electricity grid and widening of the underground cable network for improved security of supply • Installation of automatic meter reading systems for electricity consumption for all customers in Sweden and Finland and for industrial customers in Poland • Work with upgrading the new, more efficient billing system was conducted in Sweden and Finland. A similar billing system is being implemented in Germany • Advice to customers on energy efficiency improvement. Vattenfall also allows its customers to choose electricity with a declaration of origin, e.g., wind power, hydro power or nuclear power
Number One for the Environment Develop the generation portfolio towards Clean Electricity (renewable energy, nuclear power and coal/gas with CCS) • Significantly increase investments in low CO_2-emitting energy generation, i.e., renewable energy, nuclear power and coal/gas with CCS • Accelerate business development activities to enable low-emitting technologies • Actively advocate global and market-oriented climate policies to promote investment in low-emitting technologies • Increase efficiency of existing electricity and heat production as well as in network activities • Integrate environmental aspects in all business activities	• Investments in wind power in the UK, Sweden and Germany (including the Thanet, Edinbane, Stor–Rotliden and alpha ventus wind farms) • Continued construction of a new hydro power plant (Abelvattnet) in Sweden • Continued work on increasing the use of biomass (for example, the Amagerverket and Fynsverket plants in Denmark and the Siekierki combined heat and power plant in Poland) • Several development projects were carried out in 2009 focusing on low CO_2-emitting electricity generation and use, for example, CCS technology at Schwarze Pumpe in Germany, e-mobility (co-operation with Volvo and BMW on rechargeable hybrids and electric cars), gasification of biomass and ocean energy
Profitable Growth Drive growth through organic expansion and business development combined with acquisitions in priority markets • Organic expansion will be of central importance for future growth • Business development will be used as a complement to organic and acquisition-driven expansion • Acquisition-driven expansion is important in the long term. However, in the near and medium terms, the focus will be on consolidation of existing market positions	• Acquisition of 49% interest in Dutch energy group N.V. Nuon Energy on 1 July 2009 • Acquisition of the outstanding interests in Vattenfall Heat Poland S.A. and GZE S.A. in Poland • Continued investments to raise the level of safety and increase the availability and useful life of nuclear power plants • Continued investments in wind power, biomass and efficient coal-fired plans (such as the Thanet and alpha ventus wind farms, the Amagerverket and Fynsverket plants in Denmark, the Boxberg and Moorburg power plants in Germany, and the Siekierki and Zeran combined heat and power plants in Poland)
Benchmark for the Industry Strive for operational efficiency through productivity improvements and better utilisation of Group synergies • Adopt long-term benchmarking goals for the business areas by benchmarking operations against peer companies • Continuously work on improving processes and ensure internal bench-learning and the utilisation of best practices in order to achieve long-term goals	• Continuation of OPEX, the Group's productivity improvement programme. The goal for the OPEX programme is an 11% productivity improvement from 2006 to 2010, corresponding to a cost reduction of SEK 5 billion • Continued investments in nuclear power to raise the level of safety and increase availability and useful life of plants
Employer of Choice Attract, retain and develop people and competencies for the future • Focus on talent management • Develop leadership talents • Develop employer branding • Work in accordance with Vattenfall's culture and values • Continue focus on health and safety • Establish a performance culture	• Continued work on strengthening leadership and management competencies • Continued work on strengthening employee commitment, motivation and performance

Goal achievement 2009	Business plan target 2010[1]	Long-term target
72 In the annual customer survey, Vattenfall received a Customer Satisfaction Index score of 72 (of a maximum 100), compared with the goal of 66. This represents an improvement compared with a year ago (64)	**73** Customer Satisfaction Index score of 73 for retail customers	**75** Customer Satisfaction Index score of 75 for retail customers
0.3 During the year, Vattenfall's CO_2 emissions per kWh decreased by 0.3%[1]. The business plan target for 2009–2011 is to reduce CO_2 emissions by 2% (corresponding to 2 million tonnes) in the Group's own operations 1) Normalised values with respect to, among other things, weather and market conditions.	**1.3** Reduce CO_2 emissions by 1.3%[1], corresponding to 1.2 million tonnes, from own operations in 2010	**-50** Halving of CO_2 emissions per produced unit of electricity and heat in own operations by 2030, compared with 1990 levels
19.2 Normalised annual generation[1] increased by 19.2 TWh, compared with the goal of 5.8 TWh. The increase is mainly attributable to the acquisition of N.V. Nuon Energy, and to a lesser degree to other acquisitions 1) Planned generation as well as sales of electricity and heat with normal weather values and plant status.	**4.9** Increase in normalised annual generation of electricity by 4.9 TWh from 2009 to 2010	**Top 3** The long-term target was redefined during the year: Vattenfall will be among the top 3 producers of clean electricity (renewables, nuclear power and coal/gas with CCS) in EU27 + Norway and Switzerland, expressed in produced TWh per year. This new target reflects Vattenfall's strategy better than the previous target, which was a 10% market share of the European energy market
3.4 The outcome for 2009 was 3.4%, compared with the goal of 5.1%. The OPEX programme is progressing according to plan in most areas. The deviation from the goal for 2009 is primarily due to unplanned cost increases for operations and maintenance	**11.0** Productivity improvement of 11% from 2006 to 2010, corresponding to a cost reduction of SEK 5 billion	**↗** Vattenfall will belong to the upper quartile in the industry
74 In 2009 Vattenfall received a Commitment score of 74, compared with target of 72. The improvement from 70 in 2008 is attributable to various activities at Vattenfall to build employee commitment	**75** Commitment score of 75	**81** Commitment score of 81

1) In 2010 N.V. Nuon Energy's operations will be integrated in the business planning process. Consequently, the targets for Vattenfall's operations in 2010 currently do not include N.V. Nuon Energy's operations.

VATTENFALL IS INVESTING IN RENEWABLE ENERGY

Vattenfall is investing in renewable sources of energy, including wind power, hydro power and bioenergy. Substantial investments are being made in several areas, above all in wind power. Vattenfall is today one of the world's largest wind power operators.

Wind power – doubling of electricity generation in two years

Apart from virtually no fuel cost, wind power has several advantages. The technology has come far in its development and over its life cycle leads to very low emissions of greenhouse gases. But since it is not always windy, the need for regulation power is rising.

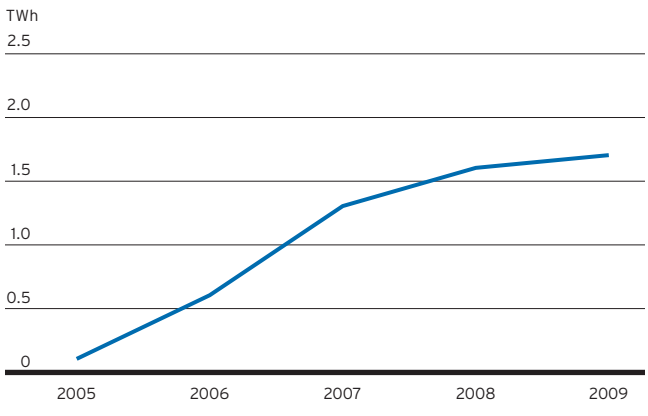
Vattenfall has invested and continues to invest heavily in wind power, and the share of electricity generation from wind power rose from 0.1 TWh to 1.7 TWh from 2004 to 2009. In addition, wind power is the renewable source of energy that is predicted to have the greatest potential for expansion in the medium term. The International Energy Agency forecasts a quadrupling in installed capacity from wind power in the EU by 2020 compared with today's situation.

Vattenfall is today one of the world's largest wind power operators. The Group has approximately 700 wind power turbines in nine countries, which together generate enough electricity to power approximately 350,000 households. Most of Vattenfall's wind farms are in Denmark and Sweden, including Lillgrund outside Malmö, which is Sweden's largest offshore wind farm, and Horns Rev off Esbjerg, Denmark, one of the world's largest offshore wind farms. The latter is 60%-owned by Vattenfall. Vattenfall is also developing and owns wind farms in the UK, Germany, Poland, the Netherlands and Belgium.

Vattenfall is currently conducting more than a hundred new construction projects for wind power in Europe, corresponding to 600 MW. Nearly 80% of this consists of offshore wind farms, many of which are being built off the coasts of Great Britain, which offers favourable market conditions and support systems for wind power – not to mention very favourable wind conditions.

At year-end 2009 Vattenfall had a total of 988 MW of installed wind power, of which 370 MW (43%) was offshore. Also at year-end, construction was in progress of eight wind farms in six countries, which will result in a doubling of Vattenfall's wind power electricity generation when they come on stream in 2011.

Vattenfall's wind power generation



Major wind power operator in the UK

Vattenfall is working continuously on finding new, suitable locations for wind power, both offshore and onshore, in all markets. Accordingly, Vattenfall has joined with ScottishPower Renewables in a partnership to investigate opportunities to establish new offshore wind power in the UK. In early 2010 Vattenfall and ScottishPower Renewables were granted rights to develop a major wind farm in the East Anglia zone offshore England's east coast, with the potential to generate electricity for more than 4 million households every year. The rights are part of Round 3, the British Crown Estate's licensing programme for developing offshore wind power. Vattenfall and ScottishPower Renewables hope to be able to file their first regulatory application in 2012. If Vattenfall and ScottishPower Renewables receive the necessary licences, construction could start in 2015 and be carried out in stages thereafter.

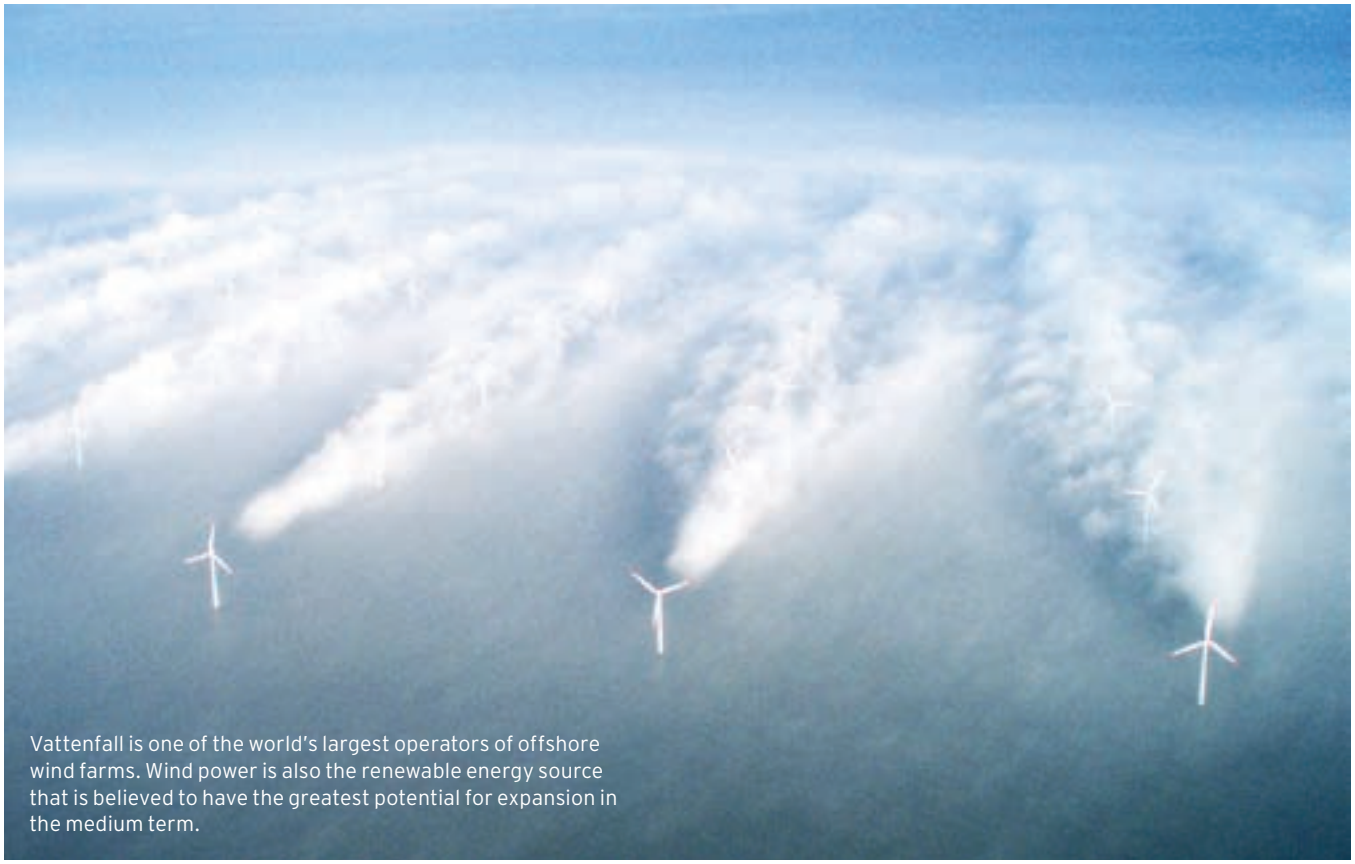
Thanet – world's largest offshore wind power project

Vattenfall is investing in both offshore and onshore wind power. Onshore wind power is cheaper to build, operate and maintain, while offshore wind farms generate more electricity due to stronger and more steady winds than on land.

The Thanet wind farm offshore Britain's south-east coast is one of Vattenfall's largest current construction projects. Once it comes on stream in 2010 it will be the world's largest offshore wind farm and will account for a 30% jump in wind power generation in the UK. Thanet will have capacity of 300 MW generated by 100 wind turbines and will satisfy the electricity needs of 240,000 households.

Another major project is the Ormonde wind farm in the Irish Sea, with 30 turbines and combined capacity of 150 MW. The Ormonde wind farm is expected to come on stream in 2011/2012.

Also in Britain, Vattenfall operates the Kentish Flats wind farm offshore the northern coast of Kent, east of London. Kentish Flats has a capacity of 90 MW. Vattenfall's acquisition of Dutch energy group Nuon also included a number



Vattenfall is one of the world's largest operators of offshore wind farms. Wind power is also the renewable energy source that is believed to have the greatest potential for expansion in the medium term.

of wind farms in the Netherlands and Belgium, with combined capacity of approximately 321 MW, of which 108 MW comes from offshore installations.

Testing of large turbines

In November Germany's first offshore wind farm, alpha ventus, was completed. Alpha ventus, located offshore Germany's North Sea coast, is a development and demonstration project that is being conducted in partnership with E.ON and EWE (in which Vattenfall has a 26.25% interest). The project involves the testing of 12 turbines delivering 5 MW each.

Largest onshore wind power venture

Stor-Rotliden, in the municipality of Åsele in northern Sweden, will be Vattenfall's largest onshore wind power project. The wind farm will comprise 40 wind power turbines with capacity of 78 MW. The wind farm is scheduled for commissioning in 2011.

In Denmark, Vattenfall's work continues on replacing older wind power turbines with larger, more efficient turbines. In December the Nørrekær Enge wind farm was inaugurated, where 77 older, small turbines were repowered by 12 new, larger turbines.

Biomass – important contribution to climate targets

One way of reducing the climate impact of electricity and heat production is to use biomass instead of coal. Biomass is CO_2-neutral if the fuel that is burned is offset by a corresponding amount of regrowth. Much of biomass consists of forestry and agricultural residuals as well as construction and household waste. Co-combustion of coal and biomass is one technology that is already available today and is generating rapid results in the form of lower net carbon emissions. In the years ahead Vattenfall will therefore be sharply increasing the mix of biomass in its major coal-fired plants.

Vattenfall currently has more than 40 combined heat and power plants that are operated entirely or partly using biomass. The total volume of biomass from household and industrial waste amounts to more than three million tonnes a year. The use of biomass in Vattenfall's generation of heat and electricity is increasing steadily. Today Vattenfall is already one of the world's largest buyers of biomass for energy purposes.

However, there are risks involved in the increased use of biomass. Supply is limited, and important sustainability aspects, such as the risk of deforestation, loss of biological diversity and emissions of greenhouse gases from the entire

The Amager combined heat and power plant, outside Copenhagen, has been converted and can now be run on oil, coal or biomass. The biomass used by the plant consists mainly of straw from nearby farmland. The goal is for the plant to be run on 100% biomass.

fuel chain must be taken into account. Vattenfall therefore expects that bioenergy will have an important yet limited role in the future.

Vattenfall is working to develop the entire biomass chain, from growing to use and combustion via logistics and fuel-handling. One major challenge is in finding suppliers that can generate access to major volumes of biomass that meets high demands on sustainability at a competitive price.

In the absence of a certification system that addresses all aspects of biomass handling, Vattenfall is drawing up its own guidelines for sustainable development. Every project must be evaluated according to these guidelines.

Several major development projects

Vattenfall is conducting several major bioenergy projects. In Germany, Vattenfall is planning two new biofuel-fired power plants in Berlin and one in Hamburg. In Poland, Vattenfall is increasing the use of biomass at the Zeran and Siekierki combined heat and power plants, and the mix of biomass in combustion will more than double in 2010 compared with 2009, entailing the combustion of 150,000 tonnes of biomass. By 2013 a blend of up to 400,000 tonnes of biomass will have been achieved. In Finland, Vattenfall is working on increasing the share of biomass at the Myllykoski combined heat and power plant, while installation of a new biofuel boiler at the Vanaja power plant in Tavastehus is proceeding according to plan. In 2010 the share of renewable fuels in Vattenfall's production in Finland will reach 38%, which corresponds to the EU's target for the share of renewable energy in Finland. In Denmark, a new straw-fired unit was put in operation at the Fynsværket plant. In the MaxBio programme, which involves all units in the Danish combined heat and power operations, the goal is to replace up to 724,000 tonnes of coal per year with biomass.

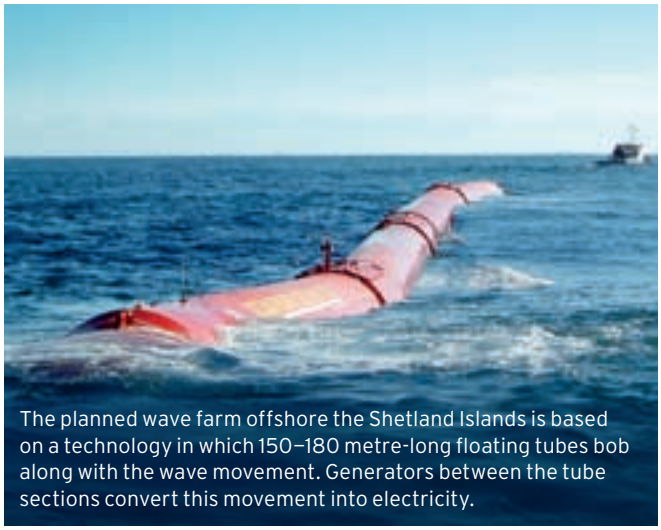
Hydro power – a stable asset

Hydro power today accounts for the absolute largest share of Vattenfall's renewable electricity generation. Vattenfall owns and operates 112 hydro power stations in the Nordic countries – most in Sweden and a few in Finland. The Group's Swedish hydro power plants generate slightly more than 30 TWh per year. This figure varies depending on water levels. Hydro power has the greatest importance as base, peak and regulation power as well as for storage of energy. It has low emissions throughout its useful life and will continue to play a very important role in Vattenfall's work to achieve climate-neutral operations. However, hydro power's share of total electricity generation is expected to decrease from 21% today to approximately 12% by 2030 due to limited expansion opportunities. The growth potential that exists today consists primarily of acquisitions outside of Vattenfall's existing markets and upgrades of existing plants. Vattenfall has an ambitious invest-

Vattenfall's first newly built hydro power plant in 15 years will come on stream in 2010. Construction of the Abelvattnet hydro power plant in Storuman, Sweden, was begun in 2008. The plant will have installed capacity of 4.6 MW.

ment programme for its hydro power operations – some 30 of the Group's hydro power stations are being upgraded during the period 2004–2013. In recent years Vattenfall has also been conducting a major programme surrounding dam safety.

In 2008, construction was begun of a new hydro power plant, Abelvattnet, with installed capacity of 4.6 MW, in the Swedish municipality of Storuman. The plant will come on stream in 2010 and will be Vattenfall's first entirely newly built hydro power plant in more than 15 years.



The planned wave farm offshore the Shetland Islands is based on a technology in which 150–180 metre-long floating tubes bob along with the wave movement. Generators between the tube sections convert this movement into electricity.

Wave power – major future potential

Ocean energy in the form of wave power and tidal power has potential to be an important renewable source of energy. Its theoretical potential capacity is enormous: 15,000 TWh worldwide yearly, of which 2,000 TWh in Europe. The areas that are best-suited for ocean energy in Europe are the Atlantic coasts of the UK, Ireland, Norway and Denmark. With today's technology and conditions, researchers hope to be able to harness a tenth of Europe's potential.

Vattenfall is far advanced in this development and estimates that wave power can be a commercially viable source of energy within 10 to 15 years. Vattenfall is participating in several wave power pilot projects offshore the coasts of Sweden, Norway and Ireland, and is also monitoring developments in several other countries, such as Portugal. Together with an Irish site development company for ocean energy, Vattenfall has formed a company whose goal is to generate electricity on a commercial basis using wave power offshore Ireland's west coast. In collaboration with a Scottish company, Vattenfall is making plans to build a wave power installation offshore the Shetland Islands in the Atlantic Ocean. Vattenfall plans to continue the work with pilot tests and demonstration facilities towards the goal of having commercial wave power farms of 100 MW and upwards operating by 2020. Wave power is estimated to account for approximately 8% of Vattenfall's electricity generation by 2030.

CCS – A BRIDGE TO THE FUTURE

Coal will continue to be an important source of energy in Europe for many years to come. CCS technology, entailing the capture and storage of carbon dioxide from combustion of fossil fuels, will therefore be a key means of reducing CO_2 emissions in the future. With CCS, carbon dioxide from fossil-based power plants can be captured for permanent storage deep underground. Vattenfall has taken a leading position in the development and demonstration of CCS technology through its pilot plant at Schwarze Pumpe in Brandenburg, Germany.

Climate change caused by emissions of carbon dioxide and other greenhouse gases is the greatest environmental challenge of our time. Parallel with this, the world's energy need is expected to rise, and most of the increased use of energy will be met with fossil fuels, since the renewable energy sources do not have high enough capacity to replace these entirely.

The capture and storage of carbon dioxide from fossil fuels is therefore a very important instrument for reducing environmental impact. The potential is great, but the technology needs to be upscaled, and the costs must be brought down. It is not until 2020 that initial commercial use of CCS technology is regarded as possible.

It is not only the actual technology and how fast it can be implemented that is decisive for the future of CCS. A lot depends on political decisions on support and subsidies as well as on regulations governing prices of carbon emissions. In addition, legislation is needed surrounding the

Several different types of test programmes are being carried out at the Schwarze Pumpe pilot plant in Germany. The project shows that CCS technology works as intended, and the results have exceeded expectations. The percentage of carbon dioxide separated from flue gases is currently more than 90%.

capture and storage of carbon dioxide. In summer 2008 the EU issued a directive on CCS. Through this directive, the Commission wants to ensure that the capture and storage of carbon dioxide in geological formations is conducted in an environmentally sound manner. Now it is up to the Member States to follow through with national legislation. In addition, general, broad acceptance is needed for the continued use of fossil fuels and for CCS technology.

Vattenfall has a leading position

As one of Europe's largest generators of electricity and one of those that emit the most carbon dioxide, Vattenfall has a major responsibility to lower environment-impacting emissions from the company's electricity and heat production. Vattenfall is investing in making the use of fossil fuels as effective as possible through highly efficient plants and in developing CCS technology and thereby achieving substantial reductions in CO_2 emissions. Vattenfall therefore has its sights on having a fully commercial CCS concept ready by 2020.

Vattenfall has been engaged in the development and demonstration of technology for capturing and storing carbon dioxide since 2001. An important milestone in Vattenfall's work on CCS is the construction of the Schwarze Pumpe pilot plant, near Cottbus, Germany, for testing so-called oxyfuel technology. The plant – the first of its kind in the world – was inaugurated on 9 September 2008 and has installed capacity of 30 MW.

Oxyfuel technology entails that the fuel, in this case lignite, is burned in a mixture of pure oxygen and recirculated flue gases. The only residual product is carbon dioxide. The pilot project shows that the technology works as intended, and the result has exceeded expectations. The share of carbon dioxide that is captured is currently more than 90%. Several different types of text programmes are being conducted at the pilot plant. These involve optimising the conditions for combustion of the coal and learning how variations in fuel quality affect the process.

The Schwarze Pumpe pilot plant has attracted major international attention and hosts many visits by industry specialists and researchers.

Demonstration plant in Jänschwalde ready 2015

The next step is to build a demonstration power plant that is big enough to enable an evaluation of the commercial prospects. Vattenfall plans to build a 385 MW CCS demonstration plant in Jänscshwalde, Germany. At this location, Vattenfall has a lignite-fired power plant comprising six units; the opportunities to rebuild one unit are being studied. A new boiler employing oxyfuel technology is planned in addition to fitting one of the two existing boilers with postcombustion technology. With postcombustion technology, the flue gases from combustion are scrubbed free of carbon dioxide after conventional combustion. The demonstration project in Jänschwalde, involving two CCS technologies, can become a reality by 2015 at the earliest. In December the EU Commission announced that Vattenfall will be receiving up to EUR 180 million (approximately SEK 1.9 billion) in funding from the EU to drive this project further.

Other CCS projects being conducted by Vattenfall

Through its subsidiary Nuon in the Netherlands, Vattenfall is building a CCS pilot at the Willem–Alexander coal-fired power plant in Buggenum. A portion of the combustible gas produced by the power plant, which is based on gasification of coal, will be cleaned from carbon dioxide. This technology is called precombustion.

In Vedsted, in northern Denmark, Vattenfall has investigated the potential for storing carbon dioxide in a geological formation 1–2 km underground. The studies and plans for fitting unit 3 at the Nordjyllandsværket plant with a full-scale facility for capturing carbon dioxide through postcombustion technology have been put off to the future.

Carbon Capture and Storage (CCS)

Capturing carbon dioxide

The principle of CCS is to capture carbon dioxide after combustion and compress it into liquid form for further transport and permanent storage deep underground. Today there are three main methods of capturing carbon dioxide:

Oxyfuel – the fuel is pre-burned in a mixture of pure oxygen and recirculated flue gases. Carbon dioxide is the only residual product.

Postcombustion – the flue gases are scrubbed after conventional combustion, leaving a higher concentration of carbon dioxide.

Precombustion – carbon is separated from the fuel through gasification, and the resulting hydrogen gas (H_2) is burned.

The challenges for all three concepts include reducing the higher need of fuel required by the capture process, and the higher investment cost.

WORK ON ATTAINING WORLD–CLASS NUCLEAR SAFETY

Vattenfall is working continuously on restoring trust in the company as a nuclear power operator and attain world-class nuclear power safety and generation. High safety is a prerequisite for the company's ability to maintain a high level of availability and thereby generate stable revenue. Nuclear power is also an important part in Vattenfall's work to achieve climate-neutral operations.

During its life cycle, nuclear power does not create more emissions than wind power and is regarded as a reliable and efficient energy technology. The drawbacks are that it takes a long time to build a nuclear power plant, and the technology is advanced, which entails a high investment cost. Further, means and methods for final storage of spent nuclear fuel are still not fully developed in most countries.

At year-end 2009, nearly 40 reactors were under construction around the world – most of which are in India, China, Russia and South Korea. New nuclear plants are also being built in Finland and France. The UK plans to replace ten older reactors with new ones, corresponding to 10–15 GW of new nuclear power by 2025. In Sweden, too, it is now possible to plan for new nuclear power after the Swedish government decided in February 2009 to remove the legal obstacles to replacing old nuclear power. In Germany, discussions are being held on extending the remaining useful life of the country's nuclear reactors.

Nuclear power accounts for a substantial share of Vattenfall's electricity generation. In Sweden Vattenfall operates seven reactors – four in Ringhals and three in Forsmark. In Germany, Vattenfall runs the Brunsbüttel and Krümmel nuclear power plants, with one reactor each. Vattenfall also has a minority interest in the Brokdorf nuclear power plant in Germany. Vattenfall is interested in participating in the development of new nuclear power, but no decisions have been made yet.

Disruptions in nuclear power generation in 2009

During the year, Vattenfall was affected by several disruptions and unplanned, extended outages in its nuclear power generation. On 21 June the Krümmel reactor was restarted following a nearly two-year outage. On 4 July, a short circuit in one of two transformers that connect the plant to the grid resulted in the plant being scrammed. The event did not pose any risk to the environment, but it nevertheless attracted great attention, and Vattenfall was harshly criticised. Krümmel had not been restarted as of year-end 2009. Vattenfall's other nuclear power plant in Germany, Brunsbüttel, has been off line since 2007 for extensive safety enhancement work.

The Forsmark nuclear power plant was under special oversight by the Swedish Radiation Safety Authority (SSM) following shortcomings in the safety culture that were discovered following an incident in July 2006, when a short circuit in a switchyard outside the plant caused the reactor to be scrammed. In April 2009, SSM removed Vattenfall from this special oversight and has thereafter recommended that the government resume its regulatory process concerning raising the capacity of Forsmark's reactors.

In July, SSM decided on special conditions for the operation of Ringhals as a result of shortcomings it had discovered in the safety culture at the plant. In November, in accordance with SSM's demands, Ringhals submitted a description of the action plan that has been initiated to remedy the shortcomings.

Major efforts to restore trust

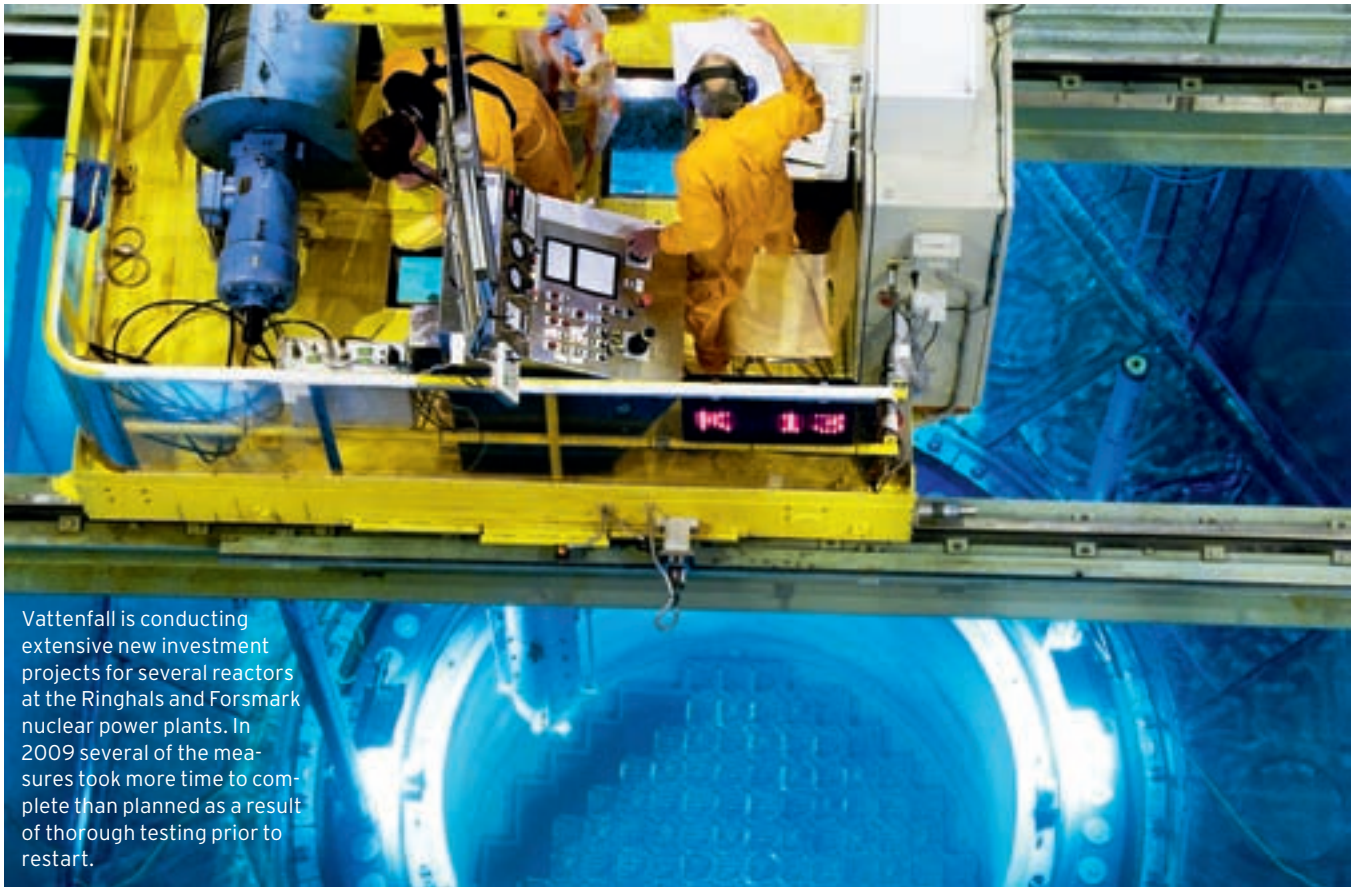
Vattenfall is working intensively to restore trust in the company's nuclear power operations and to attain a world-class level of nuclear power safety. Since 2003, Vattenfall – together with other part-owners – has been conducting a major, long-term investment programme in its Swedish facilities. In all, the programme is worth roughly SEK 50 billion during the period 2003–2030. Of this total, SEK 13 billion is included in the current investment programme for 2010–2014. A large part of this programme involves continued efforts to raise the level of safety, with particular emphasis on the older reactors. At the same time, the plants' useful life and availability are being increased.

In Ringhals and Forsmark, extensive new investment projects are being carried out at a number of reactors. In 2009 several of these measures took longer time to perform than planned. This is due to the need for thorough testing within the framework of these complex projects prior to restart.

During the spring, extensive projects were initiated to modernise and upgrade reactors 1 and 2 at Ringhals. Major safety enhancement installations have been made, entailing a virtual doubling of vital safety systems. As a result, Ringhals 1 can in many respects be compared to a new, modern facility. At Ringhals 2, an extensive project is currently under way in which all of the analogue instruments and control equipment are being replaced with state-of-the art digital technology.

Organisational work on nuclear power safety

Responsibility for nuclear power safety rests with the licence holders, i.e., the nuclear power companies. To complement, strengthen and maintain oversight of the power plants' safety organisations, Vattenfall has created the function of Chief Nuclear Officer, which is the Execu-



Vattenfall is conducting extensive new investment projects for several reactors at the Ringhals and Forsmark nuclear power plants. In 2009 several of the measures took more time to complete than planned as a result of thorough testing prior to restart.

tive Group Management's nuclear power expert and who reports directly to the Group CEO. In addition, Vattenfall has a Nuclear Safety Council that includes external members and is chaired by the Group CEO. Vattenfall has also adopted a Safety Governance System with demands for continuous evaluation and oversight of all plants, and higher demands for external oversight.

Favourable result of IAEA review

The International Atomic Energy Agency (IAEA), through its Operational Safety Review Team (OSART) of international experts, regularly reviews nuclear power plants around the world. The IAEA's oversight of Forsmark was followed up in 2009, and in November the result of its follow-up review were presented. The results were very favourable. Of 24 points for improvement that were identified in the first review in 2008, Forsmark received "Measure completed" in 19 areas and "Satisfactory progress" in five areas. This is one of the best follow-up results ever received during the nearly 20 years that the IAEA has been conducting OSART follow-up reviews. The result of the review indicates that Vattenfall's work on restoring trust in the company's nuclear power operations is on track.

Forsmark proposed as final repository for spent nuclear fuel in Sweden

In June, the Swedish Nuclear Fuel and Waste Management Company (SKB) decided to prepare an application for a permit to build and operate a final repository for spent nuclear fuel in Forsmark. The site location is the result of nearly 20 years of work in which SKB conducted oversight studies in large parts of Sweden, pre-studies in eight municipalities, and thereafter site studies and analyses in Forsmark and Oskarshamn from 2002 to 2007. SKB is now moving forward and completing the applications for the permits that will be reviewed by the Swedish Radiation Safety Authority and the Environmental Court. The applications will be submitted in 2010 and will include, among other things, an environmental consequence analysis and safety analysis for the nuclear fuel repository in Forsmark.

ACTIVE CUSTOMERS IN THE ELECTRICITY MARKET

Electricity customers in Vattenfall's markets are growing increasingly active and environmentally conscious. Vattenfall's customers have expectations for secure and stable electricity supply at a favourable price. At the same time, interest in energy efficiency improvements and low CO_2-emitting products is on the rise. During the year, the number of retail customers rose in all of Vattenfall's markets, while Vattenfall strengthened its relations with its industrial customers.

As retail customers in Vattenfall's markets grow increasingly price-conscious, they are increasingly comparing prices between competitors. The number of customers who switched electricity providers broke a record in the Nordic market in 2009. During the year, Vattenfall succeeded in increasing its number of retail customers in the Nordic countries to 1.3 million. Vattenfall also grew its customer numbers in the Netherlands and Belgium in 2009 as a result of good service and a focus on providing advice on energy efficiency improvement and related services.

The most important criteria for retail customers are price and how the energy is produced. In 2009 Vattenfall launched a new type of contract in the Nordic countries that gives customers the option to choose the energy source themselves. The number of customers who choose this product has increased substantially, and it appears that the trend will continue in that direction.

In Germany, Vattenfall has worked hard to raise the quality of its service, find new ways to reach customers, and develop the product portfolio, such as through a year-round price guarantee and green products. Through this work Vattenfall succeeded in reversing a downward trend and once again increased the number of customers.

Keener interest in environmental issues

Retail customers' interest in and awareness of environmental issues is expected to rise in all markets. Consequently, energy efficiency improvement is becoming an ever more important matter for many. Knowledge about the various price contracts that are available is also on the rise. Some customers will want more flexible contracts and the ability to adapt their risk level based on what the market and their personal situation look like. Demand for online services and other mobile solutions that help customers is also growing. In the Nordic countries, Vattenfall is preparing solutions in which customers are offered better monitoring of their actual electricity use.

In Germany, demand for renewable energy continues to rise. Vattenfall has specialists who offer customised products in renewable energy, such as a heat pump offer that is based on renewable energy.

In pace with development of the Polish market and rising international climate standards, climate and environmental issues will become increasingly important also for Polish customers.

Demand for energy efficiency improvement services is also expected to rise in the Netherlands and Belgium, among other things as a result of the regulations and support systems offered in those countries. Energy-saving products, advice and consulting services in this area will be used to develop customer relationships.

Long-term agreements with industrial customers

In the Nordic countries, Vattenfall has long had a close relationship with energy-intensive industries, which are dependent on competitive long-term contracts in order to be able to maintain a long-term perspective in their investment plans, where electricity accounts for a large share of the cost base. Demand for energy efficiency improvement services and environmentally adapted products is also expected to rise among industrial customers in the Nordic countries. In this area, customers have a high level of competence and experience. Vattenfall will work from this base of experience in its continued efforts to develop its relations with industrial customers.

Also in Germany, the Netherlands and Belgium, Vattenfall is taking steps to adapt its product and service offering to industrial customers. In Germany, demand for low CO_2-emitting and "green" products is likely to continue rising. In Poland, Vattenfall has carried out special training for corporate customers in an effort to help them gain an overview of their energy use and thereby cut costs.

Customers receive advice at Vattenfall's customer centre in Hamburg.

ENERGY EFFICIENCY IMPROVEMENT – VALUE-ADDED FOR OUR CUSTOMERS

The EU has set the goal of reducing energy use in society by 20% by 2020 through efficiency improvements. Vattenfall is helping its retail and corporate customers use energy more efficiently. As part of this work, Vattenfall provides general information and advice to electricity customers concerning uses of electricity in the home.

Improving energy efficiency for corporate customers

Vattenfall is helping strengthen its industrial customers' competitiveness by improving the efficiency of their energy use. A number of large, Nordic corporate customers, including Holmen, have contracted Vattenfall to review their energy consumption and optimise the efficiency of energy use in their manufacturing processes. In the Nordic countries Vattenfall has also established a dedicated unit for energy efficiency improvement. Further, in Sweden, Vattenfall has a unit that offers energy-efficient and dependable lighting solutions for municipalities and companies. Here the savings are achieved through more efficient solutions for street and indoor lighting.

In Germany, when Vattenfall's corporate customers sign an electricity contract, they also gain online access to a control programme that gives them an overview of their electricity consumption. One customer that has carried out such a programme under Vattenfall's management is Citibank, with 400 branches in Germany. Other customers who are currently using the energy savings programme include Lufthansa and Commerzbank. The programme gives customers a convenient means of checking their use of electricity, gas, heat and water. All data is updated every fifteen minutes, and the system continuously shows potential for savings and proposes measures. Vattenfall is also co-operating with the city of Berlin, where Vattenfall has installed new energy technology to reduce the use of water, heat and electricity.

In the Dutch market, Vattenfall offers its corporate and retail customers energy efficiency improvement services. This involves providing advice, but also installations of low energy lighting, insulation, efficient heating systems and solar panels. In Poland, in co-operation with the university in Silesia, Vattenfall offers industrial customers an energy efficiency improvement service that includes energy audits, among other things.

Energy advice for households

In Sweden and Finland, Vattenfall offers online energy guides to help consumers calculate their energy use, obtain individual energy advice and general tips on the use of energy in the home. In Sweden, Vattenfall's energy advice experts have appeared on national TV for two seasons and provided tips on energy efficiency improvements.

In Poland, a programme was carried out in 2009 to save energy and at the same time save 1,000 chestnut trees in Silesia. Vattenfall made an offer to its customers in Poland to buy low-energy light bulbs at a special price. A share of the revenue from the 137,000 light bulbs that were sold was then donated to the tree project. In Germany and Poland, Vattenfall also has energy savings pages on its websites, where retail customers can obtain information on how to reduce their energy use. In Berlin, Vattenfall features a Customer Centre which, in addition to offering energy advice, also offers courses in energy-efficient cooking.

In the Netherlands, Vattenfall is testing a new energy management system for 500 households, which is expected to lead to at least 14% in energy savings.

Upgrades and efficiency improvement in own plants

Photographic illustration of the Moorburg combined heat and power plant outside Hamburg, Germany.

Producing and using energy more efficiently is a key part of the work on attaining climate-neutral operations. Vattenfall is working continuously on modernising and improving the efficiency of its own plants, and on replacing older facilities with modern, more efficient ones. In the Nordic countries, work is being conducted on upgrades, capacity improvements and improved environmental performance for hydro and nuclear power plants. In Germany, continuous improvements are being made in production efficiency at the Group's plants. The new coal-fired combined heat and power plant in Moorburg outside Hamburg will increase the energy efficiency of the German production portfolio. In Warsaw, Poland, production has been concentrated in the largest and most efficient plants – the Siekierki and Zeran combined heat and power plants. In Poland, Vattenfall is also planning a large-scale project to replace and modernise power generation. In the newly acquired operations in the Netherlands, work is under way on making continuous improvements in the efficiency of plants.

THE FUTURE IS ELECTRIC

Electricity will be acquiring an increasingly important role in society in pace with the creation of ever-stricter standards for energy efficiency. A changeover to electricity from other forms of energy can enhance energy efficiency, lead to lower emissions and at the same time open new business opportunities for electricity producers.

Electricity is one of the most energy- and cost-efficient forms of energy, and increased use of electricity through development of new technologies can help in the achievement of climate goals.

Electric cars

The transport sector, which accounts for a large share of carbon emissions today, is a prime example. Carbon emissions from the EU's transport sector can be cut sharply through greater use of electric cars. Greater use of electricity would not lead to greater emissions, since electricity to power vehicles – just like electricity for other consumption – falls within the limits for greenhouse gas emissions that are set within the EU's emissions trading system. Moreover, electric cars have a much higher efficiency coefficient – roughly 70% – compared with an ordinary gasoline-powered car, which has a 15% efficiency coefficient. Electric cars can also help moderate peaks in consumption by steering charging to times of the day when total energy use is low.

Growing market for heat pumps

Heat pumps, ventilation and district cooling systems are other interesting application areas in which electricity can play a role in more efficient energy use. In a heat pump, 1 kWh of electricity generates 3–5 kWh of heat, and in the future, this level of capacity will increase further. Energy use for heating can be reduced by installing ventilation systems that recycle heat. Vattenfall and other energy providers can accelerate greater use of electricity in all of these sectors, entailing new and expanded business opportunities.

In Sweden, the heat pump market has experienced strong growth during the last ten years. The largest share of this has involved replacing oil-fired boilers with geothermal heat pumps, however, in recent years, geothermal heat pumps are also being used as a complement to electric boilers. In houses with directly radiating electric heat, air source heat pumps are common.

In total, some 800,000 heat pumps have been installed in Swedish houses, and many of these are geothermal. Sweden is the world's largest market for heat pumps after France and Germany, but the heat pump market is growing in many countries, which is partly coupled to various subsidy systems.

Work in the EU is also beginning to include heat pumps. In 2008 an EU directive was issued that classifies heat pumps as a renewable source of energy, making heat pumps a key part of the future energy transformation.

Rising need of cooling requires more electricity

The market for district cooling is expanding in many city centres, at the same time that new markets are emerging from a growing need for cooling in modern society. Electricity is a prerequisite for the ability to produce and effectively distribute district cooling in this growing market. In recent years Vattenfall has expanded the district cooling system in the city of Uppsala, Sweden, and has also signed a contract to deliver district cooling to a new Ikea store in Odense, Denmark. Vattenfall also owns and runs district cooling systems in Amsterdam, Berlin and Hamburg.

Vattenfall in collaboration with the auto industry

Since 2007 Vattenfall and Volvo Car Corporation have been working together in a business project aimed at developing plug-in technology for cars, enabling them to be charged via ordinary electric outlets. The two companies are now investing a total of SEK 3 billion in developing a production series of plug-in hybrids by 2012. Two Volvo V70 demo cars are included in a one-year test that started in December 2009.

The plug-in hybrids' batteries can carry a charge sufficient for 50 kilometres of driving (which covers 75% of all car driving). At that point a fuel-efficient diesel engine kicks in. It will be possible to charge the cars at home in the garage or at special charging posts, such as at shopping centres and workplaces. Operating costs for these cars will be significantly lower than for current car models on the market, although the purchase price will be higher.

Vattenfall is also collaborating with BMW in an electric car project in Germany. Some 50 "Mini E" cars are on the streets in Berlin, where Vattenfall has installed special charging posts at test drivers' homes. Vattenfall is also participating in an international standardisation programme to develop future charging solutions for electric cars.

A demo plug-in hybrid Volvo V70.

EU DIRECTIVES FOR LOW CO_2-EMITTING ELECTRICITY GENERATION

The generation mix in Europe's electricity market will be changing radically in the coming decades in order to reduce CO_2 emissions. The expansion of renewable energy continues to accelerate in pace with stricter EU directives. This is putting large demands on reinforced electricity networks and access to flexible regulation power.

The global financial crisis and subsequent recession left a distinct mark on the energy markets in 2009. The gross domestic product of the EU-27 countries fell by 4.2% during 2009, compared with last year. Demand for electricity fell sharply early in the year. Indications are strong that 2009 will be the first year that global demand for electricity has decreased since 1945.

It will take a long time before demand for electricity returns to the same levels as before the recession, especially in the Nordic countries, which have a high share of electricity-intensive industry. In the long term, however, demand for electricity will grow, particularly in southern and eastern Europe, while only a marginal increase is expected in northern and central Europe.

EU directives setting the framework

Parallel with this development, the generation mix in the European electricity market will be changing radically in the coming decades. EU directives are setting the framework for tomorrow's energy generation. The long-term target can be summarised with the formula 20–20–20: by 2020, the share of renewable energy shall be 20%, CO_2 emissions shall be reduced by 20% (compared with 1990 levels), and energy efficiency shall be improved by 20%.

These standards will be sharpened gradually in the future. The EU is currently discussing a target that would entail a reduction of 80%–95% compared with 1990 levels. At the COP-15 climate summit in Copenhagen in late 2009, discussions were held on which undertakings the countries would be taking after the Kyoto Protocol expires in 2012. Although the summit failed to reach any binding agreements, the participating countries reached a consensus on the importance of long-term goals and importance of the climate issue. Continued negotiations will be needed to reach a binding accord.

Three pillars of the EU's energy policies

Environmental sustainability is one of three pillars in the EU's energy policy. The others are *Security of supply* and *Economic efficiency*.

With respect to the first pillar, *Environmental sustainability,* it is the climate issue that is in focus. One of the most important means of reducing CO_2 emissions within the EU is the Emission Trading System (ETS). In 2009 the price of CO_2 emission allowances was at low level – averaging EUR 13/tonne – but over time, prices are expected to be considerably higher. In 2013, phase III of the ETS will begin, which entails certain changes. Emission allowances will be auctioned out (competitive industries will continue to receive a free allocation, but will gradually be included in the auction system). This will result in sharply higher costs for utilities that generate electricity using fossil fuels, since they were previously granted some emission allowances free of charge. However, the price of electricity is not expected to rise as a result of this change, since the price of carbon dioxide is already included as a component in current market prices.

The second pillar, *Security of supply,* concerns how the EU will counteract the rising need to import oil and gas, as well as how future, domestic electricity generation and transmission will be developed. Since future wind power will be geographically concentrated in areas in which wind conditions are favourable but electricity consumption is often low, the need for new transmission capacity will be great in the coming 10 to 15 years.

Economic efficiency, the third pillar, concerns the goal of creating uniform and deregulated energy markets within the EU. The aim is to create functioning competition, effective price mechanisms, avoid unnecessary overcapacity, and provide incentives for investments in new energy generation.

In 2008 and 2009 the EU decided on three important directives in the energy sector: the Third Energy Market Directive, the Renewables Directive, and the ETS Directive. The EU nations have 18 months to implement these directives in their respective national legislation. The requirements vary somewhat from country to country. For example, with respect to the Renewables Directive, Sweden will be increasing its share of renewable energy from 40% to 49%, while in Germany it will increase from just under 6% to 18%. The challenge for energy companies will be to create growth and at the same time meet climate standards in a market that is characterised by price pressure and rising demands from customers and the business environment.

Investments in low CO_2-emitting electricity generation

Climate standards will be decisive in investment decisions regarding new energy generation. The EU directives will give rise to strong incentives for low CO_2-emitting electricity generation. Continued major investments are forecast for renewable energy generation, primarily in wind

power. According to the International Energy Agency (IEA), wind power generation in the EU will quadruple between 2007 and 2020, from 104 to 451 TWh per year.

Most of the major European energy companies are making substantial investments in wind power. However, subsidies are necessary to achieve acceptable profitability. In the renewable energy sector, the use of biofuels is also rising, while in the longer term, it is believed that wave power will be a further alternative in the energy mix.

Interest in nuclear power on the rise

In the shadow of the climate issue, interest in nuclear power has also risen. Construction of new nuclear power plants is currently under way in many countries, such as France and Finland. In Sweden, too, it is now possible to plan for new nuclear power after the Swedish government decided to remove the legal obstacles to replacing existing nuclear power.

CCS technology has also come into greater focus in recent years. According to EU estimates, fossil fuels will be needed during the foreseeable future, and thus investments in CCS are needed in order to lower CO_2 emissions. However, a legal framework for handling and storage remains to be established in order to bring this technology up to a larger scale. By 2020 the European Commission expects to provide upwards of SEK 10 billion in support to CCS demonstration plants, and the first demonstration plants are expected to be operating around 2015. Vattenfall's planned CCS demonstration plant in Jänschwalde is one of a total of six CCS projects to be granted funding from the European energy support programme. For Vattenfall's part, this amounts to upwards of EUR 180 million in support.

While the expansion of new production capacity continues, many older power plants will be phased out in large parts of the EU. This mainly concerns coal-fired and nuclear power plants that will be reaching the end of their useful lives in the coming decades. Nearly 80% of all existing nuclear power plants in the EU will be phased out by 2030, as will two-thirds of all coal-fired power plants.

Pressure rising for energy efficiency improvement

Rising pressure for energy efficiency improvement is yet another factor affecting Europe's energy markets. The EU target, which is not yet binding, is to improve the efficiency of energy use by 20% by 2020, above and beyond what is taking place through existing measures and new technologies. Although this is damping demand for energy, it does not necessary mean that electricity use will be decreasing. On the contrary, the development is creating new opportunities for electricity producers, since electricity is a very efficient energy bearer. For example, there are strong indications that development of electric cars will increase in the coming decades (see also page 26). According to the IEA, energy efficiency improvement is by far the most important factor for reducing climate emissions. By 2020, energy efficiency improvements will account for 65% of the reduction in global emissions, while renewable energy generation, nuclear power, and coal and gas with CCS will together account for 35%.

Uneven generation affecting the electricity market

Naturally, continued investment in renewable energy generation, such as wind power, is key to meeting the EU targets. However, a significant consequence of the rising share of wind power is that prices are becoming increasingly volatile in pace with uneven generation. Wind power generation is steered by wind conditions and cannot be regulated in the same way as other types of energy.

During the year, Germany in particular, but also Denmark, had prices at zero and even negative prices of electricity during certain hours. This is due to a high feed-in of electricity from wind power to the grid and to the fact that capacity in the grid to other countries has been limited, and export opportunities for the rising volume of power have been too low. Thus with electricity prices hovering around zero or even in negative territory, other types of power are unprofitable.

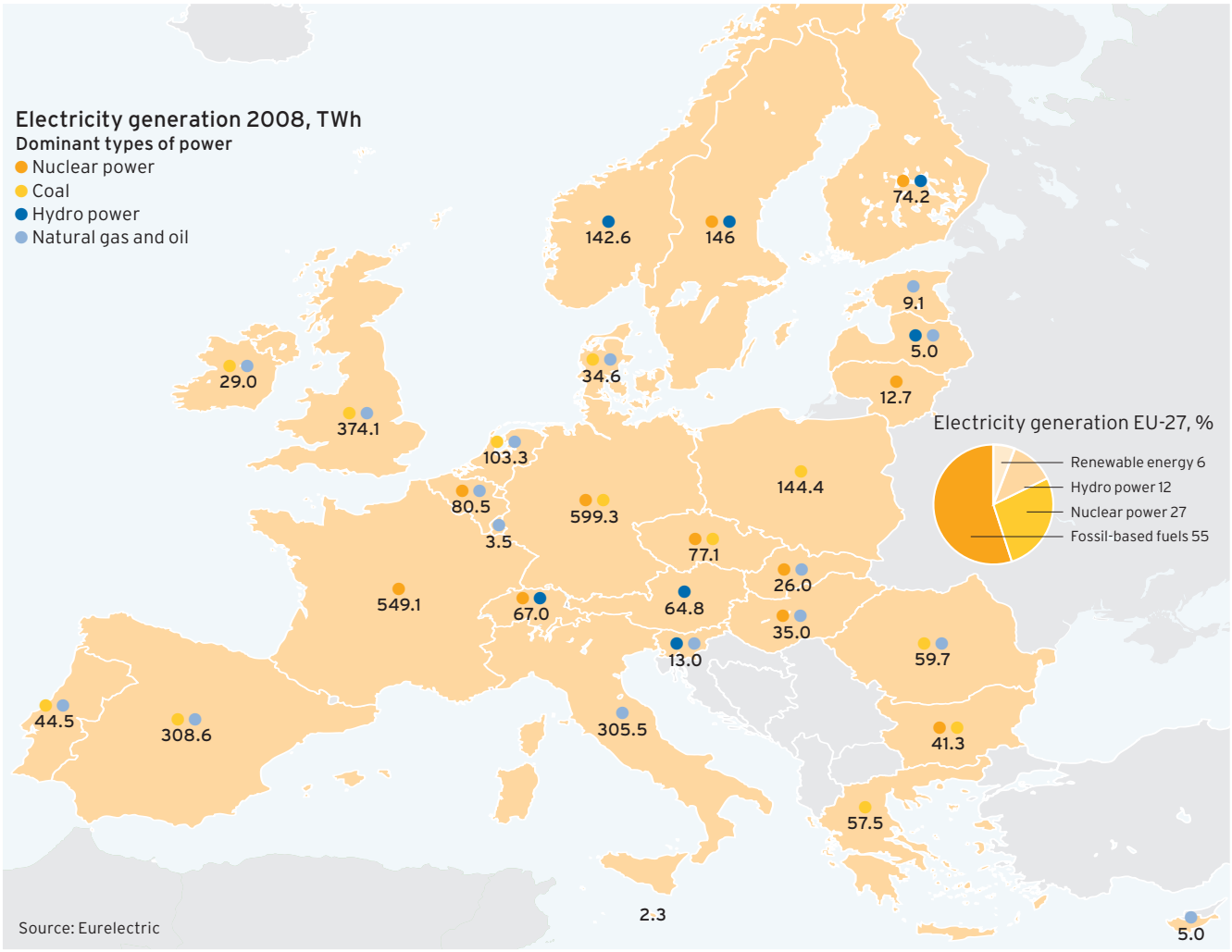
One consequence of the rising share of wind power is a greater need of access to stable regulation power that can smoothen the fluctuations in energy generation. In the Nordic countries, Vattenfall has ample access to flexible hydro power, while central European countries must depend largely on fossil-based power plants for regulation power.

Greater transmission capacity a priority matter

To succeed in building a uniform, functioning European electricity market – and at the same time integrate the rising share of renewable electricity – greater transmission capacity is needed between and within respective countries. Strengthening the electricity connections and removing transmission bottlenecks are priority issues in the EU. However, development is still moving very slowly for several reasons – among other things, due to long and complex regulatory processes.

In 2009 a new European collaborative organisation was established on the networks side: ENTSO-E (the European Network of Transmission System Operators for Electricity). Within ENTSO-E, work is being carried out to draw up a ten-year plan for network investments on a European basis. The plan that ENTSO-E presents in 2010 should indicate which transmission investments will be necessary to

Electricity generation in Europe – EU-27 + Norway and Switzerland



Total electricity generation in the EU-27 amounts to slightly more than 3,200 TWh. Germany, France and the UK are the largest producers and account for nearly half of the EU's total energy generation. Fossil-based forms of energy account for most of production, 55%.

meet the demands for wind power without prices at zero or negative prices forcing closures of power plants in certain regions and limiting international trading.

Converging electricity prices over time

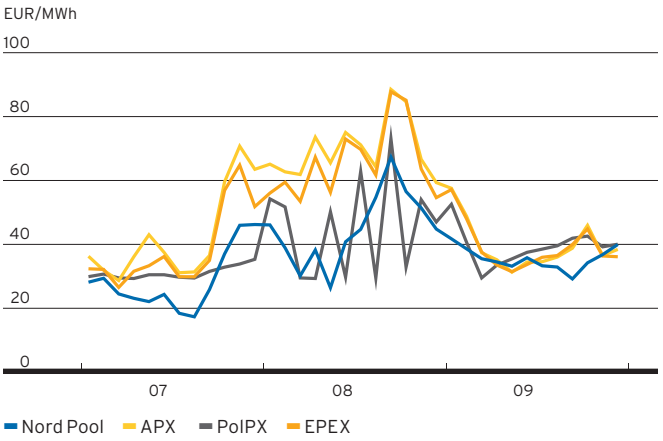
One of the EU's overarching goals is to create a uniform electric market with effective price mechanisms throughout Europe. However, in practice, Europe's energy market consists of local, national and a few regional markets. The Nordic market – with the Nord Pool electricity exchange in Oslo – is commonly regarded to be the most highly developed market. But even this market has many bottlenecks in the grid, which affects electricity prices and reduces opportunities to transfer low CO_2-emitting Nordic generation of hydro and nuclear power to other markets. Generally, if transmission capacity is limited from one area to another, this leads to higher prices in the area with limited feed-in capacity.

Currently the Nordic region as a whole has the lowest electricity prices in Europe, thanks in large part to the large share of hydro power in the Nordic system. Italy, the UK and the Benelux countries have the highest electricity prices, which are largely steered by prices of commodities such as coal and gas. As the market becomes more uniform, the trend will most likely move towards converging prices throughout Europe as bottlenecks in the system disappear.

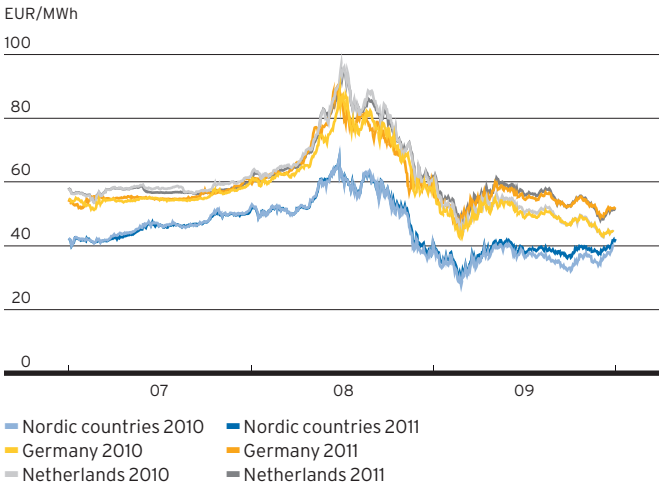
LOWER ELECTRICITY AND COMMODITY PRICES

Prices in Vattenfall's markets in 2009 were at much lower levels than in 2008, for both electricity spot prices as well as for electricity and commodities futures. However, a slight rise could be seen towards the end of the year in both the electricity and commodity markets.

Nordic, German, Polish and Dutch electricity spot prices 2007–2009, monthly averages



Nordic, German and Dutch electricity futures prices



Sources: Nord Pool, European Energy Exchange (EEX) and APX.

Lower spot prices on Europe's electricity exchanges

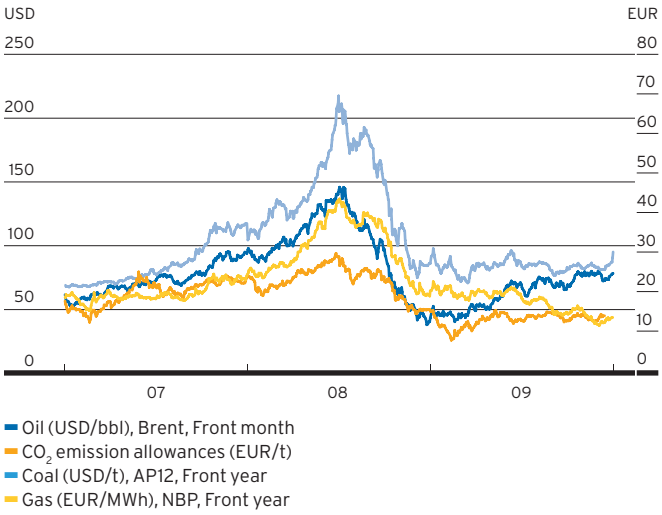
Average spot prices were much lower in all of Vattenfall's markets in 2009 than a year ago, and they generally fell during the year as a result of lower demand for electricity in the wake of the recession and lower prices for fuel and CO_2 emission allowances. In the Nordic market, average spot prices fell nearly 22%, from EUR 44.74/MWh in 2008 to EUR 35.03/MWh in 2009. The hydrological balance (the sum of water volumes in reservoirs, ground water and snow) was negative on average and amounted to -6.7 TWh, compared with a positive balance (5.7 TWh) in 2008. Spot prices fell despite a deficit compared with the preceding year. During the fourth quarter of 2009, Nordic spot prices rose as a result of colder weather and extended outages at the Swedish nuclear power plants (the average spot price peaked on 17 December at EUR 61.22/MWh).

Average spot prices in Germany amounted to EUR 38.89/MWh, which was 41% lower than in 2008. The Dutch market showed the highest average spot prices among Vattenfall's markets – EUR 39.21/MWh, despite a decline of 44% from the preceding year. At EUR 38.87/MWh, average spot prices in Poland were 13.1% lower than in 2008.

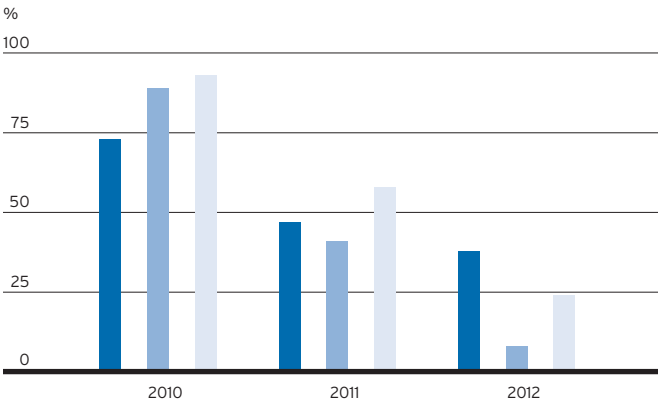
Electricity futures prices in the Nordic countries, Germany and the Netherlands

Closing prices for electricity futures in Vattenfall's markets were down significantly from 2008. The spread between the 2010 and 2011 yearly contracts continued to widen. Nordic futures prices for 2010 and 2011 showed the largest price decline compared with 2008 – falling 33% and 29%, respectively, to an average price of EUR 36/MWh and EUR 38.02/MWh. German futures prices for 2010 and 2011 fell 29% and 23%, respectively, to EUR 49.26/MWh and EUR 53.89/MWh. Corresponding prices for the Dutch market were EUR 50.40/MWh for the 2010 yearly contract (down 32%), while prices for the 2011 yearly contract fell 25% to EUR 54.85/MWh.

Price trend for oil, coal, gas and CO_2 emission allowances



Vattenfall's degree of price hedging in various market, as per 31 December 2009



Degree of price hedging as a percentage of planned generation.

Price trend for fuel and CO_2 emission allowances

Prices of coal and CO_2 emission allowances were flat in 2009, but at average price levels that were 40% lower than in 2008. Average coal prices were USD 83.51/tonne in 2009, compared with USD 139.64/tonne a year ago. CO_2-emission allowances traded at an average of EUR 13.40/tonne (2008: EUR 23.05/tonne). While gas prices fell – mainly due to oversupply in the market as a result of the recession – oil prices climbed from USD 45/barrel to USD 79/barrel, mainly due to the weaker US dollar (mainly vs. the euro), higher share prices and hopes on higher economic activity going forward. However, all fuel prices were much lower in 2009 than a year ago. On average, prices fell by between 36% (oil) and 43% (gas) on an annualised basis.

Impact of prices on Vattenfall's earnings

Vattenfall continuously hedges its electricity generation through sales in the futures market. This has moderated the effects of falling prices on Vattenfall's earnings, since hedges were taken out several years earlier at the higher prices that prevailed then. See the risk section on page 77 for a more detailed analysis of the impact of electricity prices on Vattenfall's earnings.

CONTINUED STABLE EARNINGS IN ELECTRICITY SECTOR THROUGH PRICE HEDGING

The recession had a relatively low impact on European energy companies' earnings in 2009, thanks in part to price hedging activities. However, lower demand for electricity and gas, along with falling wholesale prices, has increased the focus on cost-cutting and reviewing of capex programmes. Despite this, electric utilities continue to have large investment programmes compared with other sectors.

The global recession has led to a sharp decline in international trade, lower industrial production and falling commodity prices. This, in turn, has resulted in a sharp decline in demand for electricity. In the industrial sectors in Germany and Sweden, demand for electricity fell 14% from January to September 2009. However, earnings for the major electric utilities were only marginally affected due to previous price hedges that were contracted for electricity generation and – to some extent – also to so-called take-or-pay contracts (where customers have obligated themselves to purchasing a certain amount of electricity). In addition, electricity use among retail customers is relatively insensitive to changes in the economy, which has thereby mitigated the negative impact of the decline within industry.

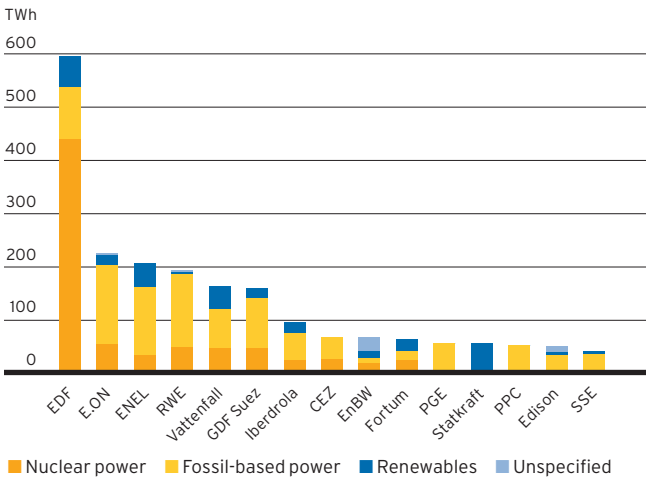
Many electric utilities are so-called integrated companies and also conduct – in addition to competitive generation and sales activities – price-regulated activities, mainly distribution of electricity and gas. This business is not as sensitive to the economy, but in return has lower margins than the businesses exposed to competition.

Two groups of energy companies in Europe

Vattenfall's markets are characterised by a number of large companies with pan-European activities: E.ON (Germany), GDF Suez (France), EDF (France), Enel (Italy) and RWE (Germany) are the largest companies in terms of sales. Several of these also have sizeable operations outside of Europe.

Aside from these major companies are a large number of regional players, such as Alpiq (Switzerland), Centrica (UK), CEZ (Czech Republic), Dong (Denmark), EnBW (Germany), EDP (Portugal), Fortum (Finland), Gas Natural (Spain), SSE (UK), Statkraft (Norway) and Verbund (Austria). Vattenfall, which is Europe's fifth-largest generator of electricity with a market share of 19% in the Nordic countries and 12% in Germany, is today positiond between these two groups. In addition to the major pan-European producers and regional producers are a number of electricity supply companies, often without any electricity generation of their own. In Sweden there are some 120 such companies, while in Germany there are about 900. Vattenfall's market positions are shown in a table in the following page.

Europe's largest electricity generators 2008



Several major acquisitions and divestments

The largest acquisitions announced in 2009 were RWE's acquisition of Essent for approximately EUR 7.3 billion (Essent was consolidated in RWE's accounts during the fourth quarter of 2009), and Vattenfall's acquisition of N.V. Nuon Energy for EUR 8.5 billion (Nuon became part of the Vattenfall Group as from the third quarter of 2009). Among deals initiated in 2008 and carried out in 2009 were EDF's acquisition of British Energy for GBP 12.5 billion (followed by an asset swap, entailing that EDF sold 20% of British Energy to Centrica in exchange for the acquisition of 51% of the Belgian energy company SPE), and Enel's acquisition of 25% of the Spanish companies Endesa and Acciona, entailing that Enel now owns 92% of Endesa. In addition, through a number of arrangements with GDF Suez, EDF and Statkraft – among others – E.ON swapped capacity between itself and its competitors. As a result, the competitors acquired assets in Germany, while E.ON gained access to French and Belgian nuclear power, among other things. The asset swap was part of a settlement with the European Commission to reduce E.ON's

Vattenfall's market positions 2009

	Sweden	Finland	Denmark	Germany	Poland	Belgium	Netherlands
Electricity generation	1	1	1	3	7	–	3
Electricity and commodity trading	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3
Electricity distribution	2	2	–	4	5	–	–
Electricity sales	1	3	–	4	5	3	2
District heating	4	4	2	1	1	–	2
Gas sales	–	–	–	–	–	3	1

generation activities in Germany by 6,000 MW.

Some companies have divested or plan to divest their network businesses. The motives for the sales vary: in part they are in response to demands from the competition authorities, and in part they are the result of an overhaul of company strategies and a way of reducing debt. For example, E.ON sold its high voltage grid in Germany to network operator TenneT (owned by the Dutch state), while EDF has plans to sell its electricity distribution network in the UK. Italy's Enel also plans to sell its subsidiary Endesa's transmission network in Spain.

German municipalities taking renewed interest in electricity companies

The German market has many municipal-owned energy companies, called Stadtwerke. After having been potential acquisition candidates for some time, these companies' owners, German municipalities, have taken a renewed interest in owning electricity companies. For example, 50 Stadtwerke companies have formed a consortium and taken over Thüga from E.ON. The Thüga group, which consists mostly of minority interests in municipal retailers, thereby became the fifth-largest player (after E.ON, RWE, Vattenfall and EnBW) in the German electricity retailing market.

Rising interest in nuclear power

Interest in new nuclear power has risen in recent years, and in western Europe two new nuclear power reactors are currently under construction: Olkiluoto 3 in Finland and Flamanville 3 in France. Planning for new nuclear power plants is being conducted almost exclusively in joint ventures in order to spread the risks and lower the cost per company. For example, RWE/E.ON, EDF/Centrica and GDF Suez/Iberdrola/SSE have all formed consortiums to look into the opportunities to build new nuclear power plants in the UK. In Italy, too, the government has opened up for the building of new nuclear power.

Focus on cash flow

In general, the energy sector has major investment programmes in relation to other industries. However, due to uncertainty regarding the effects of the recession, several electric utilities have scaled down their investment plans or postponed major projects. During the past year, focus also sharpened on cost-cutting, and several energy companies are now carrying out programmes to improve their cash flows and lower costs.

On top of this, as a result of the changed market conditions, Europe's listed electricity companies have discontinued or scaled back previously adopted share buyback programmes. However, the recession has not affected dividend policies to any noticeable extent – dividends are expected to stay at roughly the same level as in preceding years.

Good access to capital markets

Energy companies generally had good access to capital markets in 2009 and benefited from investor confidence in the industry's long-term development and the situation whereby utilities are commonly regarded as being relatively immune to economic fluctuations. However, toward the end of the year, investor interest in energy companies declined mainly due to a perception that the risk premium had become too low. In addition, several analysts changed their outlooks for energy companies ahead of 2010 to negative.

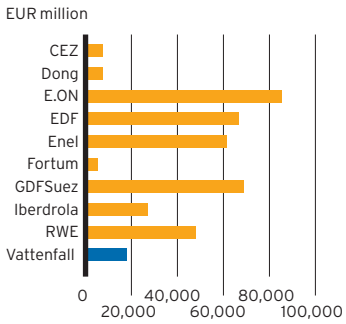
In 2009 many energy companies were very active in the credit market, and Credit Suisse estimates in a report that Europe's largest energy companies issued bonds worth a total value of EUR 85 billion in 2009 – a doubling compared with a year ago. The aim of the bond issues was mainly to refinance short-term bridge loans for acquisitions as well as to prefund extensive capex programmes. According to a report from Moody's, access to liquidity will continue to be an important factor for electric utilities. This will also entail continued focus on upholding current ratings. The rating downgrades that took place during the year are mainly the result of higher debt that companies took on to finance acquisitions.

On the following pages is a summary of a few, selected European energy companies' earnings, financial position and strategic direction.

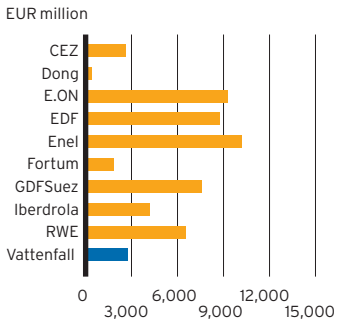
Comparison of selected European utilities (Data as per 30 September 2009, unless indicated otherwise)

The table below shows a comparison of selected utilities in Vattenfall's markets. Compared with the corresponding presentation in Vattenfall's 2008 Annual Report, the companies generally showed stable or rising net sales and stable operating profit.

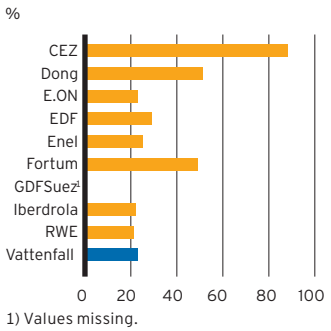
Net sales



Operating profit (EBIT)



FFO/Net debt



1) Values missing.

	CEZ	Dong	EDF	Enel	E.ON
Country	Czech Republic	Denmark	France	Italy	Germany
Listing info	Listed (69.8%-owned by Czech state)	Unlisted (73%-owned by Danish state)	Listed in 2005 (84.7%-owned by French state)	Listed (31.4%-owned by Italian state)	Listed (Free float: 95%)
Electricity sales 2008, TWh	75	11	708	270	614
Number of customers, millions	Electricity: 6.9	Electricity: 1.0 Gas: 0.2	Electricity: 41 (incl. gas)	Electricity: 49 Gas: 3.4	Electricity: 24 Gas: 8
Primary products	Electricity, heat	Gas, oil, electricity	Electricity, gas	Electricity, gas	Electricity, gas
Primary markets	Czech Republic, Bulgaria, Romania, Poland	Denmark, Sweden, Germany, Netherlands, UK	France, UK, Germany, Italy, Central and Eastern Europe	Italy, Spain, Portugal, France, Russia, Central and Eastern Europe, North and South America	Germany, Central and Eastern Europe, UK, Benelux, Nordic countries, Italy, Spain, Russia, USA
Strategies and business orientation	• To be a leading energy company in Central and Eastern Europe • Investment in growth markets outside the EU • Renew portfolio of generation facilities through new gas plants and, if possible, nuclear power • Investment in environment-friendly technology	• Long-term strategy: Stable and CO_2-neutral electricity generation • Triple generation capacity of renewable energy by 2020 • No new construction of coal-fired plants • Focus on northern Europe and optimisation of existing activities	• Take a leading role in the global interest in new nuclear power • Support development of renewable energy and energy efficiency • Consolidate market position in Europe	• Separate ownership of regulated network operations from the market-based operations • Continued growth of generation capacity, including goals for renewable energy (biomass and wind power) and diversification of fuels • Establish a clear position in the consolidation of the European energy market	• Retain a broad energy mix and be active along the entire value chain in power and gas • Increase generation of renewable energy • Exploit synergies between power and gas • Selective growth in new markets, such as Russia, Italy and Spain • Development of new nuclear power in the UK

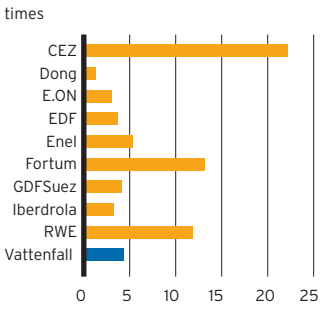
Exchange rates: EUR 1/SEK 10.42 (Vattenfall), EUR 1/CZK 25.23 (CEZ), EUR 1/DKK 7.44 (Dong).

Sources:
Graph values: Barclay's Capital. Last 12-month values as per 30 September 2009.

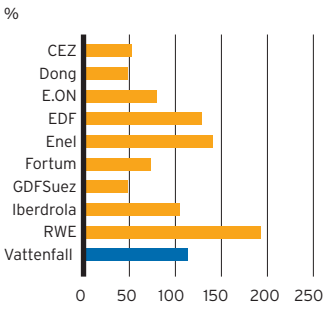
Electricity sales, number of customers, primary products, primary markets, strategies: Vattenfall Research, various analyst reports and the companies' annual reports, interim reports and websites.

Interest coverage ratios have decreased, while net debt (also in relation to EBITDA) has generally increased. The presentation is general and makes no representations of being conclusive.

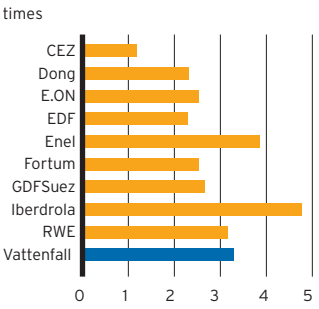
Interest coverage ratio, net



Debt/equity ratio, net



Net debt/EBITDA



Fortum	GDF Suez	Iberdrola	RWE	Vattenfall
Finland	France	Spain	Germany	Sweden
Listed (50.8%-owned by Finnish state)	Listed (35.6%-owned by French state. Free float: 59%)	Listed (Free float: 100%)	Listed (Free float: 84%)	Unlisted 100% state-owned
75	281	155	317	189 (206 incl. deliveries to minority part-owners)
Electricity: 1.6	Electricity: 5.7 (Europe) Gas: 16.8 (Europe)	Electricity: 24.5 (of which, Europe 13.4) Gas: 3.1 (of which, Europe 2.2)	Electricity: 17 Gas: 8.2	Electricity: 7.5 (retail customers) Gas: 2.1
Electricity, heat	Electricity, gas, LNG, energy services	Electricity, gas, engineering and construction	Electricity, gas	Electricity, heat, gas
Nordic countries, Baltic countries, Russia, Poland	France, Benelux, Germany, Italy, Spain, Portugal, UK, Central and Eastern Europe, North and South America	Spain, Portugal, UK, South America, USA	Germany, UK, Benelux, Central and Eastern Europe	Nordic countries, Germany, Poland, UK, Netherlands, Belgium
• Focusing on the power and heat business in the Nordic, Russian and Balic areas • Developing a CO_2 free and flexible production portfolio	• Improve profitability of operating activities • International growth through development of electricity generation in new growth markets • Growth in gas production • Growth in electricity generation, with special focus on renewable energy generation and nuclear power	• Maintain world-leading position in renewable energy • Prepare for long-term growth through investments in new capacity – mainly wind power	• Profitable growth in Europe and stronger international diversification • Reduce CO_2 emissions and expand renewable business • Expand gas midstream position and strengthen position in upstream gas and oil production	• Making electricity clean – Vattenfall's operations to be climate-neutral by 2050 Five strategic ambitions: • Number One for the Customer • Number One for the Environment • Profitable Growth • Benchmark for the Industry • Employer of Choice

Definitions

Net debt pertains to reported net debt.

Free float = The proportion of a company's shares that are available for trading on the open market.

EMPLOYER OF CHOICE

One of Vattenfall's strategic ambitions is to be an Employer of Choice. Vattenfall shall strive to attract competent employees for the future, contribute to their personal development and create such a good work environment that employees will prefer to stay with the company.

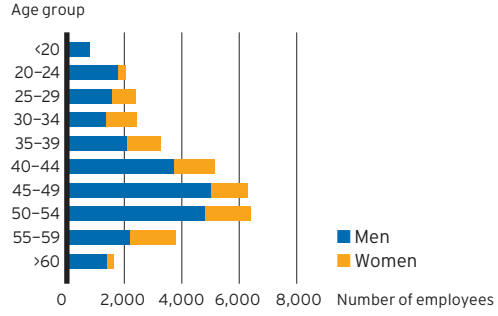
Vattenfall's need of specialists in various areas will be rising on account of the Group's massive investment projects. For example, in the years immediately ahead, Vattenfall will have a great need to hire project leaders – especially in its wind power operations – as well as specialists such as analysts and engineers in nuclear power and in mining operations and production activities. Vattenfall is therefore facing a major recruitment challenge. A large share of the Group's work force is approaching retirement age in the near future, at the same time that the share of young people in the population is decreasing. As a result, competition for the most qualified people is rising. Vattenfall's international expansion has also increased the complexity of the Group's organisation, which puts new demands on Group's mix of expertise. Against this backdrop, during the year Vattenfall conducted a Group-wide project aimed at positioning itself as an Employer of Choice.

Recruitment programme

Vattenfall participates regularly at student fairs to present the company. Many new graduates apply for Vattenfall's external trainee programme, which is conducted every other year. Trainees are offered employment combined with training in leadership, and through this programme they gain first-hand insight into Vattenfall's operations and strategy. In 2009 a total of 19 trainees were hired from Poland, Germany and Sweden under this programme.

In Germany, Vattenfall has an apprentice programme that employed 775 young apprentices in 2009. Vattenfall is also involved in providing training in specialist areas of expertise, and in 2009 the company had some 200 students in Germany who augmented their college educations with work or practical experience at Vattenfall.

Age distribution at year-end 2009



International opportunities

Vattenfall has developed guidelines and routines for foreign assignments along with good opportunities for international development. The number of employees stationed abroad is steadily rising. Vattenfall has an internal rotation programme, called Young Potentials, in the countries in which the Group is active. The aim is to increase mobility as well as international co-operation within the Group. Further, positive effects are that the participants broaden their networks and experience the diversity within the Vattenfall Group. In 2009, 120 Young Potentials joined the programme, which continues into 2010.

Competence planning and leadership development

Talent management is the foundation for Vattenfall's efforts to attract, develop and retain competence for the future. The process includes competence planning and leadership development. Accordingly, a couple of years ago Vattenfall adopted an annual competence succession process in which all business units, as part of the business planning process, plan for their human resource needs in the short and long term.

Effective leadership is crucial for Vattenfall's success. The annual management succession process is a central part of Vattenfall's leadership development, where managers and potential managers are evaluated on the basis of performance reviews. This process is also part of the work on further developing a performance culture at Vattenfall.

A designated function within Vattenfall is responsible for designing and conducting leadership and management development programmes that meet a high international standard of quality. The goal is to support the company's managers in their role as flexible leaders in an international, multicultural environment. Activities include basic management training as well as advanced programmes at the strategic level for senior managers.

Greater employee commitment

Every year Vattenfall conducts the My Opinion employee survey, which is a tool for developing the organisation and strengthening employee commitment. The results are used as a platform for dialogue and action plans in all areas of the organisation. Based on a number of questions in the My Opinion survey, a Commitment score is extrapolated. In 2009 a score of 74 was achieved, which exceeded the target score of 72 for the year.

Responsible for the world's largest offshore wind power project

Ole Bigum Nielsen, project manager for the Thanet wind farm project offshore Britain's south-east coast, commutes weekly between his home in Horsens, Denmark, and his workplace in London.

At the Thanet wind farm – which will be the world's largest offshore wind farm upon its completion in 2010 – 100 wind turbines will stand at sea with total capacity of 300 MW. Ole Bigum Nielsen is the man responsible for making this equation work: logistics, timetables, 65 suppliers and 60 people on site.

"The investment is worth nearly GBP 900 million (more than SEK 10 billion, so that's a lot of money to be responsible for," he says.

"We run into major challenges frequently. We have people at sea around the clock, 365 days a year, so we are highly dependent on the weather. We must also see to it that we synchronise all of the deliveries – for example, that the transformer station arrives at exactly the right time, when the installation vessel is on site."

Nielsen, who has worked for Vattenfall since 2006, describes himself as a generalist. He has a degree in engineering, along with studies in law and economics.

"You need a broad base of knowledge for this job. Engineering is not enough. What's more, you have to be proactive, have foresight, and be able to work with the employees as well as all the suppliers," says Nielsen, who is very pleased with the opportunities that his work with Vattenfall has brought. For example, before this he was a project leader for the Lillgrund wind farm in the Baltic Sea.

"And there will be more, major wind power projects in the future," he says. "Wind power is facing tremendous development. Vattenfall will need many skilled project leaders in the future, that's for sure!"

GOVERNANCE OF OPERATIONS AND DECISION-MAKING

Following is information on corporate governance in accordance with the Swedish Code of Corporate Governance ("the Code") for the 2009 financial year. For information already provided in the Annual Report, reference is made to the appropriate section. The Articles of Association and other documents are available on Vattenfall's website, www.vattenfall.se. The Corporate Governance Report and description of internal control of the financial reporting have not been reviewed by the company's auditors.

Important internal and external regulatory systems

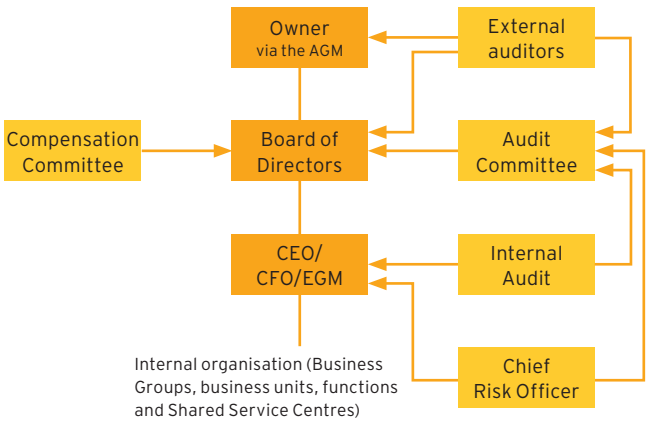
The Parent Company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with registered office in Stockholm. The Swedish Companies Act thus applies for Vattenfall AB, which entails that the company shall have a board of directors that is elected by the Annual General Meeting (AGM). The Board, in turn, appoints the President and CEO, who is responsible for the day-today administration of the company in accordance with the Board's guidelines and instructions. The AGM also decides on Vattenfall AB's Articles of Association, which specifies the object of the company's business, among other things. The Articles of Association are available on Vattenfall's website.

Corporate governance within the Group is based on Swedish and foreign legal rules as well as on the Articles of Association, the Board's Rules of Procedure and other internal documents, such as the Vattenfall Management System (VMS). Where applicable, Vattenfall also adheres to the stipulations that apply for companies registered on Nasdaq OMX Stockholm, in Sweden, and the other marketplaces in which Vattenfall has securities registered.

Vattenfall applies the Swedish Code of Corporate Governance and considers it as one of several important sets of governing systems 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 is 100%-owned by the Swedish state, while the Code is written primarily for listed companies with broad ownership. Moreover, due to these ownership conditions, certain stipulations are not even applicable for Vattenfall.

Departures from the Code are specified below.

Governance and reporting structure



Annual General Meeting and owner

According to Vattenfall's Articles of Association, the AGM shall be held yearly within six months after the end of the financial year. The AGM elects, on the recommendations of the owner, the Board and auditors, adopts the income statement and balance sheet, and deals with other matters of business that are incumbent upon the Meeting pursuant to the Swedish Companies Act or the Articles of Association.

Vattenfall's AGM was held on 29 April 2009, in Stockholm. The AGM adopted the annual report and consolidated financial statements for 2008 submitted by the Board of Directors and Group CEO, resolved to distribute the company's profit and discharged the members of the Board and the CEO from liability. The owner's representative, Undersecretary of State Ola Alterå, gave an address in which he informed about the

Departures from the Code

Vattenfall's corporate governance for the 2009 financial year departs from the requirements stipulated in the Swedish Code of Corporate Governance on the following points.

Code requirement	Description	Chosen solution and justification
1.4 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 instead done at the AGM in accordance with the stipulations of the Swedish Companies Act. This is also in line with the Swedish state's ownership policy.
2. Nomination committee	The company shall have a nomination committee.	Due to its ownership structure, Vattenfall has no nomination committee. The nomination process is instead conducted in accordance with the Swedish state's ownership policy.

Composition of the Board and meeting attendance

	Function	Nationality	Independence in relation to the company and company management (according to the Code)	Committee assignment	Total fees (SEK 000s) per year 2009	Attendance at board meetings	Attendance at committee meetings
Lars Westerberg	Chairman of the Board	Swedish	Yes	Compensation Committee	580	17/17	9/9
Viktoria Aastrup	Director	Swedish	Yes	Compensation Committee (chair), Audit Committee	350	17/17	CC: 9/9 AC: 6/6
Carl-Gustaf Angelin	Employee representative	Swedish	–	Compensation Committee, through 29/4/2009	39	17/17	1/1
Eli Arnstad	Director	Norwegian	Yes		280	17/17	
Johnny Bernhardsson	Employee representative	Swedish	–		39	14/17	
Christer Bådholm	Director	Swedish	Yes	Audit Committee (chair)	350	16/17	6/6
Lars Carlsson	Employee representative, deputy	Swedish	–		39	14/17	
Ronny Ekwall	Employee representative, through 20/11/2009	Swedish	–		39	12/14	
Lone Fønss Schrøder	Director	Danish	Yes	Audit Committee	350	16/17	3/6
Lars-Göran Johansson	Employee representative, deputy	Swedish	–		39	15/17	
Per-Ove Lööv	Employee representative, deputy, through 20/11/2009	Swedish	–	Audit Committee, through 20/11/2009	52	11/14	5/5
Björn Savén	Director, from 29/4/2009	Swedish	Yes		187	10/11	
Cecilia Vieweg	Director, from 29/4/2009	Swedish	Yes	Compensation Committee, from 29/4/2009	187	10/11	8/8
Hans-Olov Olsson	Director and Vice Chairman, through 29/4/2009	Swedish	Yes	Compensation Committee (chair), through 29/4/2009	133	6/6	1/1
Tuija Soanjärvi	Director, through 29/4/2009	Finnish	Yes	Audit Committee, through 29/4/2009	117	6/6	1/2
Anders Sundström	Director, through 29/4/2009	Swedish	Yes	Compensation Committee, through 29/4/2009	93	5/6	1/1

Note: Two of the meetings were held per capsulam, whereby the deputies did not sign the minutes.

work being conducted by the state with respect to Vattenfall's strategic framework. He informed about the owner's focus on three core areas regarding Vattenfall's future development:

- Profitability
- Climate change
- The brand

All re-elected and newly elected directors were in attendance at the AGM. As in previous years, the meeting was open to the general public, and an open Q&A session was arranged, in accordance with the state's ownership policy. Members of Parliament were given the right to ask questions, as stipulated in Vattenfall's Articles of Association. The meeting was aired live via webcast. A recorded version can be viewed on Vattenfall's website, along with the minutes and other material from the AGM.

Due to Vattenfall's ownership structure, no application process is available via e-mail or the company's website for shareholders to attend the AGM; nor is information about shareholders' opportunity to submit items of business for the AGM provided on the company's website. The Code's stipulations about this are thus not applicable for Vattenfall.

The Board's composition

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 co-ordinated by the State Enterprises Division of the Ministry of Enterprise, Energy and Communications. A work group analyses qualification needs based on the com-

pany's operations and current situation as well as the Board's composition. Any recruitment needs are then determined and recruitment work is initiated. Directors are chosen from a broad recruitment base in the aim of benefiting from the competence of men and women as well as of individuals with varying backgrounds and experience. Nominations are to be made public in accordance with the Code's guidelines, however, no report is made of directors' independence with respect to the state as a major shareholder. Vattenfall provides orientation training for directors newly elected by the AGM.

Board members

The Articles of Association stipulate that the Board shall have of a minimum of five and a maximum of ten AGM-elected directors. Vattenfall's board includes seven AGM-elected directors. By law, the unions are entitled to appoint three board members plus three deputies. Through 20 November 2009 the unions had three members and three deputies on the Board, and for the time thereafter two members and two deputies. No members of the Executive Group Management (EGM) are board members. Thus in accordance with the Swedish state's ownership policy, nor is the Group CEO a member of the Board. Of the directors, four are women and two are foreign citizens. The average age of board members is 54.

The work of the Board

Duties and delegation of work on 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 executive vice presidents, are to set 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 monitors the company's financial performance and has ultimate responsibility for internal control and risk management.

Each year the Board establishes its Rules of Procedure. Apart from mandatory items stipulated by 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 leads the work of the Board and is responsible for ensuring that board members receive adequate information. The Chairman participates when necessary in important external contacts.

The Board has established within itself an audit committee and a compensation committee. 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.

Assuring the quality of financial reporting

In its separate report on internal control (see page 45), 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. Through the Audit Committee, a more detailed quality audit can be performed than what would be possible for the entire board to do. At all Audit Committee meetings in 2009, external and internal auditors presented their observations concerning the Group's full-year and half-year book closing, among other things. In conjunction with planning work for the annual audit, discussions are held between the external auditors and the Internal Audit concerning Vattenfall's risk situation.

The Board's risk management process

Vattenfall appointed a Chief Risk Officer (CRO) in 2009 to establish a clearer division of responsibility and more effective risk management organisation within the Group. The CRO is responsible for this organisation at the Group level and reports to the Audit Committee.

The CRO and risk organisation have overall responsibility for the Enterprise Risk Management process, involving support, development, compliance and reporting regarding all risk areas within the Group, as well as gathered market and credit risk reporting.

The CRO is particularly responsible for drafting and proposing risk management routines and policies, including continuous improvements, and for the implementation, operation and execution of these routines and policies via the risk organisation.

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. These instructions are approved by the CRO down to the business unit level. The Board decides on overall risk limits for the Group in all these areas. Operational risks are monitored and reported on a regular basis 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. The Board also holds an annual risk management seminar, which conducts a more thorough review of the Group's financial and operational risks.

For more detailed information about Vattenfall's risks and risk management, see pages 75–81.

Description of the Board's work

The Board's Rules of Procedure stipulate that five to eight regular meetings are to be held each year. In addition to the regular meetings, the Board is summoned to further meetings if the need arises.

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 concerns in nuclear power
- Review of strategic personnel issues, including competence succession

- Research and development activities within the Group In addition, at every meeting a report is presented on important business events since the previous meeting as well as on the financing situation. Investments are followed up and analysed three years after the Board's decision to invest.

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

The Board adhered to the Rules of Procedure in 2009. In all, the Board met 17 times, including the statutory meeting. A quorum existed at all meetings. According to the Rules of Procedure, at least one meeting every year is to be held at another location than the head offices. In 2009 a meeting was held in Amsterdam in conjunction with a visit to the recently acquired Dutch operations.

Matters handled by the Board appointed by the 2008 AGM

Meeting date	Focus and important matters discussed
2 February 2009	• Safety situation in the nuclear power operations and introduction of Chief Nuclear Officer • Strategic matters • Ongoing acquisition activities • R&D activities, including CCS technology
11 February 2009	• Year-end report • Acquisitions/divestments
25 February 2009	• Acquisitions/divestments
17 March 2009	• Year-end book-closing, Annual Report, Audit Report and Proposed distribution of profit • Corporate Governance Report • CSR Report • Annual report on the district heating operations • Acquisitions/divestments • Code of Conduct • Terms of employment for senior executives • Moorburg project • Co-operation agreement with Östhammar and Oskarshamn municipalities • Safety in the nuclear power operations
25 March 2009	• Target for fixed interest durations for the debt portfolio
27 April 2009	• Terms of employment for senior executives

Matters handled by the Board appointed by the 2009 AGM

Meeting date	Focus and important matters discussed
Statutory board meeting 29 April 2009	• The Board's Rules of Procedure, instructions and delegation of duties between the Board and CEO and instructions on financial reporting to the Board • Membership of the Audit Committee and Compensation Committee • Rules of procedure for the Audit Committee and Compensation Committee • Environmental policy • Acquisitions/divestments
28 May 2009	• Moorburg project • Acquisitions/divestments • R&D issues • Grid issues • Establishment of Chief Risk Officer position • Follow-up of investments made during first half of 2006 • Safety in the nuclear power operations • Equal opportunity plan • Review of strategic HR matters
5 June 2009	• Sponsoring
29 July 2009	• Half-year interim report • Information on nuclear power operations
24–25 August 2009	• Strategy seminar • The Group's Strategic Plan • Acquisitions/divestments • Communication and branding • Safety in the nuclear power operations • General update on acquisitions • Finance instruction and policy, and instructions for the management of energy and commodity risks
20 October 2009	• Production planning within the Group • Investment programme for nuclear power operations • Safety in the nuclear power operations • Acquisitions/divestments • General update on acquisitions • Risk mandate • Follow-up of investments made during second half of 2006
11 November 2009	• Acquisitions/divestments • HR matters
15 November 2009	• New First Senior Executive Vice President of Vattenfall AB • Terms of employment for Øystein Løseth
24 November 2009	• Acquisitions/divestments
10–11 December 2009	• New Senior Executive Vice President of Vattenfall AB • Business plan and investment plan • Wind power • Investments in investment programme • Safety in the nuclear power operations • The Group's borrowings and pledging of security • Acquisitions/divestments • General update on acquisitions • Evaluation of the Board and CEO
21 December 2009	• Acquisitions/divestments

Evaluation of the Board's and CEO's work

The Board evaluates its own work and the CEO's work once a year through a systematic and structured process in the aim of developing the Board's work forms and effectiveness. This evaluation is headed by the Chairman and is reported to the Board. The most recent evaluation was presented at the board meeting on 10–11 December 2009.

Committees

Audit Committee

The Audit Committee is tasked with the following, among other duties:

- Assisting the Board on matters pertaining to financial risk and reporting, as well as external and internal audit
- Conducting preparatory work for the Board in quality assuring Vattenfall AB's financial reporting
- Monitoring the effectiveness of internal control, internal audit and risk management
- Assist the owner in its selection of auditors and setting fees for auditing services
- Evaluating the work of the external auditors
- Setting guidelines for other services than auditing that Vattenfall AB and the Group may purchase from the company's auditors
- Approving the internal audit plan

The Audit Committee has special responsibility for ensuring application of the Code and for preparing required reports. The Group CFO, the Head of Internal Audit, the Chief Risk Officer and the Financial Compliance Officer make presentations at Audit Committee meetings. In addition, the company's auditors report their observations regarding the audit.

The Board of Directors has authorised the Audit Committee to – on behalf of the Board – approve the quarterly reports for the third quarter of 2009 and first quarter of 2010, i.e., the reports that are not formally reviewed by the auditors. However, the Board as a whole shall be convened for a review and approval of these reports if the Audit Committee is of the opinion that this should be done.

The Board has adopted rules of procedure for the Audit Committee. The committee reports its work to the Board through the committee chair, who informs about the committee's decisions, and by submitting meeting notes to the Board by the committee secretary.

Compensation Committee

The Compensation Committee prepares matters regarding compensation and other terms of employment for the CEO of Vattenfall AB, for decisions by the Board, and serves as a consultative body regarding compensation and other terms of employment for other executives who are directly subordinate to the CEO – all within the framework of annual salary review. In addition, a going-rate principle is adhered to regarding the salaries and remuneration of all executive vice presidents and heads of the Group functions. The committee is also tasked with conducting drafting work for the principles proposed by the Board to the 2010 AGM regarding the principles for compensation and other terms of employment for the CEO of Vattenfall AB, and for other executives who are directly subordinate to the CEO, and for reviewing the report on their compensation in the Annual Report.

At the 2009 AGM, new guidelines were adopted for senior executives, which correspond to the "Guidelines for terms of employment for senior executives of state-owned companies", which were adopted by the government on 20 April 2009 ("the Guidelines"). In 2009 the Compensation Committee was particularly tasked with ensuring the implementation of and compliance with the Guidelines, with conducting drafting work for the Board's proposal for updates to the Guidelines if a need arises, and – where applicable – for conducting drafting work for the special reasons that exist for departing from the Guidelines in particular cases.

The Head of Human Resources and employee responsible for salaries and compensation within Group Function Human Resources make presentations at the committee's meetings. The Board has adopted rules of procedure for the committee's work. The committee reports its work to the Board through the committee chair, who informs about the committee's decisions, and by submitting meeting notes to the Board by the committee secretary. The Board has not delegated its decision-making right to the Compensation Committee, and thus it is the responsibility of the entire Board to decide on such matters as employment of the CEO and approval of the CEO's compensation and other terms of employment. The employee representatives on the Board have declined to participate in the committee's work.

Offer Committee

In 2008, in accordance with the British City Code on Takeovers and Mergers, the Board established an Offer Committee to handle the public offer for Eclipse Energy UK Plc. The Board authorised the committee to make decisions on and take necessary actions to handle 100% of the shares in the company. The committee's members were Lars Westerberg (chair) and Viktoria Aastrup. The committee was dissolved in 2009 after 100% of the shares had been acquired.

Compensation guidelines

Board of Directors

Directors' fees are decided by the AGM. For information on directors' fees in 2009, see the table "Composition of the Board and meeting attendance" on page 39 and in Note 49 to the consolidated accounts in the Annual Report.

Senior executives

The AGM has approved a programme that conforms with the Guidelines referred to above. In addition, the AGM has assigned the Board to look into how existing contracts containing terms for variable salary can be renegotiated in the most suitable manner possible, so that they are compatible with these guidelines.

Vattenfall's board has defined the positions that can be considered to be senior based on the impact they have on the Group's earnings, whereby the respective units' sales and size have been determining factors. Including the members of the Executive Group Management, a total of 15 positions have been idenfitied. Individual reviews are being performed with respect to the compensation structures (fixed salary), that are to apply as from 2010. At the time of publication of this Annual Report, the situation was as follows: For the executives who

are members of the Executive Management Group in 2010 (ten persons), six receive only fixed salary and no variable salary based on annual targets or long-term targets (LT1). For the other positions, individual reviews and recruitment are being conducted. For new hires, only fixed salary will be offered.

This issue has been reviewed by the Board's compensation committee, which hired the services of external advisers for this purpose.

There are no share- or share price–related incentive programmes for the Board or EGM. Due to Vattenfall's ownership structure, nor will such programmes be possible. 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 49 to the consolidated accounts in the Annual Report.

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 AGM. In accordance with the Act on Audits of State Enterprises, the Swedish National Audit Office can appoint one or more auditors to participate in the annual audit. Vattenfall's Articles of Association stipulate that a minimum of one and maximum of three auditors are to be appointed at the AGM, along with a minimum of one and a maximum of three deputies, and that a chartered auditing firm can be appointed as auditor or deputy auditor.

The 2008 Annual General Meeting appointed the auditing firm Ernst & Young AB as auditor, with Authorised Public Accountant Hamish Mabon as the new auditor-in-charge. This appointment applies for a term until the 2012 AGM. Apart from his assignment for Vattenfall, Hamish Mabon serves as auditor for the following companies: Hexagon AB, Relacom Holding AB, Scania Sverige AB, Softronic AB and Ambea AB. Hamish Mabon has no assignments with companies that affect his independence as auditor of Vattenfall.

The Swedish National Audit Office has appointed Authorised Public Accountant Per Redemo to serve until the 2012 AGM, with Authorised Public Accountant Göran Selander as deputy during the same time period. Per Redemo has held this position since 2004. Per Redemo is the National Audit Office's auditor for SJ AB and Sveriges Television AB. He has no assignments for companies that affect his independence as an auditor of Vattenfall.

The auditors reported on their audit of the year-end book-closing to the entire board at the board meeting on 17 March 2009, and also reported on their remarks at the board meeting on 10 December 2009. In connection with the report on 17 March 2009, the Board met the auditors without the presence of the CEO or other person from management. The auditors also provided more detailed reports at meetings of the Audit Committee. In addition, the auditors meet Vattenfall's CEO and CFO on a number of occasions during the year.

The Audit Committee has approved guidelines for how procurement of other services than auditing shall take place. These guidelines apply for all of the Group's external auditors. In cases where more extensive consulting activities are to be performed by the elected auditors, the assignment must first be discussed and approved by the Audit Committee or CFO. The Group's auditing costs are described in more detail in Note 52 to the consolidated accounts and Note 39 to the parent company accounts. Consulting provided by Ernst & Young AB from 2007 to 2009 pertained primarily to taxation and accounting issues, as well as to project routines and management.

Management and management system

CEO and Executive Group Management

The President of Vattenfall AB, who is also CEO of the Vattenfall Group, is responsible for the day-to-day administration in accordance with the Swedish Companies Act. The President has appointed decision-making bodies for the Group and makes decisions independently or with the support of these decision-making bodies. Lars G. Josefsson was President for the full year 2009. At the board meeting on 15 November 2009, Øystein Løseth was appointed as First Senior Executive Vice President of Vattenfall AB, with the intention that he will succeed Lars G. Josefsson as President prior to summer 2010.

The Executive Group Management (EGM) focuses on the Group's overall direction and decides on matters of major importance for the Group, such as the Group's strategy, major acquisitions, investments and divestments. Information on the members of the Executive Group Management is provided on pages 48–49.

Governing business ethics

Vattenfall's core values are Openness, Accountability and Effectiveness.

Vattenfall's Group-wide Code of Conduct and company philosophy stipulate that all employees shall adhere to and work in accordance with Vattenfall's core values, policies and instructions. The stipulations of the Code of Conduct are laid out in more detail in other parts of the management system. Further information on guiding business ethics is provided in Vattenfall's CSR Report.

A new Code of Conduct was adopted in 2009. It was developed in an international project that was headed by Group Function Human Resources and involved a large number of units in order to ensure that it is in line with the Group's strategy and the issues that are central for the day-to-day operations. Central issues that are covered by the new Code of Conduct include sustainability, customers and suppliers, people, culture and values, business ethics, health/security/safety and communication.

In 2009 Vattenfall continued with the introduction of the Group-wide whistleblowing function, with locally appointed external ombudsmen (attorneys), to whom employees, consultants, entrepreneurs and suppliers can turn to report suspected, serious improprieties that the reporting person for any reason does not want to report internally via the ordinary reporting channels. This function has existed in Vattenfall's

German operations since 2007 and was implemented in Poland and Sweden in 2009. Work on implementing the function in Denmark, Finland, the Netherlands and Belgium is under way and is expected to be completed during the first half of 2010.

General information on the Vattenfall Management System (VMS)

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 EGM.

To ensure that Vattenfall develops in the intended direction and lives up to ethical and legal requirements, the CEO has established the Vattenfall Management System (VMS). Integrated with the VMS is an Environmental Management System. The VMS is available to all employees on the Group's intranet. The VMS consists of a number of building blocks (see illustration opposite) and is documented in binding governing documents, consisting of CEO documents, Group policies, instructions, directives and other documents. The Group policies specify guidelines on matters of major importance for the Group, while instructions provide more detailed and operative control.

The Group's management processes for strategic planning, business planning and follow-up are central governance tools for the EGM. The Group functions are responsible for proposing, developing and following up Group policies and instructions. The Group's Quality function has a co-ordinating role for the management system and has a decision-making committee that is tasked with establishing adherence and improvements to the VMS. In addition, certain central documents are approved by the Vattenfall AB board each year or after material changes have been made. All units within Vattenfall are obligated to comply with the management system's governing documents.

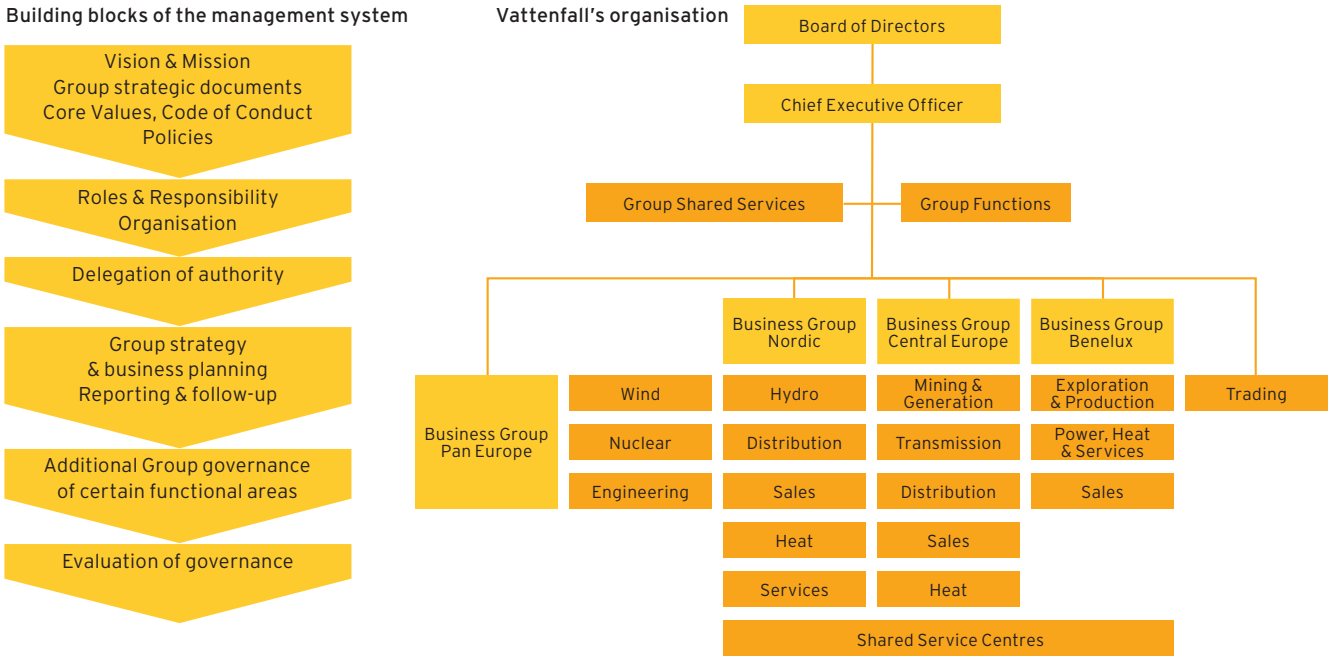
Special routines are in place to ensure that the Vattenfall Management System is also applied by subsidiaries. With respect to the German subsidiaries, since June 2008 a special agreement (Beherrschungsvertrag) has been in place between Vattenfall AB and the German holding company, Vattenfall Europe AG. Under this agreement, the board (Vorstand) of the holding company is subordinate to Vattenfall AB, and Vattenfall AB has the right to issue directives regarding governance. In the event during the agreement's validity period a net loss were to be reported for a given calendar year in Vattenfall Europe AG's annual report, and such a net loss could not be compensated by the dissolution of reserves that have been set aside during the control agreement's validity period, then Vattenfall AB would be obligated to cover the net loss. Information on liability pursuant to the agreement is also provided in Note 33 to the parent company accounts (Contingent liabilities).

Organisation and processes

Vattenfall's organisational model is based on the value chains for electricity (generation, transmission, distribution and sales) and heat (production, distribution and sales). Reporting and follow-up of the business activities are conducted with full transparency in accounting, control, profitability and value creation. The organisation is illustrated in the chart opposite.

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

Vattenfall's management system and organisation



- Business activities are handled by the Business Groups and their business units
- Functions that support their respective management teams
- Shared service units, which provide and develop services that support the business units and other users' efforts to optimise their business activities. Shared service units operate at both the Group (Group Shared Services) and Business Group levels

A number of important processes have been established to facilitate governance within the Group. 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: strategic and business planning, reporting and follow-up, risk management, mergers & acquisitions, investments, communications, management development and asset management.

The strategic and business planning process culminates in yearly strategy and business plans. This process includes the analysis, evaluation and assessment of strategic issues with decisions made by the EGM on selection, formulation and priorities. Strategic planning includes the Group's long-term operations as well as its financial performance. Each year a 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 one-year plan and a five-year plan containing a strategic direction. These plans are subject to the ultimate approval of the EGM. The finance plan for the following calendar year is ultimately adopted by the Board.

The acquisition of 49% of the share capital and operative control of N.V. Nuon Energy resulted in the formation of the new Business Group Benelux on 1 July 2009, with units for Exploration & Production, Power, Heat & Services, and Sales. In addition, a Group-wide energy trading business unit was formed through integration of Vattenfall's and Nuon's energy trading units.

THE BOARD'S REPORT ON INTERNAL CONTROL OF FINANCIAL REPORTING

This report has been prepared in accordance with the Swedish Code of Corporate Governance.

Control environment

The formal decision-making structure in the Group is based on the division of responsibility between the Board and CEO, which is stipulated in the Board's Rules of Procedure. The Board has established Vattenfall's Group-wide Code of Conduct, which defines the obligation of all employees to adhere to Vattenfall's company philosophy, core values, and norms for the employees. The Vattenfall Management System (VMS), which has been established by the CEO, contains governing documents which include, among other things, Group instructions for authorisations, governance, 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 Group's risk management and reporting are coordinated by a central risk committee. The Board evaluates and monitors risks and the quality of financial reporting via the Audit Committee, which maintains continuous and regular contact with the Group's internal and external audit functions in order to evaluate risk in the financial reporting. The Vattenfall Management System includes a framework for internal control that identifies and defines risks related to financial reporting. The Finance Compliance function within the Group's Accounting and Finance Group function performs yearly analyses of risks related to financial reporting and is responsible for updating this framework.

Control activities and follow-up

The Board monitors the Parent Company's and Group's financial position and addresses this matter at every board meeting. The EGM has regular follow-up meetings on the financial outcome with the management and finance functions of Vattenfall's various Business Groups, functions and shared service units. The VMS contains governing documents for the essential financial reporting processes. The VMS serves as a platform for internal control for all units within the Group.

The Finance Compliance function is responsible for overseeing self evaluations, follow-up, reporting and improvements in the control activities for financial reporting. These control activities are intended to prevent, discover and correct errors in the financial reporting. Finance Compliance reports to Vattenfall's CFO and the Audit Committee.

Internal Audit's work involves, among other things, evaluating and reviewing risk management, compliance with policies, rules and instructions, and the effectiveness of internal control in the financial reporting. Internal Audit reports to the Executive Group Management, to the management teams in the various countries and units, and to Vattenfall's Audit Committee.

Information and communication

Information about the Group's policies, instructions, guidelines and manuals is available on Vattenfall's intranet, which is accessible to all employees in the Group. The Group's accounting and reporting policies are laid out in the Group reporting manual. Updates and changes these policies are communicated on a continuous basis via Vattenfall's intranet as well as at meetings with representatives of Vattenfall's Business Groups, functions and shared service units.

BOARD OF DIRECTORS

Lars Westerberg (born 1948), Chairman of the Board since 2008. Lars Westerberg has an M.Sc. in Engineering from the Royal Swedish Institute of Technology and a B.Sc. Econ. from Stockholm University. He began his career in 1972 with an engineering internship at ASEA, where he stayed until 1984, when he was Sales Manager for ASEA Robotics. In 1984 he joined Esab, where he served as President and CEO from 1991 to 1994. From 1994 to 1999 he was President and CEO of Gränges AB, and thereafter President and CEO of Autoliv AB until April 2007. Since 2007 he has been Chairman of Autoliv AB and Husqvarna AB, and a director on the boards of SSAB and AB Volvo.

Viktoria Aastrup (born 1971) was elected as a director in 2008. She has an M.Sc. Econ. degree from Linköping University (1995) and a Financial Analyst diploma from the Stockholm School of Economics (2002). In 1995 she took employment with the Swedish Road Administration, and starting in 1998 she served for the Swedish government Ministry of Communications and the Ministry of Enterprise, Energy and Communications, most recently as assistant unit manager of the State Enterprises Division of the Ministry of Enterprise, Energy and Communications. Starting in 2010 she is a regional manager for Nordea AB, Stockholm Region, a director of Lernia AB, and Nomination Committee Chair for TeliaSonera.

Carl-Gustaf Angelin (born 1951) is an employee representative (for Akademikerrådet) and was elected to the Board in 2003. He has an 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 held various positions within the Vattenfall Group. He is currently active in Nordic Sales.

Eli Arnstad (born 1962) was elected as a director in 2008. She studied public law and political science at the University of Oslo and received an M.Sc. degree from HiNT (Høskolen i Nord-Trøndelag). She was employed by Stiklestad Nasjonale Kultursenter in 1999 and by Stjørdal Naeringsforum in 2000. From 2001 to 2007 she served as CEO of Enova SF. Ms Arnstad is Vice Chairman of Sparebank 1 Midt-Norge and a director on the board of Senter för ekonomisk forskning at NTNU, Stiftelsen Nidarosdomens Restaureringsarbeider, AF-gruppen, and Posten Norway.

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

Christer Bådholm (born 1943) is a director and was elected 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 of Svevia AB, and is Chairman of Bombardier Transportation Sweden AB, Balfour Beatty Rail AB and VINN Group AB.

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

Lone Fønss Schrøder (born 1960) is a director and was elected in 2003. She has a Master's in Law from the University of Copenhagen, and a Master's in Economics from the Copenhagen Business School. From 1982 to 2003 she held various executive positions at A.P. Møller/Maersk A/S. From 2003 to 2005 she was an executive director of AKER-Kvaerner, and since 2005 she been serving as Managing Director of Wallenius Lines AB. She is a director on the boards of Aker Solution ASA (publ), NKT A/S, Yara ASA (publ) (and member of the Audit Committee) and Svenska Handelsbanken AB (publ) (and member of Audit Committee), Chairman of Bioneer A/S and WWL A/S, and Vice Chairman of Aker ASA (publ) (and member of the Audit Committee).

Lars-Göran Johansson (born 1953) is an employee representative for Ledarna (the Association and Management and Professional Staff) and was elected to the Board in 2008. He is a secondary school education and has worked as a technician and work leader within the Vattenfall Group since 1971.

Björn Savén (born 1950) was elected as a director in 2009. He has a B.Sc. Econ. degree from the Stockholm School of Economics (1972), and an MBA from Harvard Business School (1976). He also holds an honorary doctorate from the Hanken School of Economics in Helsinki, Finland. From 1976 to 1988 he held numerous senior positions with the Esselte Group in Stockholm, London and New York, and prior to that he spent two years (1972–1974) with Gulf Oil. Since the company's establishment in 1989, he has been serving as Chairman and CEO of IK Investment Partners (IK). He is also a director of Nordea Bank AB (publ) and several of IK's portfolio companies.

Cecilia Vieweg (born 1955) was elected as a director in 2009. From 1987 to 1990 she worked as an attorney for Berglund & Co Advokatbyrå. Thereafter she served as a company lawyer for AB Volvo, until 1992, when she became General Counsel of Volvo Car Corporation. In 1998 she was an attorney and partner of Wahlin Advokatbyrå, and in 1999 she joined Electrolux as a member of the executive management with responsibility for legal affairs, intangible rights, risk management and security. She is Company Secretary for AB Electrolux and a director of Haldex AB and PMC Group AB. She is also a member of the Swedish Securities Council.

Directors who left the Board in 2009

Hans-Olov Olsson (born 1941) was elected as a director in 2004 and resigned at the 2009 Annual General Meeting.

Tuija Soanjärvi (born 1955) was elected as a director in 2007 and resigned at the 2009 Annual General Meeting.

Anders Sundström (born 1952) was elected as a director in 2004 and resigned at the 2009 Annual General Meeting.

Ronny Ekwall (born 1953) was elected as an employee representative in 1999. He resigned on 20 November 2009.

Per-Ove Lööv (born 1961) was elected as an employee representative and deputy director in 1999. He resigned on 20 November 2009.


Lars Westerberg


Viktoria Aastrup


Carl- Gustaf Angelin


Eli Arnstad


Johnny Bernhardsson


Christer Bådholm


Lars Carlsson


Lone Fønss Schrøder


Lars-Göran Johansson


Björn Savén


Cecilia Vieweg

EXECUTIVE GROUP MANAGEMENT

Lars G. Josefsson (born 1950), President and CEO of Vattenfall AB since 2000. M.Sc. Eng., Chalmers University of Technology, Gothenburg. Ericsson, 1974–1993 Radar Section and Surface Sensor Division, among others. 1993–1997 Managing Director, Ericsson Austria AG, Vienna; thereafter Managing Director of Celsius until 2000. Director of ESKOM Holdings Ltd and Robert Bosch GmbH. Partner of Robert Bosch Industrietreuhand. Chairman of Eurelectric and the German–Swedish Chamber of Commerce. Member of the UN Secretary-General's advisory committee on energy and climate change. Member of the Swedish government's Commission for Sustainable Development through August 2009. At year-end Lars G. Josefsson did not have any material shareholdings in companies with which Vattenfall has business dealings.

Dag Andresen (born 1964) Chief Financial Officer since October 2008. Second Senior Executive Vice President of Vattenfall AB. Graduate Naval Officer from the Royal Norwegian Air Force Academy; M.Sc. Econ., Norges Handelshøyskole (NHH). Executive MBA , Helsinki School of Economics and Business Administration. Educated at Harvard Business School and Stanford Graduate School of Business. Has held various senior officer positions in the Royal Norwegian Navy and Royal Air Force. 1993–2000 held various management positions with Nordiska Investeringsbanken (NIB), Helsinki, and Den norske Bank (DnB), as well as in shipping and industry. 2001–2008 held various executive management positions with Nordea AB, lastly as Head of the Transaction & Finance Banking business area.

Helene Biström (born 1962), Deputy Head of Business Group Nordic 2007–2008. Head of Business Group Pan Europe as from 1 Jan. 2009. M.Sc., Eng., Royal Institute of Technology, Stockholm. 1983–2000 held various positions in Vattenfall AB. 2001–2002 President of REGA Energiplanering AB; 2004–2007 Head of the Nordic Heat business unit. Director of Stella Plastic Holding AB.

Lars Gejrot (born 1954), Head of Group Function Human Resources function since 2 Feb. 2009; acting Director of Communications, August 2009–31 December 2009. Regimental Officer, Karlberg; university studies in sociology, psychology and education, leadership training courses. 18 years with IKEA, holding several foreign assignments and management positions; Human Resources Manager, IKEA Group, 2001–2008. Four years as a consultant with Mercuri Urval, and 10 years as a regimental officer.

Tuomo Hatakka (born 1956), Executive Vice President of Vattenfall AB since 2005 and Head of Business Group Central Europe since 1 January 2008. Head of Business Group Poland, 2002–Dec. 2007. Economics studies at the Helsinki School of Economics and Business Administration and Instituto de Estudios Superiors de la Empresa, Barcelona, Spain. Consultant, Bain & Company, London, Executive Vice President and partner at Enterprise Investors, Warsaw, Poland; and President and CEO of Elektrim Kable SA, Warsaw, Poland.

Øystein Løseth (born 1958), First Senior Executive Vice President of Vattenfall AB and Head of Business Group Benelux from 1 July 2009. Civ. Eng. degree, Norges Tekniske Høyskole, Trondheim, Norway; studies in economics at Bedriftsøkonomisk Intitutt, Bergen, Norway. Statoil, Norway, 1983–1993. Planning Manager, Alliance Gas, London, UK 1993–1994; 1994–1997 Commercial Director, Naturkraft, Oslo. 1997–2003 various positions for Statkraft in Norway and the Netherlands. Joined Nuon N.V., Amsterdam, in 2003 as President of Nuon Energy Solutions and director of Nuon N.V. April 2008, appointed CEO of N.V. Nuon Energy. Appointed First Senior Executive Vice President of Vattenfall AB on 15 November 2009, with the intention to succeed Lars G. Josefsson as CEO prior to summer 2010.

Hans-Jürgen Meyer (born 1957), member of EGM and CFO of Vattenfall Europe AG, since 2005. Dr. Jur., University of Tübingen Law School, Master of Laws, Harvard University Law School, USA. Law Clerk with Federal Administrative Court of Germany, in Berlin, 1983–1985; judge 1987–1991. 1991–2000, Treuhandanstalt/BVS (a Federal Agency), Berlin, Vice President in 1993. Joined Bewag AG in 2000 as CFO. 2002–2005 Head of Control and Finance for Vattenfall Europe AG.

Helmar Rendez (born 1962), Executive Vice President, Group Function Strategies, since August 2007. Ph.D., Berlin University of Technology (TU). Project manager, Zentrum für Logistik und Unternehmensplanung GmbH, Berlin, 1989–1993, Managing Director, Kienbaum Management Consultants GmbH, Berlin office, 1993–1998; head of group development at VEAG (Vereinigte Energiewerke AG), Berlin, 1998–2001. Responsible for the integration process within Vattenfall Europe and head of Company Development 2001–2003. Member of executive management of WEMAG AG, Schwerin, 2004–2007, and Managing Director of Vattenfall Europe Business Services GmbH, Berlin, 2006–2007.

Elisabeth Ström (born 1962), Director of Group Function Communication, from 1 January 2010. Degree in Market Economics, Berghs School of Communication. Head of curriculum at Berghs School of Communication, 1985–1988, rector 1996–1997. 1991–1995 Marketing Manager, Nordiska Kompaniet; 1997– 2000 member of executive management of Föreningssparbanken (today Swedbank). Recruited in 2000 as Vice President at the Swedish Co-operative Union (KF) and Vice President of Coop Sverige AB. 2003–2005, Deputy CEO and Vice President, Posten AB. 2005–2009 consultant and adviser in business development and branding.

Torbjörn Wahlborg (born 1962), Executive Vice President and Head of Business Group Nordic since 1 January 2010. M.Sc., Eng., Chalmers Institute of Technology, Gothenburg. 1988–1990 Nynäs Petroleum, Nynäshamn, Sweden. 1990–1994 head of Electricity for Vattenfall Värmekraft, Stenungssund, Sweden; 1994–1996 manager for Sjælendske Kraftverker, Copenhagen, Denmark. 1996–1997 project manager at Vattenfall International, in Stockholm. Vice President of Vattenfall Poland, 1997–2001; Vice President of GZE SA, Gliwice, 2001–2006. Head of the Vattenfall Sales business area, Poland, 2006–2008, and country manager for Vattenfall Poland, 2008–2009.

Persons who left the Executive Group Management in 2009

Doede Vierstra (born 1958) was CFO of N.V. Nuon Energy until 31 December 2009, when he left Vattenfall.
Hans von Uthmann (born 1958) was Executive Vice President of Vattenfall AB and Head of Business Group Nordic until 31 December 2009, when he left Vattenfall.

Christoper Eckerberg (born 1971), was acting Director of Communication until August 2009. As from August 2009 he is head of the Engineering business unit of Business Group Pan Europe.

Carolina Wallenius (born 1968) served as Head of Group Function Communications until February 2009, when she resigned.


Lars G Josefsson


Dag Andresen


Helene Biström


Lars Gejrot


Tuomo Hatakka


Øystein Løseth


Hans-Jürgen Meyer


Helmar Rendez


Elisabeth Ström


Torbjörn Wahlborg

ADMINISTRATION REPORT

The Board of Directors and President of Vattenfall AB (publ), Swedish corporate identity number 556036–2138, herewith submit the annual report and consolidated accounts for 2009, encompassing pages 50–81, which have been translated from the Swedish original.

Group operations and structure

Vattenfall's vision is to be a leading European energy company, and its main products are electricity, heat and gas. In electricity, Vattenfall works in all parts of value chain – generation, transmission, distribution and sales. In heat, Vattenfall is active in production, distribution and sales. Vattenfall also conducts gas production and sales, energy trading and lignite mining. The Group has approximately 40,000 employees, and the Parent Company, Vattenfall AB, is 100%-owned by the Swedish state.

Operations in 2009 were conducted in Sweden, Denmark, Finland, Germany, Poland, the UK, the Netherlands and Belgium.

Group operating profit 2009, broken down by operating segment

Business Group Central Europe

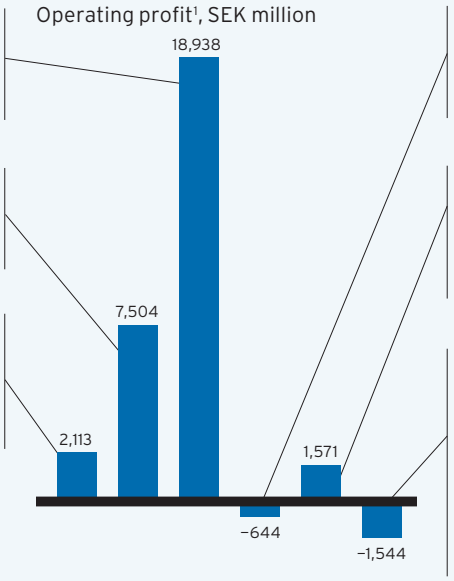
Business Group Central Europe conducts operations in Germany and Poland, and includes the business units Mining & Generation, Transmission, Distribution, Sales and Heat.

Business Group Nordic

Business Group Nordic conducts operations in Sweden, Finland and Denmark, and includes the business units Hydro, Distribution, Sales, Heat and Services.

Business Group Pan Europe

Comprises the three Group-wide business units: Wind, Nuclear and Engineering. Business Group Pan Europe is also responsible for Vattenfall's European business development with focus on efficient energy use and biomass.



Business Group Benelux

Business Group Benelux conducts operations in the Netherlands and Belgium, and includes the business units Exploration & Production, Power, Heat & Services, and Sales.

Supply & Trading

Supply & Trading has Group-wide responsibility for market access, price hedging, fuel purchasing, dispatching for the German and Dutch power plants, and trading for own account within the mandate issued by the Executive Group Management.

Other

The segment Other includes Treasury operations and other Group functions. Operating profit also includes unrealised changes in fair value of energy trading contracts, which according to IAS 39 may not be recognised using hedge accounting.

1) Including items affecting comparability, the Group's operating profit amounted to SEK 27,938 million in 2009.

The Group's operations in 2009 were conducted primarily in six operating segments consisting of the four Business Groups (Pan Europe, Nordic, Central Europe and Benelux), Supply & Trading and Other.

Starting on 1 January 2009, the Nuclear, Wind and Engineering business units have been gathered in a new cross-border Business Group: Pan Europe. The main purpose of the reorganisation was to enhance co-ordination and cross-border co-operation in these areas, and to increase focus on the work of achieving Vattenfall's climate vision, where these business units play a major role.

The three regional Business Groups – Nordic, Central Europe and Benelux – comprise other types of generation (mainly hydro power and fossil-based power), heat, distribution and sales (see chart above for more detail) in the respective regions.

The Supply & Trading operating segment comprises Vattenfall's energy trading operations. Operating profit for this segment is derived primarily from realised trading deals, but not earnings for deals generated on behalf of other business units through price hedges (earnings from these deals accrue to the business units). Nor does operating profit include unrealised changes in fair value.

The operating segment Other includes Treasury operations and other Group functions. It also includes unrealised changes in fair value of energy trading contracts, which according to IAS 39 may not be recognised using hedge accounting.

Integration of N.V. Nuon Energy

As from 1 July 2009, N.V. Nuon Energy (Nuon) is part of the Vattenfall Group. Nuon's wind power operations have been integrated in the Wind business unit of Business Group Pan Europe, and its energy trading operations are part of Supply & Trading. The remaining business units, Exploration & Production; Power, Heat & Services; and Sales, are part of the newly formed Business Group Benelux.

IMPORTANT EVENTS 2009

Investment in ocean energy

In January Vattenfall acquired 51% of Pandion Ocean Power Ltd, the Irish site development company for ocean energy. The company has applied for ocean energy sites on the west coast of Ireland. For Vattenfall this was a first step toward establishing a leading position in the growing market for harnessing wave power. In December Vattenfall – together with Pelamis, a Scottish development company of wave power technology – started a company (Aegir Wave Power Ltd) to build the first wave power farm offshore the Shetland Islands.

Experts appointed for Vattenfall's nuclear safety council

In January Vattenfall announced that two internationally renowned nuclear power experts have been recruited to the Vattenfall Nuclear Safety Council as part of its endeavour to ensure world-class safety and generation in its nuclear power plants. The Nuclear Safety Council consists of external experts and internal representatives from various parts of Vattenfall's organisation. The two external experts are Dr Hans Blix, former Director General of the IAEA (International Atomic Energy Agency), and Peter Hirt, Chairman of Swiss Nuclear and CEO of the Gösgen nuclear power plant in Switzerland.

Acquisition of Nuon

On 1 July Vattenfall acquired 49% of the shares for EUR 4,833 million (approx. SEK 52 billion) and took over operational control of Dutch energy Group N.V. Nuon Energy (Nuon). As from the third quarter Nuon is part of the Vattenfall Group. Consideration for the remaining 51% of the shares, totalling EUR 5,030 million (approximately SEK 51 billion), will be paid by Vattenfall in three tranches during the coming five years. Nuon's network company Alliander was not included in the acquisition. The integration of Nuon in the Vattenfall Group was completed in all essential respects at year-end. However, the Nuon brand will be kept during a transitional period.

Bond issues

In 2009 Vattenfall issued a number of bonds to finance the initial acquisition of 49% of the shares in N.V. Nuon Energy. On 5 March, Vattenfall issued a triple tranche benchmark bond in the euro market worth EUR 2.7 billion, with maturities of four, seven and twelve years. On 1 April a dual-tranche Sterling bond totalling GBP 1.35 billion across 10- and 30-year maturities was issued. On 6 May an additional euro-denominated bond worth EUR 1.35 billion was issued with a five-year maturity. All of the bonds met strong demand from investors and were oversubscribed several times over. The Sterling bond was Vattenfall's first issue ever in the UK market.

Disruptions in nuclear power generation

During an inspection of Ringhals 1, a disengaged safety system was discovered. The event was classified as a class 1 deviation, the lowest degree on the International Nuclear Events Scale (INES). On 8 July, the Swedish Radiation Safety Authority (SSM) subjected Ringhals AB to special investigation measures and conditions for operation of the Ringhals 1–4 reactors as a result of observed defects that can be coupled to the safety culture at the nuclear power plant. Vattenfall will carry out the investigation measures and meet the conditions made by SSM. In addition to the annual, planned outages of Ringhals 1 and Ringhals 2, a number of modernisation and safety enhancement installations were carried out, and as a result, the outages were considerably longer than normal.

The IAEA, through its Operational Safety Review Team (OSART) of international experts, regularly reviews nuclear power plants around the world. The IAEA's oversight of Forsmark was followed up in 2009, and in November the result of its follow-up review were presented. The results were very favourable and were among the best ever recorded during the nearly 20 years that the IAEA has been conducting OSART follow-up reviews.

On 4 July, the Krümmel nuclear power plant in Germany was scrammed as a result of a short circuit in one of two transformers that connect the plant to the grid. The plant was disconnected from the grid and the reactor was shut down in accordance with existing safety routines. The power plant had just been re-commissioned following a nearly two-year outage.

On 22 April 2009 SSM lifted the special oversight that the Forsmark nuclear power plant had been subject to since September 2006.

Forsmark selected by SKB as final repository for spent nuclear fuel

In June, the Swedish Nuclear Fuel and Waste Management Company (SKB) announced its choice of Forsmark as the final repository for spent nuclear fuel in Sweden. The choice of sites had been narrowed down between Forsmark, in Östhammar municipality, and Laxemar, in Oskarshamns municipality. At the repository, spent nuclear fuel from Sweden's nuclear power plants will be stored at an underground depth of nearly 500 metres. SKB is now moving forward and completing the applications for the permits that will be reviewed by the Swedish Radiation Safety Authority and the Environmental Court. The applications will be submitted in 2010 and will include an

environmental consequence analysis and safety analysis for the nuclear fuel repository in Forsmark.

Collaboration with auto industry

In February 2009 Vattenfall and BMW Group began the pilot phase of the "MINI E Berlin powered by Vattenfall" project. During a set period, 50 people will be testing 50 electric MINI cars, making the project the largest of its kind in Germany.

In June, Vattenfall and Volvo Car Corporation launched an industrial collaboration to introduce plug-in hybrid cars on the market. Volvo Car Corporation and Vattenfall initiated this joint project back in 2007 with the goal of testing and developing plug-in technology. This co-operation has now been taken to the next level. As a result of this pioneering technology, a substantial reduction can be made in the environmental impact of automobile traffic.

Review of asset portfolio

During the year, Vattenfall conducted a review of its shareholdings and made a number of divestments. Vattenfall sold its 80% stake in the German supply and distribution company WEMAG to the 191 municipalities in Mecklenburg–Vorpommern and Brandenburg, and Thüga AG. The deal was completed in early January 2010. In November 2009 the decision was made to leave the Zuidwending gas storage project for profitability reasons. Vattenfall also sold its 50% stake in the associated company AB PiteEnergi to Piteå municipality, its 30% stake in the associated company Luleå Energi AB to Luleå Kommunföretag AB, and its 20.6% stake in Jämtkraft AB to Östersund municipality.

Continued investment in wind power

In May Vattenfall decided to build the Stor–Rotliden wind farm in Åsele municipality, Sweden, which will be Vattenfall's largest land-based wind power project. The wind farm, which is expected to come online in 2011, will comprise up to 40 wind turbines with capacity of 78 MW.

In autumn 2009 Vattenfall also decided to erect an additional five turbines at the Edinbane wind farm on the Isle of Skye in Scotland, which is currently being developed. The wind farm will comprise a total of 18 turbines delivering 2.3 MW each and is expected to be comissioned in 2010.

In England, construction of the Thanet wind farm continued during the year, and with a capacity of 300 MW it will be the world's largest offshore wind farm once it is commissioned in 2010. It is estimated that Thanet will meet the electricity needs of 240,000 households.

Also during the year, the alpha ventus wind farm outside the island of Borkum offshore Germany's North Sea coast was commissioned. Alpha ventus is a development and demonstration project in which Vattenfall has a 26.25% interest. The remainder is owned by EWE and E.ON.

New electricity contracts with industrial customers

During the year, Vattenfall signed new contracts with major industrial customers in the Nordic region. For example, Vattenfall signed a new, long-term contract with Stora Enso on electricity deliveries during the period 2013–2022. The deal covers approximately 6 TWh of electricity. In addition to electricity deliveries, the contract entails an extension of the companies' co-operation on balance responsibility, entailing that Vattenfall will manage the difference between Stora Enso's estimated and actual use of electricity.

A contract was also signed with the glass manufacturer Pilkington on portfolio management and physical deliveries of electricity in Sweden, Finland and Norway. Vattenfall is one of few players in the market that is able to deliver electricity to companies with operations in several Nordic countries. The contract is unique for Vattenfall since it marks the first time Vattenfall is delivering physical electricity in Norway.

Base industries in co-operation with Vattenfall

In late October Vattenfall and Industrikraft i Sverige AB (a newly formed company owned in equal parts by Boliden, Eka Chemicals, Holmen, Stora Enso and SCA Forest Products), signed a letter of intent on joint energy generation. The agreement is aimed at ensuring new, cost-effective base energy with the goal of securing the long-term future of industrial operations in Sweden. The co-operation is also based on the shared insight that a shortage of base load power will emerge as Sweden's nuclear power plants reach the end of their useful lives. This will require compensation in the form of new base power with very low CO_2 emissions. The next phase of the co-operation will involve investigating and making decisions on concrete collaboration projects.

Changes in Executive Group Management during the year

On 2 February, Lars Gejrot took office as Vattenfall's Head of Human Resources, succeeding Ann-Charlott Dahlström, who left Vattenfall in September 2008.

At Vattenfall's board meeting on 15 November 2009, Øystein Løseth was appointed as First Senior Executive Vice President of Vattenfall AB, with the intention that he will succeed Lars G. Josefsson as CEO prior to summer 2010, when Lars G. Josefsson intends to exercise the right provided to him through his employment contract to retire at 60 years of age.

In addition, during the autumn, Elisabeth Ström was appointed as Director of Communications for Vattenfall, and Torbjörn Wahlborg was appointed as the new Head of Business Group Nordic. They assumed their positions on 1 January 2010.

GROUP – FINANCIAL OVERVIEW AND ANALYSIS

Condensed income statement[1]

Amounts in SEK million, unless otherwise stated	2009	2008	Change, %
Net sales	205,407	164,549	24.8
Profit before depreciation/amortisation (EBITDA)	51,777	45,960	12.7
Operating profit (EBIT)	**27,938**	**29,895**	**–6.5**
Operating profit. excl. items affecting comparability	31,294	30,220	3.6
Financial items, net	–10,204	–6,397	–59.5
Profit before tax	**17,734**	**23,498**	**–24.5**
Income tax expense	–4,286	–5,735	–25.3
Profit for the year	**13,448**	**17,763**	**–24.3**
– of which, attributable to owners of the parent	12,896	17,095	–24.6
– of which, attributable to minority interests	552	668	–17.4

1) See complete income statement on page 82.

Net sales

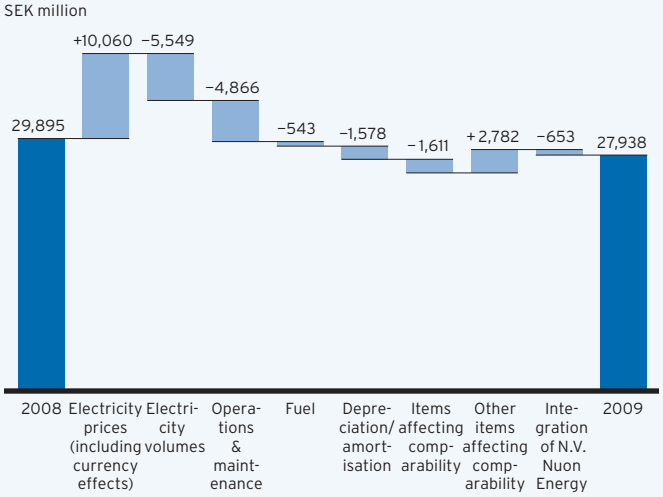
The Group's net sales rose 24.8% to SEK 205,407 million (164,549). Of the increase, totalling SEK 40.8 billion, the consolidation of N.V. Nuon Energy (Nuon) in the Vattenfall Group as from 1 July 2009 accounted for the most part, SEK 21.4 billion. Currency effects increased sales by approximately 11.0 billion. The remainder of the increase is mainly attributable to higher prices received.

Operating profit (EBIT)

Operating profit decreased by 6.5% to SEK 27,938 million (29,895). Higher electricity prices made a positive contribution of approximately SEK 10 billion. Higher tariffs in the heat and distribution operations also made a positive contribution to operating profit.

The main items that contributed to the decrease were lower generation volumes and higher costs for operations and maintenance. In addition, items affecting comparability in 2009 amounted to SEK -3,356 million (-325). Costs for CO_2 emission allowances amounted to SEK 5,446 million in 2009 (5,916). The earnings impact of the outages at the German nuclear plants during the year is estimated to be approximately EUR 382 million, or SEK 4,063 million (2008: EUR 573 million).

Factors affecting the change in operating profit[1] (EBIT)



1) The difference in items affecting comparability was SEK –3,031 million, of which SEK 1,420 million is attributable to the integration of N.V. Nuon Energy.

Items affecting comparability

- Capital gains totalling SEK 919 million from the sales primarily of Vattenfall's interests in Luleå Energi AB, AB PiteEnergi, Jämtkraft AB, the Borkum Riffgrund wind farm, the Nuon Zuidwending gas storage project, and a number of properties in Germany.
- Capital losses totalling SEK 861 million, primarily from the sale of Vattenfall's interests in a number of companies, of which the sale of Vattenfall's 80% stake in the German electricity trading and distribution company WEMAG accounted for SEK 817 million.
- Impairment losses and reversed impairment losses, and other non-recurring items together totalling SEK 3,414 million – mainly impairment of SEK 4,088 million for Danish heating assets, impairment of SEK 1,133 million for wind power assets, SEK 1,328 in reversed impairment losses for German assets, and SEK 1,266 million in recognised negative goodwill pertaining to the Thanet wind farm in the UK.

Financial items, net

Net financial items amounted to SEK -10,204 million (-6,397). The decline is mainly attributable to higher borrowing costs in connection with the debt financing of the acquisition of N.V. Nuon Energy.

Integration of N.V. Nuon Energy

The effect on Vattenfall's operating profit of the acquisition of Nuon as per 1 July 2009 was SEK -653 million. However, this amount includes amortisation of SEK 882 million in surplus value and impairment losses of SEK 1,203 million (mainly for wind power assets). Excluding these items, the effect on operating profit was SEK 1,432 million for the second half of 2009. A specification of acquired net assets and goodwill that arose in connection with the acquisition can be found in Note 3 to the consolidated accounts.

Condensed balance sheet[1]

Amounts in SEK million, unless stated otherwise	31/12/2009	31/12/2008	Change, %
Non-current assets	417,504	317,912	31.3
Current assets	184,623	127,915	44.3
Total assets	**602,127**	**445,827**	**35.1**
Equity incl. minority interests	142,404	140,886	1.1
Non-current liabilities	314,402	192,578	63.3
Current liabilities	145,321	112,363	29.3
Total equity and liabilities	**602,127**	**445,827**	**35.1**

1) See complete balance sheet on page 84.

Non-current assets

Non-current assets increased by 31%, mainly due to the acquisition of N.V. Nuon Energy. Goodwill of SEK 44.1 billion arose in connection with the acquisition. A presentation of the Group's assets and net assets is provide in Note 6 to the consolidated accounts.

Current assets

Short-term investments, cash and cash equivalents increased by 41.5%, from SEK 40,236 million to SEK 56,940 million. The increase is mainly attributable to a higher level of borrowing in 2009. In addition to short-term investments, as per 31 December 2009 Vattenfall had SEK 10,453 million (15,416) in committed credit facilities and SEK 10,342 million (13,327) in other credit facilities at its disposal. In addition, in 2009, SEK 7,356 million was reported as assets held for sale. For further information, see Note 35 to the consolidated accounts.

Financial position at 31 December 2009
Amounts in SEK million

Cash and cash equivalents, and short-term investments	56,940[1]
Confirmed credit facilities (unutilised)	10,453
Other credit facilities (unutilised)	10,342

1) Of which SEK 30,089 million was fully available. Of funds that are not fully available, SEK 3,524 million pertains to Vattenfall Europe AG's share of the liability insurance agreement ("Solidarvereinbarung"), SEK 3,934 million pertains to the minority owners' share of liquid assets in Vattenfall's German nuclear power companies, SEK 16,766 million pertains to Credit Support Annex (Margin Calls), SEK 798 million pertains to blocked funds in margin accounts, and SEK 1,820 million pertains to other funds that are not fully available.

Current and non-current liabilities

Total interest-bearing liabilities increased by SEK 106,147 million, which is nearly a doubling over 2008. The increase is attributable to a higher level of borrowing in 2009 as a result of the debt-financed acquisition of 49% of the shares in N.V. Nuon Energy. Consideration for the remaining 51% is reported as a liability to Nuon's shareholders and is thus included in interest-bearing liabilities. The remaining consideration will be paid in three tranches during the coming five years (2011, 2013 and 2015).

Interest-bearing liabilities also include SEK 10,250 million (10,811) in Capital Securities, which were issued in June 2005. The rating agencies classify a large part of these Capital Securities as equity (Moody's 75% and Standard & Poor's 50%).

Further, interest-bearing liabilities include SEK 16,700 million (16,881) in loans from Vattenfall's minority-owned German nuclear power companies, and SEK 7,975 million (6,683) in loans from minority owners in Vattenfall's Swedish nuclear power plants, among others.

The Group's reported net debt increased by SEK 88,987 million, from SEK 66,000 million to SEK 154,987 million.

Net debt

Amounts in SEK million	31 Dec. 2009	31 Dec. 2008
Capital Securities	–10,250	–10,811
Bond issues and liabilities to credit institutions	–122,086	–69,665
Present value of liabilities pertaining to the acquisition of N.V. Nuon Energy	–49,447	–
Liabilities to associated companies	–16,711	–16,894
Liabilities to minority owners	–7,975	–6,683
Other liabilities	–7,025	–3,294
Total interest-bearing liabilities	**–213,494**	**–107,347**
Cash and cash equivalents	10,555	20,904
Short-term investments	46,385	19,332
Loans to minority owners in foreign subsidiaries	1,567	1,111
Net debt	**–154,987**	**–66,000**

Adjusted gross debt and net debt

When rating agencies and analysts assess a company's financial position, they commonly 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 table below shows adjusted figures for gross and net debt calculated by Vattenfall, but according to principles applied by analysts in the market. There is no uniform method for such adjustment, however, the calculation presented below can be considered to be conservative.

Adjusted gross debt and net debt

Amounts in SEK million	31 Dec. 2009	31 Dec. 2008
Total interest-bearing liabilities	–213,494	–107,347
Present value of pension obligations	–21,197	–21,839
Provisions for mining, gas and wind operations and other environment-related provisions	–14,463	–14,604
Provisions for nuclear power (net)	–6,776	–5,154
50% of Capital Securities	5,125	5,406
Currency derivatives with positive fair value	1,345	3,131
Hedging of net investments in foreign operations	–1,378	3,337
Adjusted gross debt	**–250,838**	**–137,070**
Reported cash and cash equivalents and short-term investments	56,940	40,236
Unavailable liquidity[1]	–8,256	–7,468
Adjusted cash and cash equivalents and short-term investments	**48,684**	**32,768**
Adjusted net debt	**–202,154**	**–104,302**

1) Including SEK 3,524 million for Vattenfall Europe AG's share of the liability insurance agreement ("Solidarvereinbarung"), SEK 3,934 million for the minority owners' share of liquid assets in Vattenfall's German nuclear power companies, and SEK 798 million in blocked funds in margin accounts.

Equity

The Group's equity increased by SEK 1,518 million to SEK 142,404 million. The share of equity attributable to minority owners decreased due to Vattenfall's acquisition of the Polish state's interests in GZE S.A. and Vattenfall Heat Poland S.A.

Condensed cash flow statement[1]

Amounts in SEK million unless indicated otherwise	2009	2008	Change, %
Funds from operations (FFO)	36,700	30,735	19.4
Cash flow from changes in operating assets and operating liabilities	9,546	5,459	74.9
Cash flow from operating activities	**46,246**	**36,194**	**27.8**
Free cash flow	27,566	18,963	45.4
Cash flow from investing activities	**–83,040**	**–41,273**	**101.2**
Cash flow from financing activities	**27,822**	**14,294**	**94.6**
Cash flow for the year	**–8,972**	**9,215**	**–**

1) See complete Cash flow statement on page 85.

2) Free cash flow = Cash flow from operating activities less maintenance investments.

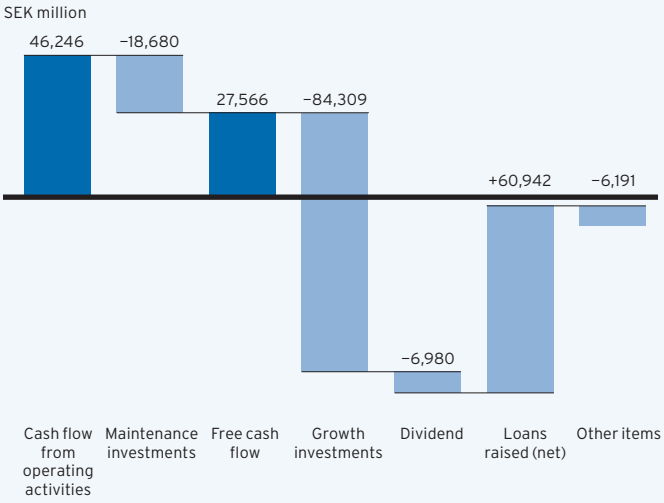
Funds from operations (FFO)

Funds from operations amounted to SEK 36,700 million (30,735). The increase over 2008, totalling SEK 5,965 million, is mainly attributable to an improved operating profit before depreciation/amortisation and impairment losses (EBITDA), and lower paid tax.

Changes in operating assets and operating liabilities

Cash flow from changes in operating assets and operating liabilities amounted to SEK 9,546 million. Greater trading in CO_2 emission allowances had a net positive effect on cash flow from changes in working capital. CO_2 emission allowances, which were delivered and received in December 2009 but were not paid for until January 2010, are reported under both operating receivables and operating liabilities. Inventories increased, which had negative effect on cash flow. In addition, the effect of realised hedges of equity in foreign subsidiaries is reported as a change in working capital. The effect of these improved cash flow by SEK 2,576 million compared with 2008.

Factors affecting the change in cash flow



Cash flow from operating activities

Cash flow from operating activities amounted to SEK 46,246 million, which was SEK 10,052 million higher than a year ago.

Cash flow from investing activities

Cash flow from investing activities was SEK -83,040 million, which is attributable to the high level of investments during the year (SEK 102,989 million vs. SEK 42,296 million in 2008). However, free cash flow, i.e., cash flow from operating activities less maintenance investments, was positive, at SEK 27,566 million. Growth investments accounted for the largest share of investments, SEK 84,309 million, which is mainly attributable to the acquisition of 49% of the shares in N.V. Nuon Energy, for roughly SEK 52 billion, and the acquisitions of the Polish state's minority interests in the subsidiaries GZE S.A. and Vattenfall Heat Poland S.A., for SEK 3.3 billion. Divestments during the year amounted to SEK 5,542 million, of which SEK 4,413 million is attributable to sales of shareholdings.

Investments

Amounts in SEK million	2009	2008
Maintenance investments	18,680	17,231
Growth investments	84,309	25,065
– of which, shares	56,561	11,798
Total investments	**102,989**	**42,296**

Divestments

Amounts in SEK million	2009	2008
Divestments	5,542	865
– of which, shares	4,413	33

Investments in electricity generation increased by SEK 10,521 million to SEK 26,466 million, of which the largest investments were made in Business Group Central Europe and Business Group Pan Europe. Investments in fossil-based power increased by SEK 4,551 million to SEK 12,591 million, and investments in wind power increased by SEK 5,428 million to SEK 8,002 million. Investments were also higher in heat and in electricity networks. See the specification of investments in the table at right.

Specification of investments in 2009 and 2008

SEK million	Business Group Pan Europe 2009	Business Group Pan Europe 2008	Business Group Nordic 2009	Business Group Nordic 2008	Business Group Central Europe 2009	Business Group Central Europe 2008	Business Group Benelux 2009	Business Group Benelux 2008	Other[1] 2009	Other[1] 2008	Total 2009	Total 2008
Electricity generation												
Hydro power	–	–	1,346	1,095	113	165		–	–	–	1,459	1,260
Nuclear power	4,263	3,583	–	–	–	–		–	–	–	4,263	3,583
Fossil-based power	–	–	4	8	9,587	8,032	3,000	–	–	–	12,591	8,040
Wind power	8,002	2,574	–	–	–	–		–	–	–	8,002	2,574
Biomass, waste	–	–	–	–	151	488		–	–	–	151	488
Other	–	–	–	–	–	–		–	–	–	–	–
Total Electricity generation	12,265	6,157	1,350	1,103	9,850	8,685	3,000	–	–	–	26,466	15,945
Heat												
Fossil-based power	–	–	470	998	1,549	1,181	383	–	–	–	2,402	2,179
Biomass, waste	–	–	1,220	693	29	13		–	–	–	1,249	706
Other	–	–	206	279	619	447		–	2	–	827	726
Total Heat	–	–	1,896	1,970	2,197	1,641	383	–	2	–	4,478	3,611
Electricity networks												
Electricity networks	–	–	3,116	3,307	4,103	3,008	–	–	–	–	7,219	6,314
Other	–	–	–	–	–	–	–	–	–	–	–	–
Total Electricity networks	–	–	3,116	3,307	4,103	3,008	–	–	–	–	7,219	6,314
Purchases of shares	346	2,388	–	42	48	252		–	56,169[2]	9,139	56,562	11,820
Other, excl. shares	348	263	206	129	4,516	3,955	2,787	–	407	258	8,264	4,606
Total	12,959	8,808	6,568	6,550	20,714	17,540	6,170	–	56,577	9,397	102,989	42,296

1) Includes the operating segments Supply & Trading and Other (which includes Treasury operations and other Group functions).

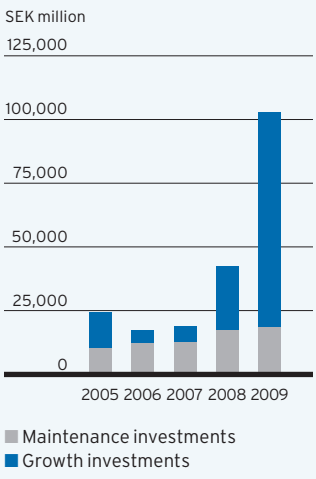
2) The acquisition of 49% of the shares in N.V. Nuon Energy accounts for approximately SEK 52 billion.

Cash flow from financing activities

Cash flow from financing activities was SEK 27,822 million, mainly due to a higher level of borrowing associated with the debt financing of the acquisition of N.V. Nuon Energy. Loans raised during the year amounted to SEK 72,543 million. Loan amortisation totalled SEK 11,601 million.

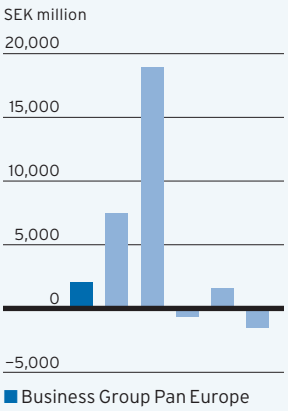
For further information about Vattenfall's borrowing activities, see Risks and risk management, page 75.

Investments



BUSINESS GROUP PAN EUROPE

Group operating profit



Key data

Amounts in SEK million unless indicated otherwise	2009	2008	Change, %
Net sales	21,113	20,407	3.5
External net sales[1]	8,239	7,614	8.2
Operating profit	2,113	3,567	–40.8
Operating profit excl. items affecting comparability	1,968	3,559	–44.7
Electricity generation, TWh[2]	43.2	47.7	–9.4
– of which, nuclear power	41.5	46.2	–10.2
–of which, wind power	1.7	1.6	6.3
Number of employees, full-time equivalents	5,667	5,112	10.9

1) Excluding intra-Group transactions.

2) Of electricity generation for the full year 2009, Vattenfall disposes over 30.0 TWh (31.6), while the rest goes to the minority part-owners or is deducted as replacement power.

Business Group Pan Europe comprises the three Group-wide business units: Wind, Nuclear and Engineering. Business Group Pan Europe is also responsible for Vattenfall's European Business Development unit, focusing on efficient use of energy and biomass. Business Group Pan Europe accounted for 7.6% of the Group's operating profit in 2009.

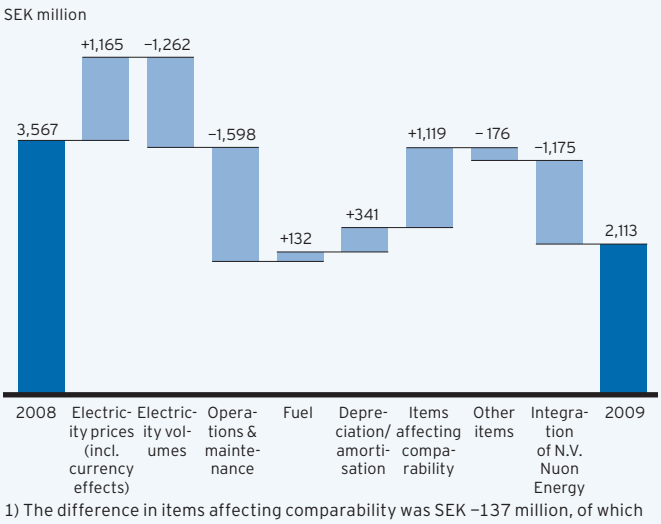
Operating profit

Operating profit decreased by SEK 1,454 million to SEK 2,113 million. Excluding items affecting comparability, operating profit decreased by SEK 1,591 million to SEK 1,968 million.

Items affecting comparability

Amounts in SEK million	2009	2008
Capital gains	1	10
Capital losses	–	–2
Impairment losses	–1,122	–
Other items affecting comparability	1,266	–
Total	**145**	**8**

Factors affecting the change in operating profit (EBIT)



1) The difference in items affecting comparability was SEK –137 million, of which SEK 982 million is attributable to the integration of N.V. Nuon Energy.

Approximately SEK 200 million of the total decline in operating profit is attributable to currency effects.

The business unit Wind improved its operating profit due to mainly recognition of SEK 1,266 million in negative goodwill pertaining to the Thanet wind farm in the UK. However, the underlying operating profit for the business unit was hurt despite higher volumes and higher prices achieved. This is attributable to higher costs associated with the ongoing expansion of wind power. Operating profit for the Wind business unit was charged with SEK 342 million in amortisation of surplus value attributable to the acquisition of N.V. Nuon Energy. In addition, an impairment loss of SEK 982 million, primarily for Dutch wind power assets, was recognised.

Operating profit for the Nuclear business unit fell as a result of lower generation volumes and higher costs for operation and maintenance associated with planned outages at the Swedish nuclear power plants. The negative earnings impact of the outages at the Krümmel and Brunsbüttel nuclear power plants in Germany was approximately EUR 382 million (573) for the full year (corresponding to approximately SEK 4,063 million). The Engineering business unit showed a slight improvement in operating profit.

Electricity generation 2009

Electricity generation decreased mainly due to lower nuclear power generation associated with extended, planned outages at the Forsmark and Ringhals nuclear power plants in Sweden. The Brunsbüttel nuclear power plant in Germany remained out of commission during the year, which was also the case in 2008. The outage of the half-owned Krümmel nuclear power plant did not affect consolidated volumes, since the plant is not consolidated in Vattenfall's accounts. Wind power generation increased to 1.7 TWh (1.6). In wind power generation, Sweden contributed 0.4 TWh, Denmark 0.7 TWh, the UK 0.3 TWh, the Netherlands and Belgium 0.2 TWh, and Germany and Poland 0.1 TWh.

Investments

Vattenfall is developing its generation portfolio towards low-emitting technologies. Business Group Pan Europe, with responsibility for both nuclear power and wind power, plays a central role in this work. The following major investment projects are in progress or are planned:

- A long-term investment programme for the Forsmark and Ringhals nuclear power plants in Sweden. The investment programme, which is being conducted in collaboration with the plants' other owners, covers measures to improve safety, extend the plants' useful life, and raise capacity. Of the entire programme, totaling SEK 50 billion for the period 2003–2030, SEK 14.1 billion is included in the current investment plan for 2010–2014 (of which approximately SEK 1 billion pertains to investments in the Krümmel and Brunsbüttel nuclear power plants in Germany).
- The Thanet offshore wind farm in the UK, with total installed capacity of SEK 300 MW. The wind farm is expected to be commissioned in 2010.
- The Edinbane offshore wind farm off the coast of the Isle of Skye, in Scotland, with eighteen 2.3 MW turbines, totalling slightly more than 40 MW. Edinbane is expected to be commissioned in 2010.
- The Ormonde offshore wind farm in the Irish Sea, with total installed capacity of 150 MW. The Ormonde wind farm is planned for commissioning in 2011/2012.
- The Stor–Rotliden land-based wind farm in Åsele, Sweden. Total installed capacity of 78 MW. Stor–Rotliden is expected to be operating in 2011.
- Maintenance investments in land-based wind power in Denmark, where new turbines with combined capacity of approximately 75 MW will repower older turbines with total installed capacity of 40 MW. (In 2009, the Nørrekær Enge wind farm came on stream, where 77 small turbines were replaced with 12 new, larger turbines).

Highlights Business Group Pan Europe

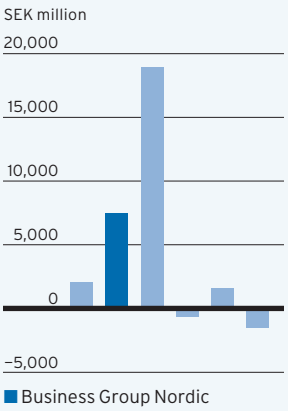
Helene Biström, Head of Business Group Pan Europe

"The year was a challenge, which can be seen in our operating profit, which was too low. In Germany our nuclear power plants are still off line, and we are working hard to get them up and running again. At the Ringhals and Forsmark nuclear power plants in Sweden, substantial modernisation and safety work has been carried out. We believe that our e-mobility activities will help position Vattenfall as a leading European energy company."

- Vattenfall continued to invest in development of ocean energy through the acquisition of 51% of the Irish development company Pandion Ocean Power Ltd and through co-operation with the Scottish development company Pelamis.
- During the year, extensive work was conducted at Vattenfall's nuclear power plants – both normal maintenance work and a number of modernisations and safety enhancement installations. Read more about Vattenfall's nuclear power operations on pages 22–23.
- Vattenfall has invested in two major e-mobility projects: Co-operation in Germany with BMW Group under the name "MINI E Berlin powered by Vattenfall", and a collaboration with Volvo Car Corporation aimed at introducing plug-in hybrid cars on the market. Read more on page 26.
- The Wind business unit conducted extensive activities during the year. Among other things, construction was started of the Stor–Rotliden wind farm in Åsele, Sweden, and of an additional five turbines at the Edinbane wind farm in Scotland. At the same time, construction is proceeding of the Thanet wind farm in England, which upon completion will be the world's largest wind power installation. In addition, the alpha ventus wind farm began operating offshore Germany's North Sea coast, as did the Nørrekær Enge wind farm in Denmark. Read more about Vattenfall's work with wind power on pages 16–17.
- Vattenfall's consulting company in Sweden and Germany, Vattenfall Power Consultant, has been restructured to form a single organisation that draws on competencies from across national borders and better meets its international customers' needs.
- In early 2010 Vattenfall, together with ScottishPower Renewables, was granted rights to develop a large wind farm in the East Anglia region offshore Britain's southeast coast, with a potential for 7,200 MW. Hopes are than an initial regulatory application can be filed in 2012. If the necessary permits are obtained, construction could commence in 2015 and be carried out in stages.

BUSINESS GROUP NORDIC

Group operating profit



Key data

Amounts in SEK million unless indicated otherwise	2009	2008	Change, %
Net sales	42,393	38,408	10.4
External net sales[1]	45,064	48,417	–6.9
Operating profit	7,504	11,461	–34.5
Operating profit excl. items affecting comparability	11,117	11,469	–3.1
Electricity generation, TWh[2]	38.8	42.1	–7.8
– of which, hydro power	31.2	35.5	–12.1
– of which, fossil-based power	7.3	6.2	17.7
– of which, biomass and waste	0.3	0.4	–25.0
Heat sales, TWh	11.1	10.4	6.7
Number of electricity customers[3]	1,257,000	1,053,000	19.4
Number of network customers	1,307,000	1,299,000	0.6
Number of employees, full-time equivalents	5,544	5,625	–1.4

1) Excluding intra-Group transactions.

2) Of electricity generation for the full year 2009, Vattenfall disposes over 36.7 TWh (41.0), while the rest goes to the minority part-owners or is deducted as replacement power.

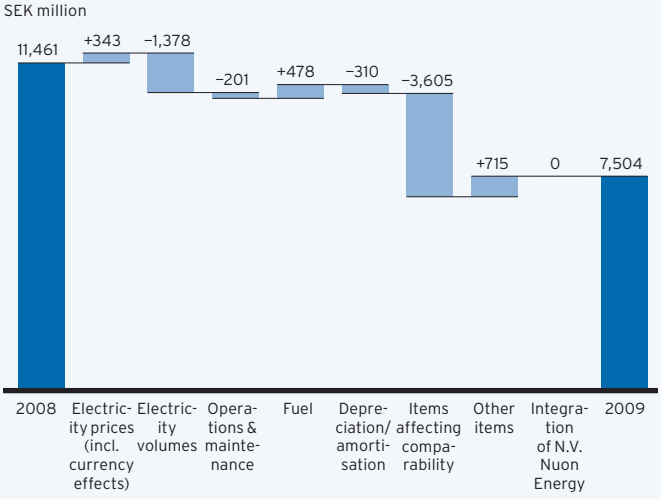
3) Retail customers.

Business Group Nordic conducts operations in Sweden, Finland and Denmark. The following business units are included in the segment: Hydro, Distribution, Sales, Heat and Services. Business Group Nordic accounted for 26.9% of the Group's operating profit in 2009.

Operating profit

Operating profit fell by SEK 3,957 million to SEK 7,504 million. Excluding items affecting comparability, operating profit decreased by SEK 352 million to SEK 11,117 million.

Factors affecting the change in operating profit (EBIT)



Items affecting comparability

Amounts in SEK million	2009	2008
Capital gains	688	21
Capital losses	–13	–29
Impairment losses	–4,094	–
Other items affecting comparability	–194	–
Total	**–3,613**	**–8**

The Heat business unit showed an improvement in underlying operating profit in 2009 as a result of higher prices and volumes. However, operating profit was charged with SEK 4,088 million in items affecting comparability, mainly impairment of Danish heating assets. The Hydro business unit posted a lower operating profit despite higher electricity prices achieved, largely due to lower generation volumes. Operating profit improved for the Sales and Distribution business units. For the Sales unit this is mainly attributable to higher earnings from associated companies and a slightly improved gross margin. The Distribution business unit improved its operating profit, mainly through higher network tariffs.

Electricity generation and heat sales

Electricity generation decreased by 3.3 TWh as a result of lower hydro power generation caused by lower water supply. Fossil-based generation increased by 1.1 TWh, while generation based on biomass decreased slightly.

Sales of heat increased mainly as a result of the commissioning of the Amagerværket plant in Denmark and colder weather at the start and close of the year.

Investments

The following major investment projects are in progress or are planned for Business Group Nordic:

- An extensive investment programme for hydro power. Some thirty hydro power stations will be upgraded during the period 2004–2013.
- The Abelvattnet hydro power plant, with installed capacity of 4.6 MW, which is expected to be commissioned in 2010. It will be Vattenfall's first newly built hydro power plant in more than 15 years.
- New generators will be installed in the Akkats hydro power plant to enhance the plant's flexibility.
- Ongoing investments in dam safety.
- New combined heat and power plant adjacent to the existing CHP plant in Jordbro, Sweden, which is expected to be commissioned in 2010.
- New biomass boiler at the Vanaja power plant in Tavastehus, Finland.

Highlights Business Group Nordic

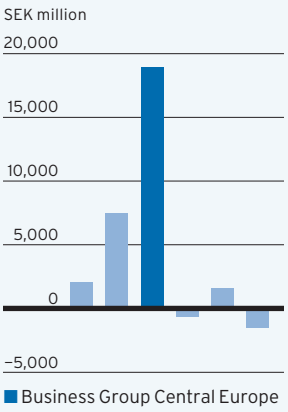
Torbjörn Wahlborg, Head of Business Group Nordic. Torbjörn Wahlborg was appointed as the new Head of Business Group Nordic and took office on 1 January 2010. He succeeded Hans von Uthmann, who decided to leave Vattenfall. Hans von Uthmann was Head of Business Group Nordic for the full year 2009.

"The underlying operating profit was favourable. However, operating profit was hurt by impairment of Danish heating assets and lower water supply. In the Nordic countries, we have been successful in our work with our industrial customers, and several major contracts were signed during the year. It is also positive to note the growing number of retail customers who have chosen Vattenfall as their supplier. Our focus is now on increasing profitability and improving cash flow."

- Vattenfall began construction of a new combined heat and power plant adjacent to the existing heat plant in Jordbro, Sweden, with commissioning in 2010. District heating is already produced in Jordbro solely from biomass, but the new combined heat and power plant will make fuel selection more flexible.
- During the year, Vattenfall sold its stakes in the companies AB PiteEnergi, Luleå Energi AB and Jämtkraft AB. These companies are now wholly owned by their respective municipalities (Piteå and Luleå, and the Östersund, Åre and Krokoms municipalities).
- Noteworthy new contracts signed with industrial customers during the year include a long-term agreement with Stora Enso for approximately 6 TWh, and an agreement with Pilkington covering portfolio management and physical deliveries of electricity in Sweden, Finland and Norway.
- The favourable trend in customer inflow continued, and Vattenfall grew its market shares. At year-end Vattenfall had 1.3 million retail customers. Read more about Vattenfall's work with its customers on page 24.
- Vattenfall decided to close oil-fired power plants in Stenungssund (units 1 and 2) and Marviken, since they were not contracted in Svenska Kraftnät's reserve power procurement process.

BUSINESS GROUP CENTRAL EUROPE

Group operating profit



Key data

Amounts in SEK million unless indicated otherwise	2009	2008	Change, %
Net sales	163,476	140,956	16.0
External net sales[1]	116,466	97,883	19.0
Operating profit	18,938	16,872	12.2
Operating profit excl. items affecting comparability	18,373	17,197	6.8
Electricity generation, TWh[2]	68.9	72.3	–4.7
– of which, fossil-based power	65.2	68.1	–4.3
– of which, hydro power	2.5	3.0	–16.7
– of which, biomass and waste	1.1	1.3	–15.4
Heat sales, TWh	26.3	25.3	4.0
Number of electricity customers[3]	3,654,000	3,559,000	2.7
Number of network customers	4,362,000	4,287,000	1.7
Number of employees, full-time equivalents	21,713	21,345	1.7

1) Excluding intra-Group transactions.

2) Of electricity generation for the full year 2009, Vattenfall disposes over 68.9 TWh (72.3), while the rest goes to the minority part-owners or is deducted as replacement power.

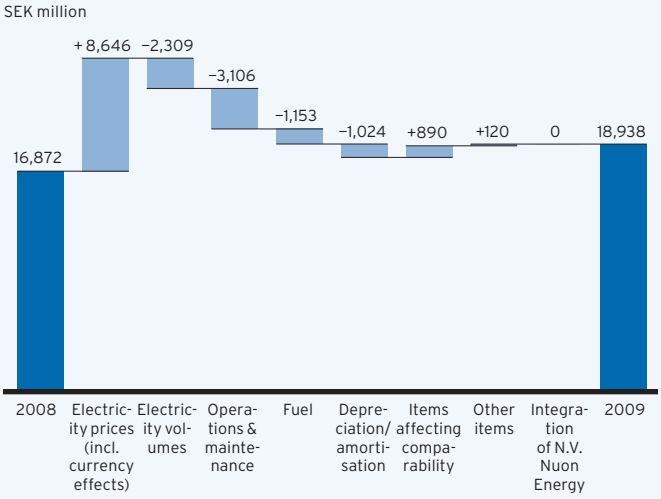
3) Retail customers.

Business Group Central Europe conducts operations in Germany and Poland. The operating segment consists of the following business units: Mining & Generation, Transmission, Distribution, Sales and Heat. Business Group Central Europe accounted for 67.8% of the Group's operating profit in 2009.

Operating profit

Operating profit improved by SEK 2,066 million, to SEK 18,938 million. Excluding items affecting comparability, operating profit increased by SEK 1,176 million, to SEK 18,373 million.

Factors affecting the change in operating profit (EBIT)



Items affecting comparability

Amounts in SEK million	2009	2008
Capital gains	208	138
Capital losses	–848	–40
Impairment losses	–123	–423
Reversed impairment losses	1,328	–
Total	**565**	**–325**

The improvement in operating profit is mainly due to currency effects. Operating profit for the German operations include positive currency effects of approximately SEK 1,600 million, and operating profit for the Polish operations included negative currency effects of SEK 159 million.

In the German operations, the Mining & Generation business unit reported an improved operating profit despite lower production volumes, which is attributable to higher electricity prices achieved through earlier hedges, lower prices for CO_2 emission allowances and reversed impairment losses. Capital losses pertain primarily to the sale of the German subsidiary WEMAG (SEK 817 million). In the German operations, the Sales business unit reported a lower operating profit, which is mainly due to a lower gross margin in the retail segment

Operating profit for the Polish operations improved by SEK 181 million. The improvement is mainly attributable to the Sales business unit and can be credited mainly to an improved gross margin in all customer segments. The Heat business unit also posted a slight improvement in operating profit due to higher prices achieved, even though the improvement was partly offset by higher fuel prices.

Electricity generation and heat sales

Electricity generation decreased, mainly due to lower availability at the lignite-fired power plants in Germany. Heat sales increased by 4%, mainly in Germany.

Investments

The following major investment projects are in progress or are planned for Business Group Central Europe:

- The Moorburg coal-fired combined heat and power plant in Hamburg, Germany. Total installed capacity will be 1,640 MW. The plant is expected to be commissioned in 2012.
- Expansion of the Boxberg lignite-fired power plant in Sachsen, Germany, with a new 675 MW unit, which is expected to be online in late 2010.
- The Reichwalde open-case lignite mine, near the Boxberg lignite-fired power plant, is being prepared for resumed mining activities in late 2010.
- The CCS demonstration plant in Jänschwalde, Germany. A new boiler using oxyfuel technology is planned, as is the fitting of the two existing boilers with post-combustion technology. The demonstration plant can be ready by 2015 at the earliest.

Highlights Business Group Central Europe

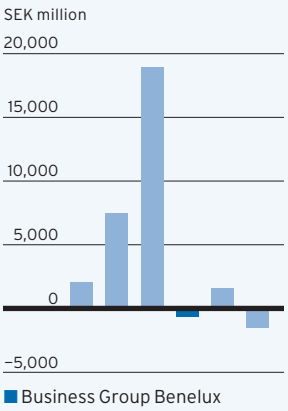
Tuomo Hatakka, Head of Business Group Central Europe

"2009 was a challenging year, with lower wholesale prices and falling demand for electricity. To maintain our long-term competitiveness, we are focusing on improving efficiency in our operations and cutting costs in order to improve cash flow. Through operational efficiency, high reliability and high-quality products and safety, we will boost profitability and also improve the external perceptions of the company. We have an exciting and dynamic year ahead of us, and we will continue to deliver!"

- The work on integrating the two country organisations in Germany and Poland, which was begun in connection with the formation of Business Group Central Europe in January 2008, continued during the year. At year-end 2009 the new cross-border business units were presented: Mining & Generation, Distribution, Sales and Heat.
- During the year, Vattenfall gained almost 100,000 new customers in Germany. Market shares in the Hamburg and Berlin areas showed stable development and amounted to 82% and 77%, respectively.
- Vattenfall won a European tendering process for all municipal institutions in Berlin and will supply renewable electricity to all of the local government's buildings for two years up until 2012. Vattenfall also signed an agreement with the city of Berlin to reduce the company's CO_2 emissions by 2020.
- In November Vattenfall announced new electricity prices for retail and industrial customers in Berlin and Hamburg. Prices rose by between 4.4% and 8.9%, mainly as a result of higher costs related to Germany's Renewable Energy Act (EEG).
- Vattenfall's planned project to build a Carbon Capture and Storage (CCS) demonstration plant at Jänschwalde in Brandenburg, Germany, was awarded up to EUR 180 million in funding from the European Commission. Vattenfall's plant is one of six European plants to receive EU funding. Read more about Vattenfall's work with CCS technology on pages 20–21.
- Vattenfall sold its stake (80%) in the German electricity trading and network company WEMAG, for EUR 170 million. The deal was completed on 5 January 2010.

BUSINESS GROUP BENELUX

Group operating profit



Key data

Amounts in SEK million unless indicated otherwise	Quarters 3–4 2009
Net sales	24,290
External net sales[1]	20,446
Operating profit	–644
Operating profit excl. items affecting comparability	–205
Electricity generation, TWh	8.0
– of which, fossil-based power	7.9
Heat sales, TWh	0.6
Number of electricity customers[2]	2,597,000
Number of gas customers	2,112,000
Number of employees, full-time equivalents	6,009

1) Excluding intra-Group transactions.

2) Retail customers.

Historical comparison figures not available, since Business Group Benelux was not part of the Vattenfall Group until 1 July 2009.

Business Group Benelux conducts operations in the Netherlands and Belgium and consists of the business units Exploration & Production (mainly gas production); Power, Heat & Services, and Sales. Nuon's wind power and energy trading operations are now part of Business Group Pan Europe and the Supply & Trading segment, respectively. Business Group Benelux is consolidated in the Vattenfall Group as from 1 July 2009.

Operating profit – second half of 2009

The operating result was SEK –644 million. Excluding items affecting comparability, the operating result was SEK –205 million.

Items affecting comparability

Amounts in SEK million	Quarters 3–4 2009
Capital gains	36
Impairment losses	–220
Other items affecting comparability	–255
Total	**–439**

The negative operating result is mainly attributable to amortisation of approximately SEK 540 million in surplus value attributable to Vattenfall's acquisition of N.V. Nuon Energy (Nuon).

The operating result was charged with SEK 397 million attributable to Nuon Deutschland GmbH, which is intended to be sold. The divestment of Nuon's German sales unit was a prerequisite for receiving EU approval of Vattenfall's acquisition of Nuon.

Electricity generation, and sales of heat and gas, second half 2009

Electricity generation amounted to 8.0 TWh, heat sales amounted to 0.6 TWh, and gas sales to end customers amounted to 19.7 TWh.

Investments

The following major investment projects are in progress or planned in Business Group Benelux:

- The gas-fired Magnum power plant in the Netherlands, with installed capacity of 1,200 MW. The plant is expected to be commissioned in late 2012.
- The Buggenum CCS pilot plant at the Willem–Alexander coal-fired station. Using precombustion technology, some of the combustible gases produced at this power plant, which is based on gasification of coal, will be purified from carbon dioxide.

Highlights Business Group Benelux

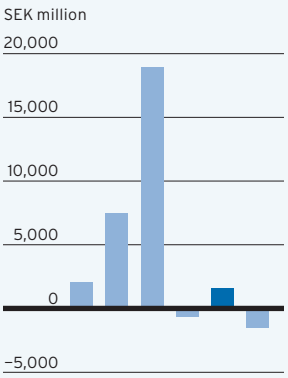
Øystein Løseth, Head of Business Group Benelux

"2009 was an incredibly important year for the Dutch operations. We carried out the biggest change in our organisation ever in connection with Vattenfall's acquisition of our operations on 1 July 2009. The results from our core businesses were stable during the year, and service to our customers was maintained at a high level despite the major changes. We already see synergies today in several areas, and we will continue to work with these. I am looking forward to 2010 as the first full year as part of Vattenfall."

- At the end of July, Business Group Benelux acquired interests in a number of Dutch gas fields from TOTAL Gas Nederland B.V. Nuon already owned interests in these gas fields through the acquisition of Burlington Resources Nederland Petroleum B.V. in 2008. Through these acquisitions, Business Group Benelux increased its stake in gas field E18A to 18.4%, and its stake in gas field F16 to 4.1%.
- In late August, construction was resumed of the Nuon Magnum gas-fired power plant in Eemshaven. Construction was stopped in May 2008 due to problems concerning permits.
- In August, Business Group Benelux decided to not continue development of the Industripark Griesheim project (approximately 450 MW), near Frankfurt, Germany.
- In November, Amsterdam municipality erected charging posts for electric cars in co-operation with Nuon and the network company Alliander. In two years' time, 200 charging posts will be located throughout the city of Amsterdam.
- An agreement was signed with Electrabel, under which N.V. Nuon Energy will be taking over the gas-fired plant in Almere. The plant provides heat to 43,000 households.
- In January 2010 Vattenfall announced its intention to sell all of its interests in Nuon Deutschland GmbH, which is N.V. Nuon Energy's sales operation in Germany, to German energy company Südwestfalen Energie und Wasser AG. The sale of Nuon Deutschland GmbH was a condition for obtaining the European Commission's approval of Vattenfall's acquisition of N.V. Nuon Energy.

SUPPLY & TRADING

Group operating profit



Key data

Amounts in SEK million unless indicated otherwise	2009	2008	Change, %
Net sales	70,781	44,920	57.6
External net sales[1]	14,593	11,421	27.8
Operating profit	1,571	561	180.0
Operating profit excl. items affecting comparability	1,585	561	182.5
Number of employees, full-time equivalents	363	218	66.5

1) Excluding intra-Group transactions.

Supply & Trading has Group-wide responsibility for market access, price hedging, fuel purchasing, dispatching for the German and Dutch power plants, and trading for own account within mandates issued by the Executive Group Management. The Supply & Trading operating segment accounted for 5.6% of the Group's operating profit in 2009.

Operating profit

A large part of Supply & Trading's operations generate earnings for other business units (in other operating segments) of the Vattenfall Group. Consequently, Supply & Trading's operating profit is derived primarily from realised trading transactions. Operating profit does not include unrealised changes in fair value according to IAS 39. These are reported in the segment "Other".

Operating profit improved by SEK 1,010 million, to SEK 1,571 million (561). The contribution from Nuon's trading activities, which are included in the operating segment as from 1 July 2009, was SEK 755 million.

Highlights Supply & Trading

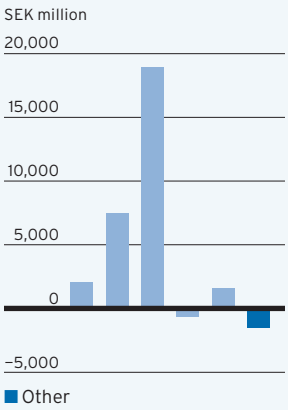
Stephen Asplin, Head of the Trading business unit

"Earnings in 2009 were strong, especially in view of the difficult market conditions, with a lack of clear price trends, low volatility and falling demand, and the ongoing integration of Nuon's trading operation. The integration of the trading operations has gone beyond our expectations, and we are strongly positioned for 2010. A broader market base and geographic presence, combined with our combined competencies, create new opportunities."

- Vattenfall began trading in electricity derivatives in the UK market. Vattenfall has previously been active in gas trading in the UK, and can now take advantage of pricing between gas and electricity contracts in the same market.
- Vattenfall increased its trading in listed markets by obtaining accreditation with the European Climate Exchange, the Intercontinental Exchange and the Endex Futures Exchange. This will facilitate trading activities for CO_2 emission allowances, oil and gas, and reduce credit risk. New opportunities for clearing will allow netting between commodity exposures, which will reduce margin requirements and risk capital.
- In November, Vattenfall began trading in Singapore fuel oil swaps on the Intercontinental Exchange in London. The oil portfolio has been expanded with the new product to better be able to hedge the exposure that arises in connection with the coal and freight activities.
- Vattenfall expanded its option portfolio to include, in addition to options on German and Nordic electricity futures, also CO_2 emission allowances.
- During the year, Vattenfall's legal trading units changed their name from Vattenfall Trading Services to Vattenfall Energy Trading. As from mid-December, all legal trading units in Vattenfall, including the former Nuon Energy Trade & Wholesale, work under the Vattenfall Energy Trading name.

OTHER

Group operating profit



Key data

Amounts in SEK million unless indicated otherwise	2009	2008	Change, %
Net sales	2,127	–66	–
External net sales[1]	599	–786	–
Operating profit	–1,544	–2,566	39.8
Operating profit excl. items affecting comparability	–1,544	–2,566	39.8
Number of employees, full-time equivalents	730	698	4.6

1) Excluding intra-Group transactions.

The segment Other includes Treasury operations and other Group functions. Operating profit also includes unrealised changes in fair value of energy trading contracts, which according to IAS 39 may not be recognised using hedge accounting.

Operating profit

Vattenfall strives to use hedge accounting as far as possible for energy trading contracts. The changes in fair value that are recognised in the Group's profit pertain to trading for own account and price hedging contracts that are not effective hedges. Administration of energy trading contracts is handled by Supply & Trading, but are reported in the segment Other until the amounts are realised. When the amounts are realised, they affect the segments for which the contracts were taken out.

The operating result improved by SEK 1,022 million to SEK -1,544 million (-2,566). The improvement in the operating result is mainly attributable to positive, unrealised changes in fair value of the derivative portfolio and realisation of transactions that were not hedged. The contribution from Nuon's fair value restatements of its derivative portfolio, which are included in the operating segment as from 1 July 2009, was SEK 411 million.

NON-FINANCIAL DISCLOSURES

Following are material non-financial disclosures that are judged to be of importance for Vattenfall's earnings, financial position and development.

Impact of environmental issues on the Group

The importance of environmental issues in society and the environmental impact of energy companies have such significance that the Group's earnings and financial position are affected depending on how the company chooses to act. One of Vattenfall's goals involves a halving of CO_2 emissions by 2030 in relation to 1990 levels, and the Group's climate vision is that its entire operations will be climate-neutral by 2050. In the operations that Vattenfall owns today, specific CO_2 emissions (grams per kWh) have decreased by 22% since 1990 for total electricity and heat production.

Vattenfall works proactively in its efforts to stay abreast of new environmental findings at an early stage in order to be able to formulate its own conclusions to the problems and thereby be in a position to predict tomorrow's customer demands, laws and economic environmental policy instruments.

The impact of environmental issues is both direct and indirect. National and European goals for the changeover of energy supply to a higher share of renewable energy affect the Group. The same applies for goals for cutting CO_2 emissions. In pace with ever-stronger demands on environmental considerations and growing expectations among the general public for environmental responsibility, environmental standards are evolving to become statutory requirements that must be met. Economic environmental policy instruments are also being introduced that have a direct coupling to the company's cash flow.

Vattenfall needs the public's acceptance and trust regarding the company's environmental impact in order to be able to run and develop its operations. Stakeholder dialogues on pertinent environmental issues are an important tool in this regard. Internally, as well, the employees' confidence in the company's high environmental ambitions and work is being upheld. In an effort to raise external and internal confidence, extensive target group–adapted communication activities regarding the environment and climate were carried out in 2009. In addition, in connection with the updating of Vattenfall's Code of Conduct, a whistleblowing function was established to which employees, consultants, contractors and suppliers can turn to report suspected violations of applicable environmental laws and rules, among other things.

Impact of policy instruments and taxes

Economic environmental policy instruments and the issuance of permits for operations subject to a permit requirement are the factors that have the greatest bearing on Vattenfall's earnings and position. The European system for trading in CO_2 emission allowances, the fee system for nitrous oxides in Sweden, trading in the Netherlands in nitrous oxides emission allowances and sulphur taxes imposed in certain countries are examples of economic environmental policy instruments that affect the Group's operations. Vattenfall believes that the trading system for CO_2 emission allowances is the environmental policy issue that has the greatest impact on the company's position in both the long and short term. Most other environmental issues are regulated through bans or restrictions. Many more stringent demands are being implemented within the framework of the permit-issuing process in environmental legislation in the respective countries, based on EU directives.

Environmental impact of operations

Vattenfall's environmental work is focused on the use of energy sources, and resources are managed in an effective and responsible manner while taking the environment into account. Vattenfall uses several different energy sources and a range of technologies. Vattenfall's most significant environmental impact is in the areas of climate-affecting emissions, air quality, the use and protection of land and water, nuclear power safety, safe waste management and biological diversity. The greatest single environmental impact of Vattenfall's operations results from the generation of electricity and heat at power plants and other generation facilities. The main environmental impact of Vattenfall's nuclear power plants is associated with the handling of radioactive waste. For combustion plants the main environmental impact is from emissions of climate-affecting carbon dioxide and acidic compounds, and land use in open-cast mines for the production of lignite. The main environmental impact of hydro power, wind power and the network activities is water and land use. Other environmental impact includes the production of waste and solid residuals, the use of water for cooling at nuclear power plants, and the production of gas in the North Sea.

Changes in plant portfolio

In the Nordic countries, a number of new plants with low environmental impact were added or initiated in 2009. In Denmark, the new biomass-fuelled boilers at the Amager and Fynsværket plants received licences under Danish legislation and will be officially commissioned in 2010. In Finland, three new biomass-fired units were commissioned in 2009 in Lammi, Vanaja and Vuohkallio, with combined installed capacity of slightly more than 64 MW. All of these received new or updated permits. In Sweden a

combined heat and power station is being built in Jordbro for combustion of biomass and waste wood. The plant is currently under construction and will begin operating in 2010.

Additional activities in Vattenfall's ambition to reduce the company's environmental impact and increase the share of renewable energy generation have been carried out through decisions in 2009 to invest extensively in wind farms. The new Stor–Rotliden wind farm in Åsele municipality will be Vattenfall's largest land-based installation, with 40 turbines and installed capacity of 78 MW. It is expected to come on stream in 2011.

During the autumn, Vattenfall decided to erect an additional five turbines at the Edinbane wind farm on the Isle of Skye in Scotland; this work is currently under way. The wind farm will comprise eighteen 2.3 MW turbines and is expected to be fully operating in 2010. Construction of the Thanet wind farm in England continued during the year, and with installed capacity of 300 MW, it will be the world's largest offshore wind farm upon its completion in 2010.

Also in 2009, the alpha ventus wind farm offshore the island of Borkum on Germany's North Sea coast began operating. Alpha ventus is a development and demonstration plant in which Vattenfall has a 26.25% interest.

In Poland, a number of changes were carried out in the Group's plant portfolio. At Europe's largest combined heat and power plant, in Warsaw (Siekierki), a newly developed accumulator tank was put in operation which significantly improves the plant's optimisation ability and is thereby reducing total emissions from the facility.

Vattenfall's acquisition of Nuon in the Netherlands has resulted in an increase in the Group's generation and sales. Nuon's operations involve primarily gas-based generation capacity for electricity and heat; however, coal, wind power, biomass, oil and solar are also used as energy sources. The portfolio also includes gas exploration and production.

Operations requiring permits

The Group conducts operations that require permits under national legislation in Sweden, Finland, Denmark, Germany, Poland, the Netherlands and the UK.

The Parent Company conducts operations that require permits in accordance with the Swedish Environmental Code. These consist primarily of electricity and heat production plants that require permits and/or registration, and wind turbines that are located separately as well as in groups. The Parent Company also has numerous large-scale hydro power plants with associated water regulation facilities that are subject to review outside of the jurisdiction of the Swedish Environmental Code, as well as fish farms requiring permits.

Vattenfall's hydro power generation is conducted in 53 large scale and 48 small scale plants in Sweden and Finland. The Group's hydro power operations are currently in a development phase and will be investing approximately SEK 6.5 billion in upgrades and dam safety enhancement measures by 2014. Refurbishment of turbines, generators, transformers and control facilities is leading to improved capacity and extended useful life of the facilities. Measures to improve dam safety are also being conducted within the framework of the investment programmes. These measures often require permits, and review by the Environmental Court is required. One area of uncertainty that will affect Vattenfall's hydro power operations in Sweden is the ongoing preparations for national implementation of the EU's Water Framework Directive. The Swedish water authorities' action plans that were circulated for review in autumn 2009 point to extensive measures which, apart from major investment costs, also entail a risk for lower access to renewable energy in the form of large scale hydro power generation.

Other operations requiring permits in accordance with the Swedish Environmental Code that make up a significant part of operations are conducted primarily by subsidiaries. Forsmarks Kraftgrupp AB and Ringhals AB generate electricity in nuclear power plants. The Swedish Nuclear Fuel and Waste Management Company (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 via Swedish subsidiaries for the distribution of electricity, in accordance with concessions.

Specific events regarding operations subject to environmental permits in Sweden in 2009: At the plants in Kalix and Motala, environmental review is currently being conducted in accordance with the Co-combustion Directive. The aim is to enable the operation of plants with greater fuel flexibility than those in operation today. The Idbäcksverket plan in Nyköping received a permit under the Environmental Code for continued and expanded operation. The terms granted are in accordance with the so-called Waste Incineration Directive. The permit allows combustion of more waste-classified fuels than previously. In Vänersborg, Vattenfall has taken over operation of Holmen Paper's sold fuels boiler. The aim is to secure supply of heat in Vänersborg, among other things; the environmental permit was granted for the 2009/2010 operating season.

Poland's entry to the EU has entailed the adaptation of the country's national environmental laws to EU 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.

In Germany, construction continued in 2009 of a new lignite-fired combined heat and power unit for electricity generation at the existing Boxberg plant. The new lig-

nite-fired CHP unit will involve the resumption of lignite mining in the nearby open-cast mine. Necessary permits for the resumed mining activity have been obtained. In Hamburg, construction is in progress of a new coal-fired CHP plant in Moorburg, which will replace an existing and a previously decommissioned power plant.

Ongoing regulatory processes in the Netherlands include the Magnum integrated gasification combined cycle (IGCC) power plant and a couple of other smaller projects.

Research and development (R&D) at Vattenfall

Vattenfall's R&D is clearly geared to supporting the Group's climate vision and includes tools for developing commercial facilities as well as for Vattenfall's business development. The company's R&D also encompasses energy efficiency improvements across the entire value chain for energy supply, from fuel production to consumers' use of electricity, heat, gas and vehicle fuel. A key part of Vattenfall's R&D encompasses activities that are intended to meet previously made obligations, such as the final storage of spent nuclear fuel from Vattenfall's nuclear power plants in Sweden. In 2010 Vattenfall intends to integrate the R&D activities being conducted by Nuon with Vattenfall's R&D activities.

Vattenfall's governance model entails that the Business Groups and business units are responsible for the R&D that is directly coupled to the Group's own operations. Other R&D activities are managed and conducted by the Group's R&D unit in such areas that are long-term and visionary as well as in areas that are of importance to the Group as a whole and which support the Group's strategic objectives. R&D activities were streamlined in 2009 to encompass six main areas: renewable energy sources, Car-

Renewable energy generation in Nordic countries

Key ratios – renewable[1] energy generation in the Nordic countries				2009				2008
Amounts in SEK million	Wind	Hydro[2]	Heat	Total	Wind	Hydro	Heat	Total
Operating profit	–196.2	216.9	319.4	340.1	182	316.2	415.5	**913.7**
Investments	1,880.5	71	1,568.6	3,520.1	4,616.8	15.4	1,410.2	**6,042.4**
Property, plant and equipment[3]	5,371.1	367.5	7,950.4	13,689.0	4,827.1	317.6	6,072.8	**11,217.5**
Return on property, plant and equipment, %	–3.7	59.0	4.0	2.5	3.8	99.5	6.8	**8.1**

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 and capacity increases.

3) Value calculated as a yearly average.

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

	2002	2003	2004	2005	2006	2007	2008	2009
Electricity								
Hydro power not entitled to electricity certificates	34,309	25,625	30,111	36,155	30,626	33,246	36,086	**30,860**
Electricity generation that qualifies for electricity certificates[1]								
Hydro power[2]	156	150	211	214	250	339	440	**378**
Wind power	51	54	58	46	534	1,003	1,201	**1,159**
Biomass	525	503	497	547	384	355	446	**483**
Total Electricity	**35,041**	**26,332**	**30,877**	**36,962**	**31,794**	**34,943**	**38,173**	**32,880**
Heat								
Biomass	4,020	3,844	4,506	4,577	4,138	4,099	3,912	**3,899**
Total Electricity	**4,020**	**3,844**	**4,506**	**4,577**	**4,138**	**4,099**	**3,912**	**3,899**

Vattenfall's renewable energy generation in Sweden, GWh

	2002	2003	2004	2005	2006	2007	2008	2009
Electricity								
Hydro power not entitled to electricity certificates	33,996	25,324	29,618	35,801	30,306	32,787	35,564	**30,481**
Electricity generation that qualifies for electricity certificates[1]								
Hydro power[2]	156	150	211	214	250	339	440	**378**
Wind power	46	47	52	46	75	162	417	**421**
Biomass	375	353	347	290	263	164	279	**327**
Total electricity	**34,573**	**25,874**	**30,228**	**36,351**	**30,894**	**33,452**	**36,700**	**31,607**
Heat								
Biomass	3,480	3,144	3,791	3,869	3,452	3,095	2,922	**2,997**
Total Heat	**3,480**	**3,144**	**3,791**	**3,869**	**3,452**	**3,095**	**2,922**	**2,997**

1) By electricity generation that qualifies for electricity certificates is meant electricity and heat production in the Nordic countries according to the official rules that apply for electricity certificates in Sweden.

2) Small-scale hydro power and capacity increases.

For information about Vattenfall's total electricity and heat generation volumes, see pages 132 and 133.

bon Capture and Storage (CCS), operating efficiency improvement, more efficient energy use, nuclear power and new energy conversion technologies.

Calculated in proportion to the Group's sales, costs for Group-wide R&D amounted to approximately 0.5% (0.7%) in 2009, which is in parity with Vattenfall's competitors. This share is reasonable considering that Vattenfall is a technology-using, rather than product-developing company.

In 2009 Vattenfall invested SEK 1,322 million (1,529) in R&D in the Group. Of this, SEK 352 million (352) pertains 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 141 million (143) pertains to R&D on renewable energy.

Development projects in renewable energy generation

Vattenfall's R&D in wind power is focused on optimising and improving wind power plants and analysing the problems associated with being the best at owning, operating and maintaining large-scale wind farms. In preparation for future investments in major offshore wind farms, several major development projects are currently in progress in which new technology is being tested. Enhancing value and lowering the risk associated with these are central goals.

In the area of biomass, research is focused on more efficient use of the limited biomass resources and on improving the availability and use of a broader spectrum of biomass-based fuels.

With respect to hydro power, work is focused on improving the efficiency of power plants and maintenance, on security surrounding the water system, and on how existing hydro power plants can be further developed.

In 2009 Vattenfall further increased its investment in ocean energy compared with 2008. The potential for wave power is comparatively low, but it nevertheless is one of the few available renewable energy sources. The technology is still in the development phase and is not expected to be commercially viable until some time after 2020. Based on an evaluation of more than 15 different technologies, Vattenfall has given priority to a few and is actively supporting two. Vattenfall is searching for sites with favourable conditions for wave power in which various technologies can be tested. Such favourable conditions exist primarily offshore the coastlines of Ireland and Great Britain. As part of this endeavour, in 2009 Vattenfall initiated collaboration projects with Irish and Scottish companies and also formed joint ventures with these. Vattenfall is also involved in pilot plants in Ireland and Norway, and has acquired exploration rights for several locations in Britain and Ireland.

Follow-up of renewable energy generation in the Nordic countries

In a special clarification of Vattenfall's Articles of Association, it is stated that the Swedish government wants Vattenfall to increase its investment in renewable energy and that renewable energy should be able to account for at least 5 TWh of new electricity generation based on wind power, biomass and solar energy in Sweden from the level in 2002 to 2010 under the condition that the existing support systems are maintained, relevant permits are granted in a reasonable amount of time, and the company has the opportunity to acquire rights on commercial terms.

Vattenfall's board has defined its target to include renewable energy in accordance with the official rules that apply for electricity certificates in Sweden as well as the geographic market of the Nordic countries. Defined as such, Vattenfall increased its generation of renewable electricity from 0.7 TWh in 2002 to 2.0 TWh in 2009. The reason the increase was not larger is mainly a lack of projects that meet the profitability requirements. The tables on page 70 show Vattenfall's generation of renewable energy during the years from 2002 to 2009 in the Nordic countries as well as in Sweden. The tables also show Vattenfall's generation of renewable electricity from hydro power that is not entitled to electricity certificates.

Continued greater investment in CCS technology

Vattenfall's investments in Carbon Capture and Storage (CCS) continued in 2009 as the largest programme area within the framework of Group-wide R&D activities. The programme, which spans many years, is based on developing, scaling up and demonstrating cost effective technology for capturing and permanently storing the carbon dioxide that is produced in the combustion of coal, among other things. The project has direct significance for Vattenfall's ability to achieve its goal of reducing CO_2 emissions by 2030 and the vision of being climate-neutral by 2050. Vattenfall aims to have a fully developed commercial concept by 2020.

In 2009, the first year's test operation of the pilot plant in Schwarze Pumpe, Germany continued. The year's tests yielded anticipated results and key knowledge for further development of oxyfuel technology. The initial test programme will be concluded by 2013 at the latest, after which complementary tests for support of the demonstration plant will begin.

The plans to use the captured carbon dioxide from Schwarze Pumpe for injection in the depleted gas field in Altmark, Germany, in collaboration with Gaz de France, have been delayed pending German ratification of the EU's directives and implementation of these in national legislation governing CCS, including storage permits.

Vattenfall intends to rebuild one of six units at the power plant in Jänschswalde, Germany, and thereby demonstrate CCS technology on a full scale. In December it was announced that the project will receive up to EUR 180 million in funding from the European Commission. Parallel with pre-planning work for this plant refitting, preparatory studies are also being conducted at two locations east of Berlin, Germany, for geological, permanent

sequestration of the captured carbon dioxide. The intention is to transport the carbon dioxide via pipeline. The investment is estimated to be worth more than EUR 1.5 billion, and according to plans, the plant will begin operating in 2015 at the earliest.

As a consequence of the consolidation of CCS work in Germany, but also due to the prevailing financial situation, it was decided in 2009 to postpone investments in CCS research at the Nordjyllandsværket plant in Denmark by at least five years. Geological and other studies will continue, but only on a small scale.

The acquired company Nuon also has existing, extensive involvement in CCS development. In 2009, construction was started of a CCS pilot plant at the power plant in Buggenum. This plant, which is based on different technology than the one in Schwarze Pumpe, is expected to be operating in 2010 (read more about CCS on pages 20–21).

More efficient use of energy

Research on so-called smart grids and plug-in hybrid cars came into greater focus in 2009. In the area of smart grids, development is being conducted of technologies that will enable the handling of electricity from renewable sources (such as large-scale wind power), as well as of plug-in hybrids and system optimisation.

Collaboration between Vattenfall and Volvo deepened during the year, with the goal of jointly developing and launching plug-in hybrid cars. Vattenfall is contributing its experience in electrical systems and Volvo its car manufacturing know-how. For Vattenfall, the aim of this technological collaboration is to gain greater knowledge about the requirements and necessary systems for hybrid cars, as well as gain access to qualified technical knowledge about battery technology, control electronics, systems technology and needs of the market. In addition, since late 2008 Vattenfall has been participating together with BMW in an electric car project in Berlin. Vattenfall is handling the electrical side through a network of charging stations and a system that registers when there is a surplus of wind powered electricity in the grid.

In 2009 a number of development areas in energy efficiency improvement and visualisation, decentralised generation and energy systems were gathered in a programme called Sustainable Cities. The aim is to create a portfolio of complementary products and services that further strengthen Vattenfall's ability to meet cities' and companies' needs for efficient and sustainable energy solutions.

New energy conversion technologies

In the area of new energy conversion technologies, Vattenfall is working with analyses, compilations and evaluations of new and interesting technologies that are not yet commercially viable. Based on this work, Vattenfall will decide on which future technologies the company will support and further develop.

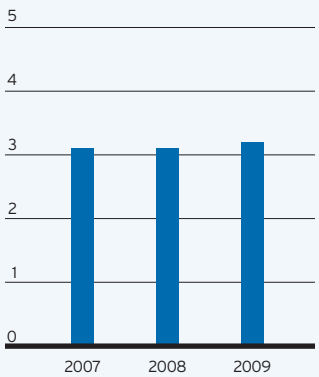
Human resources matters

Talent management

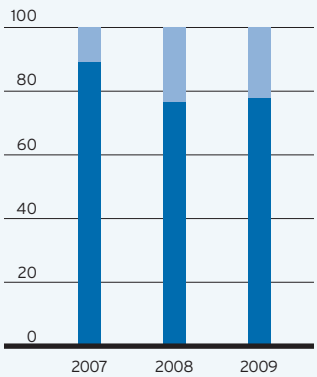
Vattenfall works according to a yearly, strategic competence succession process to ensure that the company will continue to have access to the competence that is needed for its operations. This annual process, which is used throughout the organisation, couples business plans with future competency needs. Deviations are analysed and action plans are drawn up. Talent management is conducted primarily in the day-to-day activities and through participation in various projects. In addition to this, development activities are 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 per-

HR statistics

Sickness-related absence
%

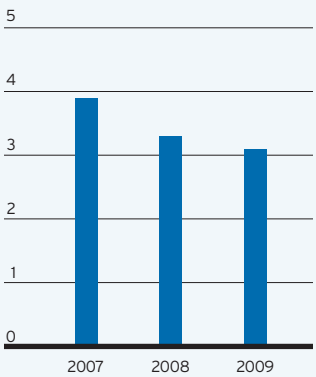


Men/women managers
%

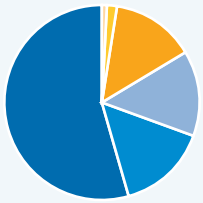


Men Women

Employee turnover
%



Average number of employees
full-time equivalents



Supply & Trading 363
Other 730
Nordic 5,544
Pan Europe 5,667
Benelux 6,009
Central Europe 21,713

sonal 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 in 2009 was 3.1% (3.3%). Employee turnover is defined as the number of employees who have left their positions within the Group on their own initiative or due to lack of work in relation to the total number of employees.

Co-determination

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 bargaining agreements are entered into locally in the respective countries as needed.

The work of the Board of Directors in 2009

The Board's Rules of Procedure stipulate that five to eight regular meetings shall be held every year. In addition to the regular meetings, board meetings can be summoned if the need arises.

The Rules of Procedure also stipulate that the following items of business shall be included on the agenda of at least one board meeting per year:

- The Group's strategic plan
- The Group's total risk exposure
- Safety and environmental issues within the Group's nuclear power operations
- Review of strategic human resource matters, including competence succession
- Research and development activities within the Group

In addition, reports are presented at every meeting on important business events since the last meeting and on the Group's financing situation. Investments are followed up and analysed by the Board three years after they have been decided on by the Board.

The Board also holds a number of seminars for its members every year. At these seminars the directors receive more detailed information about and discuss Vattenfall's long-term development, strategy, competitive scenario and risk management.

In 2009 the Board adhered to the meeting plan as stipulated in the Rules of Procedure. In all the Board met 17 times, including the statutory meeting. According to the Rules of Procedure, at least one meeting each year is to be held at a location other than the head office. In 2009 a meeting was held in Amsterdam, the Netherlands. This meeting was combined with a visit to the recently acquired Dutch operations. For further information on the work of the Board, see the Corporate Governance Report on pages 38–49.

AGM PROPOSAL

Proposed distribution of profit
See page 128.

Approval of principles for terms of employment for senior executives
The Board's proposed guidelines are in agreement with the Guidelines for terms of employment for senior executives of state-owned companies, adopted by the Swedish government on 20 April 2009. The Board has defined the positions which, in this context, can be considered to be senior based on the impact that they have on the Group's earnings; among other things, the respective business units' sales and size have been determining factors. Fifteen positions have been identified, which include all of the members of the Executive Group Management and five heads of large business units. For these individuals, the rules stipulate that they shall only receive fixed salary and no variable salary in any form.

For further information, please refer to the Corporate Governance Report and the section on executive compensation, as well as to Note 49 to the consolidated accounts in the 2009 Annual Report.

PARENT COMPANY

Sales amounted to SEK 29,745 million (31,844).

Profit before appropriations and tax was SEK 11,899 million (35,034).

The earnings decline from a year earlier is attributable to the reporting in 2008 of an intra-Group tax-exempt capital gain on the sale of shares from the Parent Company to a wholly owned subsidiary. The capital gain amounted to SEK 30,582 million and was eliminated at the Group level.

Total assets amounted to SEK 283,031 million (159,950). The increase is attributable to loans raised to finance the acquisition of shares in N.V. Nuon Energy.

Investments for the year amounted to SEK 60,878 million (10,459).

Cash and cash equivalents amounted to SEK 281 million (375). Funds in the Group account managed by Vattenfall Treasury AB amounted to SEK 34,156 million (16,525).

EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, negotiations were initiated with a potential buyer of Vattenfall's subsidiary, 50 Hertz Transmission GmbH (formerly Vattenfall Europe Transmission GmbH), which owns and operates Vattenfall's high voltage grid in Germany. At the time of signing of the Annual Report, the negotiations were in their final stages, however, the commercial approval process still contains some uncertainties. Vattenfall intends to report back on the financial consequences at a later date.

RISKS AND RISK MANAGEMENT

Vattenfall creates economic value when it exceeds the required rate of return on net assets with a set level of balanced risk. In the course of its business, Vattenfall is exposed to financial risks (such as price risk and credit risk) as well as non-financial risks (such as political risk and environmental risk). The risk management process entails that risks that could pose a threat to Vattenfall's goals are identified and remediated, but also that Vattenfall can enhance the company's value creation and competitiveness through balanced risk-taking.

Introduction of ERM

In 2008 Vattenfall adopted Enterprise Risk Management (ERM) to further improve risk management and governance within the company. Implementation was begun in 2008, and in 2009 ERM was established within the organisation. ERM is a process for identifying, evaluating, remediating, following up, reporting and controlling risks. It includes a method of risk management that gives Vattenfall an effective means of taking uncertainties, risks and opportunities in the company into account and comparing them with each other. This can be used in decision-making documentation and thereby lead to improved quality. By enabling quantification and comparability of both financial and non-financial risks, ERM has led to greater transparency and risk awareness throughout the organisation.

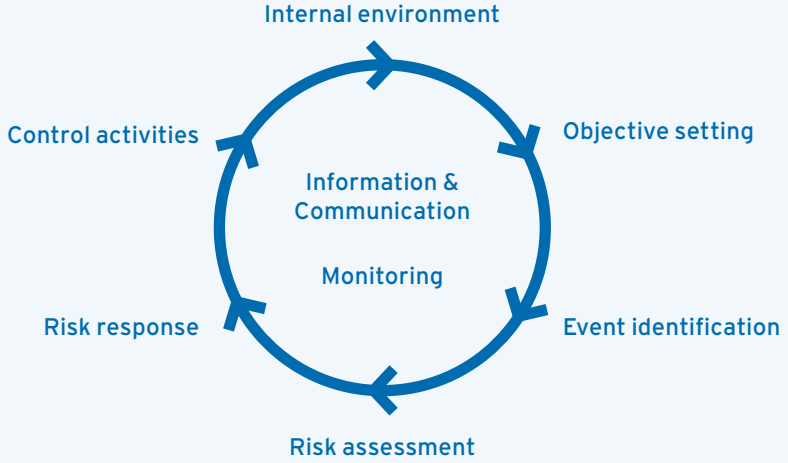
Risk organisation

The Board of Directors has overarching responsibility for internal control and risk management at Vattenfall. To achieve a clearer and more effective risk organisation, in June 2009 Vattenfall appointed a Chief Risk Officer (CRO), who is responsible for the company's risk management function (Group Risk Management) and reports to the Group's Audit Committee. The CRO has overarching responsibility for the ERM process and is also responsible for providing support to decision-makers in the management of risks and opportunities.

The business units are responsible for their own risks and report on these risks to Group Risk Management. The Group's risk management is co-ordinated by the central Vattenfall Risk Committee (VRC), which is tasked ensuring that the heads of the various business units are aware of their risks, reviewing principles and mandates, and approving risk instructions. The committee is also responsible for ensuring that uniform definitions of risks are used within the Group. In addition to the VRC, Vattenfall has several local risk committees and risk-specific committees.

Vattenfall has identified the environment and nuclear power safety as particularly high priority focus areas. To ensure development and risk management within these areas, specifically designated persons have been appointed who, in co-operation with specific committees, are responsible for these matters at a Group-wide level. The Chief Nuclear Officer (CNO) is responsible for nuclear power safety, and the Head of Environmental Affairs is responsible for environmental risks. Both report to the Executive Group Management, and their respective risks make up part of Vattenfall's overall risk reporting.

Enterprise Risk Management at Vattenfall



Internal environment, which encompasses for example Vattenfall's vision, values and risk tolerance, is the starting point when the goals for the respective business units are set in the business planning process. When setting these goals, events are identified that could prevent goal fulfilment. Identified events are assessed, and against the background of the business's risk tolerance, a decision is then made on suitable risk measures: avoid, reduce, share or accept the risks. The business units' most important risks and measures are followed up as part of the financial monitoring. Information and communication are provided on a regular basis to the Executive Group Management and to the business units. Group Risk Management monitors, reviews and develops the process.

Risk categories and risk areas

Market and Financial	Technology	Infrastructure	Politics & Society	Laws & Regulations	Personnel & Organisation
Risks related to competition, prices and sales volumes, interest rates, currencies, credit and counterparties See page 76	Risks related to all technology that is needed to produce, transmit, distribute and sell electricity, gas, heat and other related products and services See page 80	Risks related to all infrastructure that Vattenfall needs for its operations. This includes IT infrastructure (hardware and software), telecommunications, buildings and safety systems See page 80	Risks that are affected by regional and global political and social trends See page 81	Risks related to all laws and regulations that apply for Vattenfall See page 81	Risks related to Vattenfall's organisation, processes and employees, such as company culture, leadership and motivation See page 81

Examples of risks in the respective risk areas (which are clarified on the following pages):

Electricity price risk Volume risk Price area risk Credit risk Fuel price risk Liquidity risk Interest rate risk Currency risk Investment risk (financing)	Plant risks Environmental risks Investment risk (technology)	IT and information security risks	Political risk	Legal risks Environmental risks Investment risk (environmental permits)	Risk of losing expertise and key persons

Risk measures

Avoid | Reduce | Share | Accept

Market and financial risks

Vattenfall's board has given the CEO a total risk mandate for the Group, which is delegated onward to the business units. The CRO proposes the mandates that are delegated in the organisation. These mandates aim for balanced risk-taking for wholesale price risks. Every business unit has scope to manoeuvre within its respective mandate and is responsible for ensuring that reliable risk measurement is performed.

Electricity price risk

Electricity price risk is the factor that has the single 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 opposite.

Electricity prices are determined by fundamental factors such as supply (for example, water levels and available generation capacity), demand (steered by electricity use, which in turn is affected by weather and the economy, for example), fuel prices and prices of CO_2 emission allowances. Vattenfall analyses these factors continuously in order to be able to successfully manage electricity price risk.

Vattenfall hedges its generation and sales with the help of physical and financial electricity forward contracts for electricity that is available on 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, futures trading is an important way of smoothing out and balancing the major price risks in the business. The amount that is hedged varies (see chart on page 77). Vattenfall also 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 2022. The total scope for the period 2013–2022 amounts to 108 TWh. The business units conduct their hedging in Vattenfall's various markets through Vattenfall Energy Trading, which hedges its own positions in external markets via electricity exchanges, such as Nord Pool and the European Energy Exchange (EEX), as well as through bilateral trading with other counterparties. 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 risks	Impact on profit before tax, SEK million, for the three-year period 2010–2012[1]	Calculated yearly volatility 2009, %
Electricity	+/–11,000	23
Coal	+/–1,000	26
Gas	+/–800	28
CO_2	+/–600	52
Uranium	+/–< 100	–

1) Given a price movement of +/–10%, based on Vattenfall's hedges as per 31 December 2009.

The sensitivity analyses 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, due to the pricing connection that exists between coal, gas, oil and electricity prices, and prices of CO_2 emission allowances in the market. The volatilities are based on a three-year contract for the respective commodities. Price movements are calculated taking into account daily market movements in 2009 and recalculated to yearly volatilities. For electricity, the volatilities for the Nordic countries, Germany, the Netherlands and Poland have been weighed together based on Vattenfall's open positions in the respective markets.

Volume risk

Volume risk is the risk of actual volume deviating from planned volume. In the generation activities, Vattenfall manages its volume risk through analysis and forecasting activities concerning precipitation and snowmelt. Analysis models are based on extensive weather history, among other things.

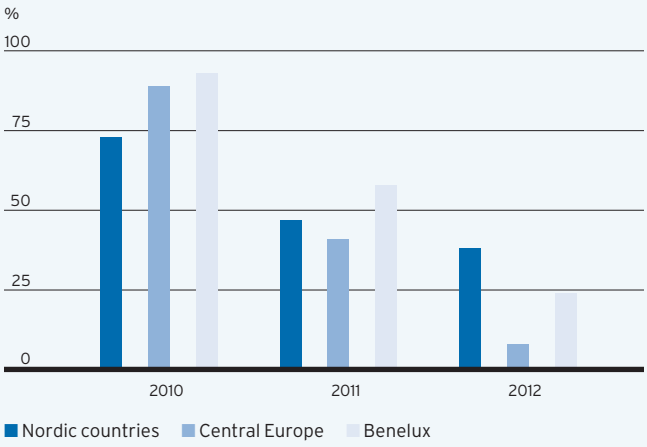
Volume risk arises also in the sales activities as deviations in anticipated and actual volumes delivered to customers. Volume risks are managed by improving and developing forecasts of electricity consumption. When choosing electricity contracts, customers can choose themselves the level of risk they are willing to accept.

Price area risk

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 Energy Trading. In Nordic countries, the Nord Pool provides financial instruments – price area swaps (Contracts for Differences, CfDs) – which can be used to manage price area risk. Vattenfall Energy Trading is also a CfD market maker on Nord Pool. Through this undertaking, liquidity is ensured in these financial instruments. Price differences also exist between the various areas in which Vattenfall is active. These are managed through contracts in these price areas and contracts for transmission capacity.

Vattenfall's degree of price hedging

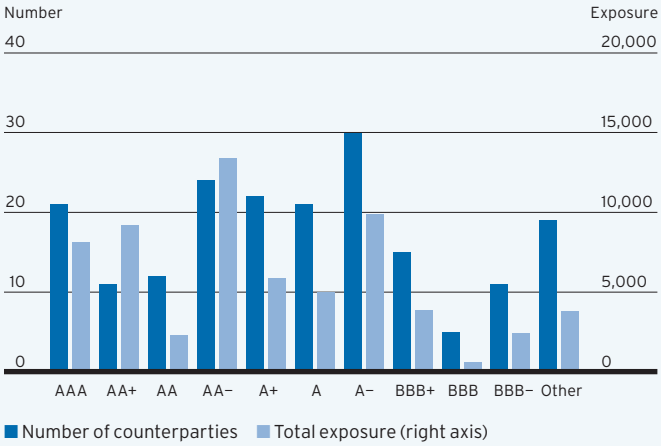
Vattenfall's degree of price hedging in various markets per 31 December 2009



Credit risk

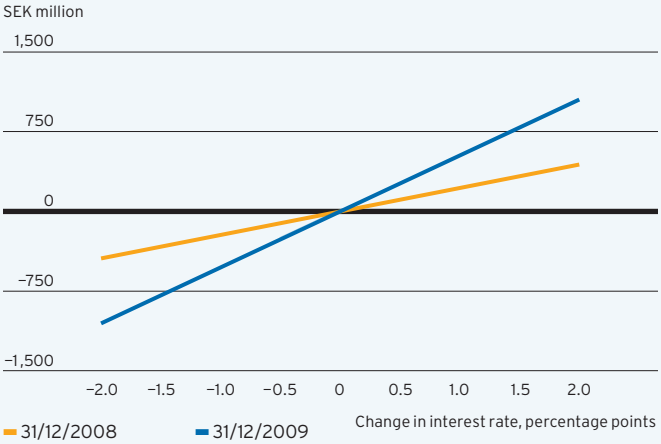
Vattenfall is exposed to credit risks in connection with electricity trading, investments and derivative contracts. Vattenfall uses external rating information, where available, to manage and mitigate its credit risk. In other cases, internal models are used to establish the creditworthiness of its counterparties. Individual limits are established for each counterparty, which are evaluated 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

Counterparties, number and exposure, SEK million, per rating class



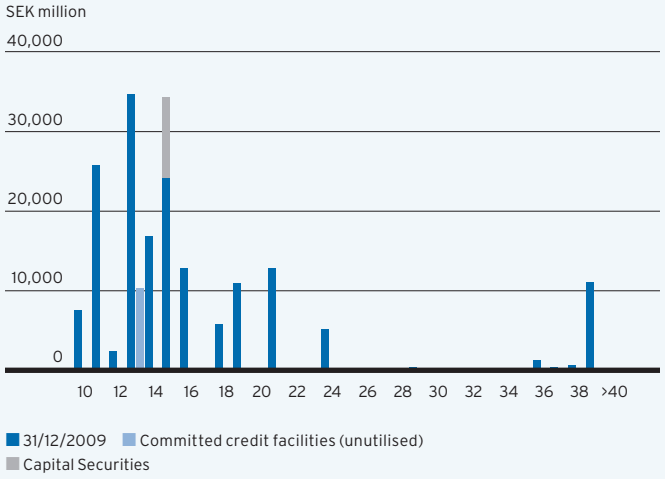
The chart shows Vattenfall's counterparties in which Vattenfall's exposure is greater than EUR 5 million per counterparty. The breakdown is based on rating classes and the amount of the credit exposure per rating class. The rating classes are from Standard & Poor's. "Other" consists of exceptions for contracts that have existed for a long time and which Vattenfall has taken over in connection with acquisitions.

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

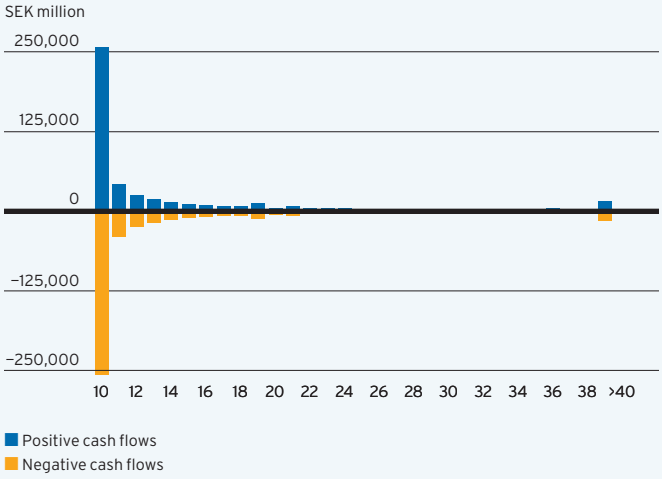


The chart shows how changes in interest rates affect the Group's interest expenses over a 12-month period based on the Group's present fixed rate structure.

Maturity structure, debt portfolio[1]



Maturity structure, derivatives



1) Excl. loans from minority owners and associated companies.

example. In cases were 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. In many cases, agreements are used which limit credit risk through an arrangement by which the parties pledge assets to each other if the exposure exceeds certain, set amounts, such as Credit Support Annex (CSA) agreements. In cases where contracts are traded in marketplaces, such as Nord Pool or EEX, with central counterparty clearing, the credit risk is against the marketplace.

Credit risks

Type of instrument	Exposure
Exposure from electricity transactions – positive market values	17,731
Exposure from electricity transactions – settlement risks	7,369
Interest and currency derivatives – position market values	921
Fixed-income investments, including large bank balances	33,512
Shares	847
Total	**60,380**

Total credit exposure from electricity transactions taking into account netting under agreements amounted to SEK 24,259 million. Exposure in interest and currency derivatives adjusted for netting under ISDA agreements or the equivalent amounts to SEK 921 million (3,477). This calculation takes into account margin security requirements under CSA agreements, totalling SEK 2,689 million (1,843). Without adjustment for ISDA and CSA agreements, the exposure amounts to SEK 8,903 million (12,125).

Fuel price risk

Measurement and management of fuel price risk is conducted within the individual generation units. Fuel prices are affected by macroeconomic factors, among other things. Financial and physical instruments for e.g., coal and oil are used to smooth earnings over time. However, most of Vattenfall's coal-fired plants in Germany use lignite from Vattenfall's own mines. For coal-fired electricity generation, hedges on electricity and coal prices are co-ordinated 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. Fuel price risk is minimised through analysis of the various commodity markets and diversification of contracts with respect to price and terms.

Liquidity risk

Liquidity risk with respect to physical and financial derivative instruments pertains to the risk of not being able to pursue the trading strategy due to insufficient liquidity in the market.

Liquidity risk can also be described as the risk for a financing crisis, whereby Vattenfall does not have the ability to finance its capital needs. In this regard, liquidity risk is mitigated by maintaining an even maturity structure and a long average remaining term in the company's debt portfolio.

Liquidity risk is also mitigated by the Group's having several types of debt issuance programmes and thereby ensuring its access to capital and flexibility. The Group's target for short-term accessibility to capital is always to have no less than 10% of the Group's sales and at least the equivalent of the next 90 days' maturities in the form of liquid assets or committed credit facilities. Credit ratings from rating agencies such as Standard & Poor's and Moody's affect Vattenfall's ability to fund its capital requirement. A stable credit rating over time instils confidence among bond investors and creditors and thereby reduces liquidity risk by creating favourable opportunities to refinance matured loans.

Borrowing programmes and credit facilities

SEK million	Maximum aggregated amount	Currency	Maturity	Used proportion, %	Reported external liability
Borrowing programmes					
Commercial Paper	15,000	SEK		–	–
Euro Commercial Paper	2,000	USD		–	–
Euro Medium Term Note	15,000	EUR		73	113,998
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	10,342	SEK	–	–	–
Total					**113,998**

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

Benchmark bonds

Type	Currency	Amount	Coupon, %	Maturity
Euro Medium Term Note	EUR	500	6.000	2010
Euro Medium Term Note	EUR	850	5.750	2013
Euro Medium Term Note	EUR	500	4.125	2013
Euro Medium Term Note	EUR	1,350	4.250	2014
Euro Medium Term Note	EUR	1,100	5.250	2016
Euro Medium Term Note	EUR	500	5.000	2018
Euro Medium Term Note	EUR	650	6.750	2019
Euro Medium Term Note	GBP	350	6.125	2019
Euro Medium Term Note	EUR	1,100	6.250	2021
Euro Medium Term Note	EUR	500	5.375	2024
Euro Medium Term Note	GBP	1,000	6.875	2039

Interest rate risk

Interest rate risk in the Group's debt portfolio is measured in terms of duration, which is permitted to vary from a norm of 4 years by up to 12 months either way. The norm period was increased to 4 years from 2.5 years in spring 2009. The duration of the Group's debt portfolio at year-end was 4.0 years. Including Capital Securities the duration was 4.1 years. To adjust the duration of borrowing, the company uses interest rate swaps, interest rate forwards and options, among other things.

Remaining fixed rate term in loan portfolio
Excluding Capital Securities and loans from minority owners and associated companies. Nominal amounts.

SEK million	SEK	EUR	Other	Total
< 3 months	–437	68,549	14	68,126
3 months–1 year	1,424	–11,509	4	–10,081
1 year–5 years	9,664	62,873	696	73,233
> 5 years	6,895	36,481	3	43,379
Total	**17,546**	**156,394**	**717**	**174,657**
Average financing interest rate, %	5.7	3.3	5.0	3.5

Remaining fixed rate term in loan portfolio
Excluding Capital Securities and loans from minority owners and associated companies. Nominal amounts.

SEK million	Debt	Derivatives	Total
< 3 months	11,303	56,823	68,126
3 months–1 year	2,681	–12,762	–10,081
1 year–5 years	76,197	–2,964	73,233
> 5 years	85,952	–42,573	43,379
Total	**176,133**	**–1,476**	**174,657**

Currency risk

Currency risk pertains to the risk of a negative impact on the consolidated income statement and balance sheet caused by changes in exchange rates. Vattenfall is exposed to currency risk through exchange rate movements attributable to future cash flows (transaction exposure) and in the revaluation of net assets in foreign subsidiaries (translation or balance sheet exposure). The Group's goal in managing currency risk is to minimise exchange rate effects while taking into account hedging costs and tax aspects. Currency exposure in borrowing is eliminated using currency interest rate swaps for the purpose of avoiding the effect of exchange rate differences on earnings.

Loan portfolio, breakdown per currency
Including loans from minority owners and associated companies but excluding Capital Securities. Nominal amounts.

Original currency	Debt	Derivatives	Total
CHF	3,998	–3,998	–
DKK	699	–	**699**
EUR	155,271	17,858	**173,129**
GBP	15,509	–15,505	**4**
JPY	4,519	–4,519	–
NOK	2,828	–2,828	–
PLN	14	–	**14**
SEK	17,981	7,516	**25,497**
Total	**200,819**	**–1,476**	**199,343**

The Group has limited transaction exposure, as most generation, distribution and sales of energy take place in the respective companies' local markets. In the Nordic operations, most transaction exposure arises in conjunction with the hedging of electricity prices, primarily on Nord Pool, since trading is conducted partly in EUR, while in the German and Danish subsidiaries, transaction exposure arises primarily in conjunction with purchases of fuel. In both cases, currency risk is managed through the use of forward exchange contracts.

Consolidated operating revenues/expenses per currency, %

Currency	Revenues	Expenses
EUR	73	78
SEK	17	13
PLN	5	5
DKK	3	2
Other	2	2
Total	**100**	**100**

Values are calculated based on a statistical compilation of external operating income/expenses. Changes in inventory and investments are not included in the compilation.

The Group's units are required to hedge contracted transaction exposure when it exceeds the equivalent of SEK 10 million. Hedges are made through Vattenfall's Treasury unit, where currency risks are managed within established risk limits for interest rates and currencies.

With respect to translation exposure, a 5% change in exchange rates would affect the Group's equity by approximately SEK 5,590 million (3,320). Reporting of translation exposure is described in Note 2 to the consolidated accounts, Accounting policies, under the headings Derivative instruments and Hedge accounting.

Translation exposure

Currency	Equity	Hedging after tax	Net exposure after tax
DKK	10,775	6,297	4,478
EUR	203,037	119,702	83,335
GBP	7,671	–	7,671
PLN	19,764	3,409	16,355
Other	1	–	1
Total	**241,248**	**129,408**	**111,840**

Technology

Plant risk

Vattenfall's largest plant risks are associated with the operation of power generation and heat production plants. Vattenfall's plants can be damaged as a result of incidents, breakdowns and sabotage of components and equipment which, as a rule, would give rise to substantial outage costs.

Plant risk is mitigated through loss-prevention measures, good maintenance, training, advanced planning in the renewal of Vattenfall's plants and good administrative routines. A rolling inspection programme for the largest plants is an important part of the ongoing risk management work. An example of a maintenance investment is Vattenfall's nuclear power investment programme, which is aimed at achieving long-term high operating safety and extended useful life.

Nuclear safety is a key focus area and has very high priority. Vattenfall has the ambition to be a leader in the world when it comes to nuclear safety. This is achieved by educating and training employees, striving for a strong safety culture and establishing robust processes. The plants shall be run and maintained in a correct manner, and their design is to be evaluated continuously. To identify risks, detailed analyses are conducted of all essential operations and plants. These analyses are updated continuously in consultation with the safety authorities in the respective countries and form the basis for continuous improvement work so as to ensure that risks are kept at a low level at all times. Vattenfall also participates in R&D, and in various forms of external co-operation to gain assurances that the company is using the best available technological solutions in nuclear power.

Plant risk also includes damage to Vattenfall's transmission grid and distribution networks. Vattenfall is working continuously to make its electricity networks less vulnerable. This mainly involves successively replacing suspended transmission lines above ground with underground cables.

Further plant risks include damage to machinery and other equipment at Vattenfall's open-cast lignite mines. A disruption in mining operations would cause a halt in lignite deliveries, which would lead to a disruption in generation and loss of revenue for Vattenfall.

The Group protects itself against major economic loss to the greatest extent possible through insurance. Vattenfall has two captive insurance companies that insure the Group's own risks exclusively – Vattenfall Insurance and Vattenfall Reinsurance (Luxembourg). Vattenfall Insurance optimises the risk financing of insurable risks within the Group. Reinsurance is procured in the international reinsurance market. Vattenfall Reinsurance provides Vattenfall Insurance with some reinsurance capacity.

Vattenfall Insurance underwrites insurance for most of the Group's property and business interruption exposure and for construction and design risks. Transmission and distribution networks are mostly uninsured with respect to the actual transmission lines. This is due to the difficulty of finding cost-effective insurance solutions. In addition, Vattenfall Insurance provides Group-wide, general liability insurance, including consultant and product liability. With respect to dam liability, in Sweden dam owners have strict and unlimited liability for damage to third parties caused by dam accidents. In co-operation with other Swedish and a number of Norwegian dam owners, the Group procures dam liability insurance with an insured amount of SEK 8 billion.

Property insurance for the Group's nuclear power plants is issued by EMANI (the European Mutual Association for Nuclear Insurance), and for the Swedish power plants also by the Nordic Atomic Pool. Atomic liability in Sweden is strict and limited to 300 million SDRs (Special Drawing Rights), approximately SEK 3.4 billion, which means that owners of nuclear power plants are only liable for damage up to this amount. Obligatory atomic insurance is issued by the Nordic Atomic Pool and by the mutual insurance company ELINI.

In Germany, atomic liability is strict and unlimited. By law, nuclear power plants are required to have insurance or other financial guarantees for up to EUR 2.5 billion. The German Atomic Pool issues insurance for up to EUR 256 million. Thereafter, the nuclear power plants and their German parent companies (in Vattenfall's case, Vattenfall Europe AG) are liable for amounts exceeding this level, in proportion to the respective ownership interest the parent companies have in the nuclear power plant. It is not until these resources are exhausted that a solidarity agreement ("Solidarvereinbarung") between the German nuclear power plant owners (Vattenfall, E.ON, RWE and EnBW) would take force for up to EUR 2.5 billion. Since the liability is unlimited, the nuclear power plants and their German parent companies are ultimately liable also for amounts in excess of this level.

Infrastructure

IT plays a key role in nearly all parts of operations, and a disruption in a network or application could have a major impact on the company's performance. For example, a breakdown in the invoicing system could lead to a loss in trust in Vattenfall, while a disruption in a trading system could lead to lost opportunities, fines or mark-to-market losses. To manage the dependence on IT systems, major focus is put on monitoring and back-up solutions.

Politics and society

Political risk

Political risk is defined as the business risk that can arise as a result of political decisions, such as 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 environmental legislation and permit requirements, changes in how natural monopolies are regulated, and political objectives regarding the composition of the energy system. This type of risk is more difficult to predict and pro-

tect 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.

Laws and regulations

Legal risks

Legal risks include the risk of loss arising from defective or unfavourable contractual regulations or a lack of clarity regarding the validity of agreements, for example because a counterparty did not have the right to enter into an agreement or an agreement is in contravention of applicable law. Legal risks also include the risk of loss and other consequences resulting from operations not being conducted in accordance with compelling legal rules or permits, for example.

Legal risks in the Vattenfall Group are mitigated through obligatory participation in decision-making processes and analyses performed by local legal affairs departments and, on legal matters of a principle nature or of major importance for the Vattenfall Group, via the Legal Affairs Group function. In extreme situations, such as when a proposed measure is in contravention of applicable law or is judged to be clearly unsuitable from a legal perspective, the legal affairs departments have an obligation to prohibit the measure in question.

Employees and organisation

Risk of losing expertise and key persons

In certain areas there is unique expertise and key persons where the impact would be particularly tangible if the persons in question were to leave Vattenfall. To manage this risk, a record is kept of where persons with these qualities work in the organisation, and the risk is mitigated through efforts to spread their expertise, knowledge and/or specific qualities. To attract and retain persons with unique expertise, Vattenfall takes a structured approach to competence planning, and leadership and management development programmes.

Risks that are a part of several risk areas

Investment risk (financing, technology and environmental permits)

Vattenfall is a highly capital-intensive company and has an extensive investment programme. Before every investment decision, a risk analysis is performed. By simulating various outcomes created by changes in, for example, price, costs, delays and the cost of capital, the risks are estimated for the individual investment. There are several different types of investment risk in the various risk areas, such as financing risk, risk in the choice of technology and the risk of changes surrounding environmental permits and similar.

Vattenfall's Group Asset Management function ensures that capital is invested in a manner that maximises economic value over the long term. In addition to a strategic investment roadmap, a list of priority investment projects is continuously updated to provide the EGM with guidance in the investment decision process. Projects are ranked according to a number of main criteria: support of Vattenfall's overall strategic direction, consequences for the existing production portfolio, risk profile and profitability.

Environmental risks

Vattenfall's environmental committee, under the direction of the Group's Head of Environmental Affairs, follows up and evaluates the Group's environmental risk management. The general concept of environmental risk can be broken down into two categories: environmental risks and environmental liabilities. Environmental risks are a combination of, and the probability of, an activity that results in environmental damage. Environmental damage is defined in this context in accordance with Article 2 in the Environmental Liability Directive (2004/35/CE).

Environmental liabilities are cases where emissions, use of chemicals and other substances, or use of technology in accordance with currently applicable environmental legislation, requires remedial measures. It can also be a case in which demands are made on financial reporting of provisions.

The business units' reporting of environmental liabilities covers the following areas, among others: air and water pollution, oil-filled cables with lead encapsulation, mercury in electrical equipment, asbestos and PCB in thermal power plants and CHP plants, and measurement of magnetic fields from transformers and power lines.

At the end of every year a compilation is made of the company's environmental risks and environmental liabilities, as well as of any provisions and measures that may be needed. The compilation is based on Group-wide reporting in accordance with set definitions. The analysis covers a general evaluation of the risk situation and trend during recent years. The business units are responsible for identifying and expressing the risks and liabilities in accordance with the joint definitions so that a total picture can be created for the Group.

The work on continuously preventing and controlling the effect of measures is largely conducted locally and is based on the knowledge and experience that exists in the Group's units. Advance planning in the area is a way of strengthening the Group's competitiveness over the long term. For example, provisions have been made for the clean-up of contaminated land areas and for restoration of land after lignite mining. This also concerns areas in which action plans have been drawn up in consultation with pertinent authorities.

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million, 1 January – 31 December	Note	2009	2008
Net sales	5, 6, 7, 8	205,407	164,549
Cost of products sold[1]	9	–162,564	–122,961
Gross profit		**42,843**	**41,588**
Other operating income	10	3,790	2,376
Selling expenses		–6,441	–5,584
Administrative expenses		–10,159	–7,587
Research and development costs		–1,322	–1,529
Other operating expenses	11	–2,083	–796
Participations in the results of associated companies	6, 25, 53	1,310	1,427
Operating profit (EBIT)[2]	6, 12, 13, 14, 15, 51, 52	**27,938**	**29,895**
Financial income[3]	15	2,814	3,412
Financial expenses[4]	16	–13,018	–9,809
Profit before tax[5]		**17,734**	**23,498**
Income tax expense	18	–4,286	–5,735
Profit for the year[6]		**13,448**	**17,763**
Attributable to			
Owners of the Parent Company		12,896	17,095
Minority interests	19	552	668
Total		**13,448**	**17,763**
Earnings per share			
Number of shares in Vattenfall AB, thousands		131,700	131,700
Earnings per share, basic and diluted, SEK		97.92	129.80
Dividend, SEK million		5,240[7]	6,900
Dividend per share, SEK		39.79[7]	52.39
Supplementary information			
Operating profit before depreciation and amortisation (EBITDA)		51,777	45,960
Financial items, net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund		–7,994	–5,049
1) Of which, depreciation, amortisation and impairment losses related to intangible assets (non-current) and property, plant and equipment		–23,238	–15,460
2) Of which, depreciation, amortisation and impairment losses related to intangible assets (non-current) and property, plant and equipment		–23,839	–16,065
2) Including items affecting comparability attributable to:			
Capital gains/losses, net		58	98
Impairment losses and impairment losses reversed, net		–4,231	–423
Other items affecting comparability		817	–
3) Including return from the Swedish Nuclear Waste Fund		1,188	1,452
4) Including interest components related to pension costs		–1,297	–943
4) Including discounting effects attributable to provisions		–3,398	–2,800
5) Including items affecting comparability attributable to:			
Capital gains/losses, net		103	124
Impairment losses and impairment losses reversed, net		–4,231	–423
Other items affecting comparability		817	–
6) Including items affecting comparability stated above adjusted for tax		–2,606	–205
7) Proposed dividend			

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK million, 1 January – 31 December	2009	2008
Profit for the year	**13,448**	**17,763**
Other comprehensive income:		
Cash flow hedges:		
Changes in fair value	–1,399	–3,486
Dissolved against the income statement	8,238	6,466
Transferred to cost of hedged item	–1,509	368
Tax attributable to cash flow hedges	–1,576	–899
Total cash flow hedges	**3,754**	**2,449**
Hedging of net investments in foreign operations	8,111	–9,968
Tax attributable to hedging of net investments in foreign operations	–2,133	2,791
Total hedging of net investments in foreign operations	**5,978**	**–7,177**
Translation differences	–11,393	15,393
Total other comprehensive income, net after tax	**–1,661**	**10,665**
Total comprehensive for the year	**11,787**	**28,428**
Total comprehensive income for the year attributable to:		
Owners of the Parent Company	11,920	27,395
Minority interests	–133	1,033
Total	**11,787**	**28,428**

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	31 Dec. 2009	31 Dec. 2008
Assets	6		
Non-current assets			
Intangible assets: non-current	8, 21	64,431	7,257
Property, plant and equipment	8, 22	303,025	256,077
Investment property	8, 23	723	812
Participations in associated companies and joint ventures	25	10,927	15,925
Other shares and participations	26	5,007	5,439
Share in the Swedish Nuclear Waste Fund	27	26,027	25,250
Current tax assets, non-current	18	1,197	1,417
Other non-current receivables	28	4,347	4,367
Deferred tax assets	18	1,820	1,368
Total non-current assets		**417,504**	**317,912**
Current assets			
Inventories	29	14,848	12,580
Intangible assets: current	30	12,432	3,285
Trade receivables and other receivables	31	42,152	34,293
Advance payment to suppliers		542	704
Derivatives with positive fair values	43	39,170	26,450
Prepaid expenses and accrued income	32	9,807	5,660
Current tax assets	18	1,376	4,707
Short-term investments	33	46,385	19,332
Cash and cash equivalents	34	10,555	20,904
Assets held for sale	35	7,356	–
Total current assets		**184,623**	**127,915**
Total assets		**602,127**	**445,827**
Equity and liabilities			
Equity attributable to owners of the Parent Company			
Share capital		6,585	6,585
Translation reserve		8,090	12,861
Reserve for cash flow hedges		–259	–4,054
Retained earnings incl. profit for the year		121,204	114,469
Total equity attributable to owners of the Parent Company		**135,620**	**129,861**
Equity attributable to minority interests		**6,784**	**11,025**
Total equity		**142,404**	**140,886**
Non-current liabilities			
Capital Securities	36	10,250	10,811
Other interest-bearing liabilities	37	174,428	67,022
Pension provisions	38	20,690	20,752
Other interest-bearing provisions	39	65,601	64,068
Deferred tax liabilities	18	35,953	26,107
Other noninterest-bearing liabilities	40	7,480	3,818
Total non-current liabilities		**314,402**	**192,578**
Current liabilities			
Trade payables and other liabilities	41	42,106	24,506
Advance payments from customers		401	346
Derivatives with negative fair values	43	36,802	28,582
Accrued expenses and deferred income	42	30,637	21,941
Current tax liabilities	18	1,086	2,495
Interest-bearing liabilities	37	28,816	29,514
Interest-bearing provisions	39	4,809	4,979
Liabilities associated with assets held for sale	35	664	–
Total current liabilities		**145,321**	**112,363**
Total equity and liabilities		**602,127**	**445,827**

See also information on the Group's Pledged assets (Note 46), Contingent liabilities (Note 47) and Commitments under consortium agreements (Note 48).

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK million, 1 January – 31 December	Note	2009	2008
Operating activities			
Profit before tax		17,734	23,498
Depreciation, amortisation and impairment losses		23,839	16,060
Tax paid		–4,739	–8,203
Other adjustment items	44	–134	–620
Funds from operations (FFO)		**36,700**	**30,735**
Changes in inventories		–1,597	–2,222
Changes in operating receivables		–5,230	–1,318
Changes in operating liabilities		17,667	12,858
Other changes		–1,294	–3,859
Cash flow from changes in operating assets and operating liabilities		**9,546**	**5,459**
Cash flow from operating activities		**46,246**	**36,194**
Investing activities			
Investments	44	–102,989	–42,296
Divestments	44	5,542	865
Cash and cash equivalents in acquired/divested companies		14,407	158
Cash flow from investing activities		**–83,040**	**–41,273**
Cash flow before financing activities		**–36,794**	**–5,079**
Financing activities			
Changes in short-term investments		–25,611	–4,806
Changes in loans to minority owners in foreign subsidiaries		–529	–174
Loans raised[1]	44	72,543	31,797
Amortisation of debt		–11,601	–4,457
Dividends paid to owners		–6,980	–8,066
Cash flow from financing activities		**27,822**	**14,294**
Cash flow for the year		**–8,972**	**9,215**
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		20,904	10,563
Cash and cash equivalents included in assets held for sale		–653	–
Cash flow for the year		–8,972	9,215
Translation differences		–724	1,126
Cash and cash equivalents at the end of the year		**10,555**	**20,904**
Supplementary information			
Cash flow before financing activities		**–36,794**	**–5,079**
Financing activities			
Dividends paid to owners		–6,980	–8,066
Cash flow after dividend		**–43,774**	**–13,145**
Analysis of change in net debt			
Net debt at beginning of the year		–66,000	–43,740
Cash flow after dividends		–43,774	–13,145
Changes as a result of valuation at fair value		1,475	–1,847
Change in interest-bearing liabilities for leasing		406	–25
Interest-bearing liabilities acquired		–2,046	–107
Liability pertaining to acquisition of N.V. Nuon Energy incl. discounting effects		–51,392	–
Cash and cash equivalents included in assets held for sale		–653	–
Translation differences on net debt		6,997	–7,136
Net debt at the end of the year		**–154,987**	**–66,000**
Free cash flow (Cash flow from operating activities less maintenance investments)		27,566	18,963

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK million	Attributable to owners of the Parent Company					Attributable to minority interests	Total equity
	Share capital	Translation reserve	Reserve for cash flow hedges	Retained earnings	Total		
Balance brought forward 2008	**6,585**	**4,892**	**–6,385**	**106,617**	**111,709**	**12,423**	**124,132**
Dividends paid to owners	–	–	–	–8,000	**–8,000**	–66	**–8,066**
Group contributions from minority, net after tax	–	–	–	–	**–**	189	**189**
Changes in ownership	–	–	–	–1,243	**–1,243**	–2,554	**–3,797**
Cash flow hedges:							
Changes in fair value	–	–	–3,629	–	**–3,629**	143	**–3,486**
Dissolved against income statement	–	–	6,466	–	**6,466**	–	**6,466**
Transferred to cost of hedged item	–	–	373	–	**373**	–5	**368**
Tax attributable to cash flow hedges	–	–	–879	–	**–879**	–20	**–899**
Total cash flow hedges	**–**	**–**	**2,331**	**–**	**2,331**	**118**	**2,449**
Hedging of net investments in foreign operations	–	–9,968	–	–	**–9,968**	–	**–9,968**
Tax attributable to hedging of net investments in foreign operations	–	2,791	–	–	**2,791**	–	**2,791**
Total hedging of net investments in foreign operations	**–**	**–7,177**	**–**	**–**	**–7,177**	**–**	**–7,177**
Translation differences	–	15,146	–	–	**15,146**	247	**15,393**
Profit for the year	–	–	–	17,095	**17,095**	668	**17,763**
Total comprehensive income for the year	**–**	**7,969**	**2,331**	**17,095**	**27,395**	**1,033**	**28,428**
Balance carried forward 2008	**6,585**	**12,861**	**–4,054**	**114,469**	**129,861**	**11,025**	**140,886**
Dividends paid to owners	–	–	–	–6,900	**–6,900**	–80	**–6,980**
Group contributions from minority, net after tax	–	–	–	–	**–**	342	**342**
Changes in ownership	–	–	–	739	**739**	–4,370	**–3,631**
Cash flow hedges:							
Changes in fair value	–	–	–1,344	–	**–1,344**	–55	**–1,399**
Dissolved against income statement	–	–	8,238	–	**8,238**	–	**8,238**
Transferred to cost of hedged item	–	–	–1,509	–	**–1,509**	–	**–1,509**
Tax attributable to cash flow hedges	–	–	–1,590	–	**–1,590**	14	**–1,576**
Total cash flow hedges	**–**	**–**	**3,795**	**–**	**3,795**	**–41**	**3,754**
Hedging of net investments in foreign operations	–	8,111	–	–	**8,111**	–	**8,111**
Tax attributable to hedging of net investments in foreign operations	–	–2,133	–	–	**–2,133**	–	**–2,133**
Total hedging of net investments in foreign operations	**–**	**5,978**	**–**	**–**	**5,978**	**–**	**5,978**
Translation differences	–	–10,749	–	–	**–10,749**	–644	**–11,393**
Profit for the year	–	–	–	12,896	**12,896**	552	**13,448**
Total comprehensive income for the year	**–**	**–4,771**	**3,795**	**12,896**	**11,920**	**–133**	**11,787**
Balance carried forward 2009	**6,585**	**8,090**	**–259**	**121,204**	**135,620**	**6,784**	**142,404**

See also Note 45 to the consolidated accounts, Specifications of equity.

NOTES TO THE CONSOLIDATED ACCOUNTS

(Amounts in SEK million unless stated otherwise.)

Contents

Note 1 Company information

The year-end report for Vattenfall AB for 2009 was approved for publication on 10 February 2010 in accordance with a decision by the Board of Directors. The Annual Report was approved in accordance with a decision by the Board of Directors on 11 March 2010. 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 disclosed in the Annual Report will be submitted at the Annual General Meeting (AGM) on 29 April 2010.

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

Note 2 Accounting policies

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 endorsed 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 1.2 – Supplementary Accounting Policies for Groups, issued by the Swedish Financial Reporting Board (RFR), has been applied. RFR 1.2 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 certain financial assets and liabilities and inventories held for trading, which are stated at fair value. Financial assets and liabilities stated at fair value consist of derivative instruments and other financial assets that are stated at fair value.

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 Swedish kronor (SEK), which is also the presentation currency of both the Parent Company and the Group. This means that the financial statements are presented in Swedish kronor. 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 estimations and assessments as well as to make assumptions that affect the application of the accounting policies 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

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Note 2 continued

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 that have a material effect on the financial statements, and estimations that may result in substantial adjustments to the following year's financial statements, are described in greater detail in Note 54 to the consolidated accounts.

Accounting policies

The accounting policies of the Group detailed below have been applied consistently for all periods presented in the consolidated financial statements.

New IFRSs and interpretations effective as of 2009

The new standards and amendments to standards and interpretations described below, and endorsed by the EU, are effective as of the 2009 financial year:

IFRS 8 – *Operating Segments,* which defines an operating segment and what information shall be disclosed for each operating segment in the financial statements. According to IFRS 8, segment information must be reported on the basis of how management internally follows up the operations. IFRS 8 in combination with a changed Group organisational structure as of the 2009 financial year entail a further split of the segments disclosed by Vattenfall compared with the segments reported in 2008. See also Note 6 to the consolidated accounts, Operating segments.

Amendments in IAS 1 – *Presentation of Financial Statements* have led to a changed presentation format of the consolidated financial statements in certain respects. The amendment does not affect the calculation of numbers reported. It entails that certain transactions that were previously recognised directly in equity, have been recognised as separate items in a new statement – Consolidated Statement of Comprehensive Income – under the heading Other Comprehensive Income.

Amendments in IAS 23 – *Borrowing Costs* require that an entity must capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use or sale. The amendments have not had any impact on Vattenfall's financial statements, as such borrowing costs are already capitalised within the Vattenfall Group.

Amendments in IFRS 2 – *Share-based Payment* clarifies, among other things, the treatment of vesting conditions related to share-based payments. IFRS 2 is not relevant for Vattenfall.

Amendments in IAS 27 – *Consolidated and Separate Financial Statements,* which among other things affect dividends received from subsidiaries, associated companies and joint ventures. The amendments have not had any affect on Vattenfall's financial statements.

Amendments in IAS 32 – *Financial Instruments: Presentation,* and IAS 1 – *Presentation of Financial Statements* – "Puttable Financial Instruments and Obligations Arising on Liquidation" state that certain well-defined financial instruments shall be classified as equity and not as a liability. Currently no such financial instruments are issued, and consequently the amendments have not had any affect on Vattenfall's financial statements.

Amendments in IFRS 7 – *Financial Instruments: Disclosures* entail enhanced disclosures of liquidity risks and on measurement of recognised fair values. The methods for fair value measurement by category of financial instruments are divided into three levels. See also Note 43 to the consolidated accounts.

Amendments in IFRIC 9 – *Reassessment of Embedded Derivatives,* and IAS 39 – *Financial Instruments: Recognition and Measurement* deal with reassessment of embedded derivatives. The amendments have had no impact on Vattenfall's financial statements.

"Improvements to IFRSs" (issued in May 2008) aims to streamline and clarify the accounting standards concerning presentation, recognition and measurement including changes in terminology or amendments of an editorial nature. These amendments have had no or minimal impact on Vattenfall's financial statements.

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. Currently, no customer loyalty programmes as defined in IFRIC 13 are in place within Vattenfall.

New IFRSs and interpretations not yet adopted

New standards, amendments to standards and interpretations endorsed by the EU as per 31 December 2009, which are effective as of the 2010 financial year or later and which have not been applied prospectively:

Revised IFRS 3 – *Business Combinations,* and amendments in IAS 27 – *Consolidated and Separate Financial Statements* entail amendments in the preparation of consolidated accounts and in the accounting for business combinations. The revised standards will affect the accounting for future business combinations made by Vattenfall.

Amendments in IAS 32 – *Classification of Right Issues.* Rights denominated in a currency other than the company's functional currency are classified as equity instruments under certain conditions. The amendments are not relevant for Vattenfall.

Amendment in IAS 39 – *Financial Instruments: Recognition and Measurement* clarifies the application of the principles for hedge accounting. It clarifies the designation of a one-sided risk in the hedged item and inflation in a hedged item. The amendment is expected to have no or minimal impact on Vattenfall's financial statements.

IFRIC 12 – *Service Concession Arrangements.* The interpretation provides, among other things, general principles on recognising and measuring the obligations and related rights and assets in service concession arrangements. The interpretation is expected to have no or minimal impact on Vattenfall's financial statements.

IFRIC 15 – *Agreements for the Construction of Real Estate* clarifies when construction and sales of real estate shall be accounted for according to IAS 11 – *Construction Contracts,* or IAS 18 – *Revenue.* The interpretation is expected to have no or minimal impact on Vattenfall's financial statements.

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation* clarifies the accounting treatment in respect of net investments in foreign operations. The interpretation is expected to have no or minimal impact on Vattenfall's financial statements.

IFRIC 17 – *Distribution of Non-cash Assets to Owners* addresses questions on the situation when a dividend is distributed by using other assets than cash. The interpretation is expected to have no impact on Vattenfall's financial statements.

IFRIC 18 – *Transfers of Assets from Customers.* The interpretation clarifies the accounting treatment of assets or cash transferred from a customer and thereafter used to provide the customer with goods and services. The interpretation is expected to have no or minimal impact on Vattenfall's financial statements.

New standards, amendments to standards and interpretations issued by IASB/IFRIC which at 31 December 2009 had not yet been endorsed by the EU:

Amendments in IFRS 2 – *Share-based Payment,* "Group Cash-settled Share-based Payment Transactions" clarifies the accounting for certain intra-Group share-based payments and entail that IFRIC 8 – *Scope of IFRS 2* and IFRIC 11 – *Group and Treasury Share Transactions* are incorporated in IFRS 2. IFRS 2 is not relevant for Vattenfall.

IFRS 9 – *Financial Instruments* addresses classification and measurement of financial instruments and represents the first part in IASB's planned replacement of IAS 39 – *Financial Instruments: Recognition and Measurement.* The new standard will affect the accounting for financial instruments in Vattenfall's financial statements in the future.

Revised IAS 24 – *Related Party Disclosures.* The revised standard includes certain clarifications and simplifications of the definition of a related party and provides relief for government-related entities to disclose details of transactions with other government-related entities. However, transactions with other government-related entities do not represent a significant part of the Vattenfall Group's net sales, purchas-

ing or earnings, and the amendments to the standard are not expected to have any impact on Vattenfall's financial statements.

"Improvements to IFRSs" (issued in April 2009) aims to streamline and clarify the accounting standards concerning presentation, recognition and measurement including changes in terminology or amendments of an editorial nature. These amendments will have no or minimal impact on Vattenfall's financial statements.

Amendment in IFRIC 14, *Prepayments of a Minimum Funding Requirement,* corrects an unintended consequence of IFRIC 14 but will have no or minimal impact on Vattenfall's financial statements.

IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments.* The interpretation deals with the accounting of lenders that settle liabilities by issuing equity instruments but is not relevant for Vattenfall.

Changed definitions of key ratios

Previously, the definition of items affecting comparability covered capital gains and capital losses on shares and other non-current assets. Starting with this full-year book-closing, the term items affecting comparability has been expanded to also include impairment losses and reversed impairment losses of non-current assets and other non-recurring items.

Key ratios in which items affecting comparability are included have been recalculated for previous periods.

Segmental information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. An operating segment's result is reviewed regularly by "the chief operating decision maker", which in Vattenfall is the Chief Executive Officer, to assess its performance and to make decisions about resources to be allocated to the operating segment. Segmental information (see Note 6 to the consolidated accounts) is provided for the Group.

Classification of current and non-current assets and liabilities

An asset is classified as a current asset when it is held primarily for the purpose of trading 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 the purpose of trading 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.

Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The assets are valued at the lower of their carrying amount and fair value less costs to distribute and are not subject to amortisation or depreciation.

Assets (and liabilities) held for sale are classified as current assets (current liabilities) when the sale transaction is expected to be settled within twelve months after the balance sheet date.

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 entails that the acquisition of a subsidiary is considered to be a transaction through which the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. Through purchase price allocation (PPA) 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 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, a purchase price allocation 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 implementation of the revised IFRS 3 and IAS 27 will entail different accounting as from 2010.

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

Acquisitions and divestments of minority interests in subsidiaries are recognised in equity.

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

Associated companies

Associated companies are companies in which the Group has a significant – but not controlling – influence over their operational and financial management, usually through shareholdings corresponding to between 20% and 50% of the votes. In conjunction with the acquisition of an associated company, a purchase price allocation 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 entails 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 less internal profit reserves. Dividends received from an associated company reduce the carrying amount of the investment.

In the consolidated income statement, the item Participations in the results of associated companies is shown net after tax.

The equity method is applied from the point of acquisition 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 are treated as an indicator of 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

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Note 2 continued

exchange gains and losses are shown under Other operating income and Other operating expenses, respectively. Financially derived exchange gains and losses are shown as financial income and 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 in Other comprehensive income under the heading Translation reserve.

For the Vattenfall Group, key exchange rates applied in the accounts are provided in Note 4 to the consolidated accounts.

Revenue recognition

Net sales include sales proceeds from core businesses, i.e., sales, distribution and transmission of electricity, sales and distribution of heat, sales of gas, and other revenues such as service and consulting assignments and connection fees.

Sales of electricity, heat and gas
Sales of electricity, heat and gas and related distribution and transmission are recognised as revenue at the time of delivery, excluding value-added tax and excise taxes.

Starting in 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 of generation to Nord Pool in the reporting of the operating segment Business Group Nordic and at the Group level.

The change in fair value of derivatives, including commodity derivatives, that does not qualify for hedge accounting is reported in gross profit.

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 are not required to 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 acquisition cost of the asset.

A grant intended to cover expenses is reported in the income statement as Other operating income.

Operating expenses

Operating leases
Expenses paid 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 interest 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 the time value of money.

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 charged 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 in 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 flows. 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 in 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 the purpose of trading, which means that the aim is for them to be divested in the near term. Derivative instruments not held for hedging purposes are always classified in this category.

Assets are revalued 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 trading in the receivable rights. Acquired receivables are also covered. Loans and receivables are measured 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 doubtful 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 and Share in the Swedish Nuclear Waste Fund.

Available-for-sale financial assets
Financial assets available for sale are carried at fair value, with changes in value recognised in Other comprehensive income. On the date that the assets are derecognised from the balance sheet, any previously recognised accumulated gain or loss in Other comprehensive income is transferred to the income statement.

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 in various categories depending 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 not held for hedging purposes are always classified in this category. These financial liabilities are measured at fair value with changes in value recognised in profit or loss.

Other financial liabilities
In this category, interest-bearing and noninterest-bearing financial liabilities that are not held for commercial purposes are reported. Other financial liabilities are measured at amortised cost.

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 commodity price risks.

Derivative instruments with a positive fair value are reported as a separate line item in the balance sheet under current assets, while derivative instruments with a negative fair value are reported as a separate line item under current liabilities.

Derivative instruments are reported at fair value on the balance sheet date. The reporting of changes in value depends 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 recognised in profit or loss 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. Effects of hedge accounting are described below.

Embedded derivatives
Embedded derivatives are parts of another contract (the host contract), whose terms and conditions meet the definition of a derivative instrument. In cases where embedded derivatives are identified, and where the risk profile of the embedded derivative is not considered to be closely related to the risk profile of the host contract, the embedded derivative is separated and accounted for as if it were a free-standing derivative instrument, in accordance with what is described under the heading Derivative instruments above.

In customer contracts for electricity 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, the value of the portion of these embedded derivatives that pertains to the period extending beyond April 2012 has been set to zero.

Hedge accounting
Hedge accounting is adopted for derivative instruments that are included in a documented hedge relationship. For hedge accounting to be applied, a direct 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. The reporting of changes in value depends on the type of hedge entered into.

Cash flow hedges
For derivative instruments that constitute a hedge instrument in a cash flow hedge, the effective part of the change in value is reported in Other comprehensive income while the ineffective part is recognised directly in profit or loss. The part of the change in value that is reported in Other comprehensive income 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 in Other comprehensive income is transferred to and included in the cost of the asset or liability.

If the conditions for hedging are no longer met, the accumulated changes in value that were reported in Other comprehensive income 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 recognised directly in profit or loss. If the hedged transaction is no longer expected to occur, the hedge's accumulated changes in value are immediately transferred from Other comprehensive income to the income statement.

Cash flow hedges are used primarily in the following cases: i) when forward commodity contracts are used to hedge commodity 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 changes in fair value of the hedged item relating to the hedged risk are recognised in profit or loss when they occur. The carrying amount of the hedged item is adjusted with changes in fair value attributable to the hedged risk.

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 hedge instruments in hedging of net investments in foreign operations, the effective part of the change in value is reported in Other comprehensive income while the ineffective part is recognised directly in profit or loss. The changes in value reported in Other comprehensive income are transferred to the income statement at the later date 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.

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Note 2 continued

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 viable 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 recognised in profit or loss as expenses as 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 as 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 or joint ventures is included in the carrying amount of Participations in associated companies and joint ventures.

Exploration and evaluation assets

Exploration and evaluation assets represent capitalised costs for exploration and evaluation of gas reserves. Examples of costs eligible for capitalisation include exploration rights, geological and other studies, and exploration drillings in relation to either prospective or possible reserves under evaluation, or prospective deposit sites.

Costs that are not eligible for capitalisation are costs incurred before obtaining exploration rights and other general costs that are not related to a specific exploration well.

Exploration and evaluation assets are valued at cost less any accumulated impairment losses. Exploration and evaluation assets are not amortised.

When a specific exploration and evaluation asset is designated as technically feasible and commercially viable and a management decision to extract the exploration well has been taken, the capitalised costs are reclassified to Property, plant and equipment – Construction in progress. If management makes a decision not to extract the exploration well, any costs already capitalised are charged as an impairment loss to the income statement.

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.

Principles for amortisation

Amortisation for other non-current intangible assets than goodwill and exploration and evaluation assets is reported on a straight-line basis in the income statement over the estimated useful life of the asset, provided the useful life not is indefinite. Estimated useful lives are unchanged compared with a year ago and are further described in Note 21 to the consolidated accounts, Intangible assets: non-current. Assessments of the residual value and useful life of an asset are conducted at least annually.

Property, plant and equipment

Owned assets

Property, plant and equipment are reported as assets on 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. Similarly, for mining operations in Germany, and for gas operations in the Netherlands, cost at the time of the acquisition includes a calculated present value for estimated costs for restoring undertakings.

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

See also below under the heading Other provisions than provisions for pensions.

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 recognising the leasing charge 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 lease payments.

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

Subsequent costs

Subsequent costs for property, plant and equipment are only added to the acquisition 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 the acquisition 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 expensed as incurred.

Depreciation principles

Depreciation is reported on a straight-line basis in the income statement over the estimated useful life of the asset except for depreciation related to the German nuclear power plants and to gas operations in the Netherlands (see below). The Group applies component depreciation, which means that the components' estimated useful life provides the basis for the straight-line depreciation. Estimated useful lives are unchanged compared with last year for all property, plant and equipment. Estimated useful lives are further described in Note 22 to the consolidated accounts, Property, plant and equipment. Assessments of the residual value and useful life of an asset are conducted annually.

For the German nuclear power plants, as per 1 April 2008 the depre-

ciation method was changed from the straight-line method to the units of production method, since this better reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Gas fields and platforms are also depreciated according to the units of production method. The basis for depreciation is the expected remaining production volume and is determined annually on the basis of recognised industry practice. New discoveries during ongoing extraction activities can also cause changes in the expected remaining production volume. The depreciation amount per unit produced is thus adjusted for the coming periods to the new expected remaining production volume.

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 on 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, emission allowances and materials and spare parts

Inventories (except for inventories held for trading) 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.

Inventories held for trading are valued at fair value less costs to sell.

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

Intangible assets: current

Emission allowances

Since 2005, a trading system applies in the EU (the Emission Trading Scheme – ETS) 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 (European Union Allowances – EUAs) from the authorities in each country. Sales and purchases of emission allowances are conducted on designated exchanges, where plants that have a greater need for emission allowances than their free-of-charge or subsidised allocation are required to purchase allowances to cover their remaining need and thereby settle their obligations.

During the first trading period, 2005–2007, trading was conducted only in EUAs. During the second trading period, 2008–2012, the trading being conducted in parallel with the first commitment period in the Kyoto Protocol and the EU's Emission Trading Scheme is being opened up to international trading in Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs).

Purchased emission allowances held for own use 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 (EUAs, CERs, ERUs) to the authorities in the respective countries. An expense and a liability are recognised 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 electricity 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 held for own use 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 asset 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 that are still not ready for use, the recoverable amount is calculated annually or as soon an indication is present that an asset has decreased in value.

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 that 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 in 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 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

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Note 2 continued

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 fully 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 the part of the net amount of the accumulated actuarial gains and losses that exceeds 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 unreported past service costs and the present value of future repayments from the plan or reduced future payments to the plan.

Other provisions than pension provisions

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 that reflects current market estimates of the money's time value. The discount rate does not reflect such risks that are taken into consideration in the estimated future cash flow.

Changes in discounted provisions for dismantling, restoration or similar measures, which at the time of acquisition have also been reported as tangible non-current assets, are reported as follows: In cases where the change is due to a change in the estimated outflow of resources or a change in the discount rate, the cost of a non-current tangible asset is changed in an amount corresponding to the provision. When the change is due to the time value of money, the corresponding amount is reported as a financial expense. See also above under the heading Property, plant and equipment/Owned assets.

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 in Other comprehensive income, whereby the associated tax effect is also reported in Other comprehensive income.

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.

Deferred tax related to undistributed earnings in subsidiaries is not provided for.

Note 3 Acquired and divested operations

Acquistion of N.V. Nuon Energy

On 1 July Vattenfall acquired 49% of the shares for EUR 4,833 million (approx. SEK 52 billion) and took over operational control and controlling influence of the Dutch energy Group N.V. Nuon Energy (Nuon) according to separate agreement. As from the third quarter Nuon is part of the Vattenfall Group. Consideration for the remaining 51% of the shares will be paid by Vattenfall in three tranches up until 2015. Nuon's network company Alliander was not included in the acquisition. Through Nuon, Vattenfall has gained key expertise in natural gas in addition to 2.6 and 2.1 million new electricity and gas customers, respectively.

A condition for gaining EU approval of Vattenfall's acquisition of Nuon was that Nuon's sales business in Germany be divested. Consequently, this business is classified as per 31 December 2009 as a divestment group and is carried on the consolidated balance sheet as "Assets/liabilities held for sale". A provision and impairment charge, together totalling approximately EUR 37 million (approx. SEK 390 million) have been made, based on to the anticipated net sales value.

In connection with the acquisition of Nuon, trademarks, customer relationships and gas exploration rights in the operational phase have been valued and reported as separate intangible assets. Since the total consideration exceeded the net value of all acquired assets and liabilities, a goodwill value has arisen. This goodwill preliminarily amounts to approximately SEK 47 billion and consists of assets and/or future cash flows (e.g., synergies primarily in fuel purchasing, investments and maintenance costs, IT, administration and development projects that have not received a final investment decision, gas exploration rights in the development phase, anticipated increased revenues from energy trading and other, similar operations, and future new customer relationships) that do not meet IFRS criteria to be reported separately as intangible assets. Amortisation of surplus value of assets in Nuon amounted to SEK 882 million in 2009.

The effect on external net sales of the acquisition amounted to SEK 21,393 million, and the effect on operating profit was SEK −653 million, which includes SEK 882 million in amortisation of surplus value and impairment losses amounting to SEK 1,203 million. Excluding these items, the effect on operating profit was SEK 1,432 million for the second half of 2009.

For the first half of 2009 Nuon published in its interim report net sales of EUR 2,985 million and an operating profit of EUR 294 million.

Nuon forms the new operating segment Business Group Benelux, with the exception that the wind power operations of Nuon have been integrated with Business Group Pan Europe and that Nuon's energy trading operations are now part of the Supply & Trading segment.

The purchase price allocation (PPA) is still preliminary due to the size and complexity of the acquisition.

Details of net assets acquired and goodwill (SEK million)	
Cash paid	52,424
Direct costs pertaining to the acquisition	443
Liability at 1 July 2009 to owners of Nuon	51,467
Total purchase consideration	**104,334**
Cash and cash equivalents acquired	14,902
Cash amount not yet transferred	51,467
Cash outflow during the year	**37,965**

Acquired assets and liabilities at 1 July 2009	Fair value	Carrying amount
Intangible assets: non-current	13,471	1,186
Property, plant and equipment	35,827	27,873
Participations in associated companies and joint ventures	1,379	1,196
Deferred tax assets	1,581	1,581
Other non-current assets	255	255
Inventories	977	977
Intangible assets: current	4,202	–
Trade receivables and other receivables	12,044	11,660
Derivatives with positive fair values	31,263	31,263
Short-term investments	3,498	3,498
Cash and cash equivalents	14,902	14,902
Borrowings	–5,544	–5,544
Provisions	–2,135	–2,021
Deferred tax liabilities	–10,186	–3,800
Trade payables and other liabilities	–14,279	–14,279
Derivatives with negative fair values	–29,831	–29,831
Total	**57,424**	**38,916**
Goodwill	46,910	
Total purchase consideration	**104,334**	

Acquisitions of minority shares in the subsidiaries GZE S.A. and Vattenfall Heat Poland S.A.
The Polish government's minority shares (25%) in the subsidiaries GZE S.A. and Vattenfall Heat Poland S.A.,have been acquired for approximately SEK 3,300 million.

Divestments during 2009
The Swedish associated companies Pite Energi AB, Luleå Energi AB and Swepol Link AB were divested. The total sales amount was approximately SEK 550 million.

The subsidiary WEMAG AG in Germany was divested for a sales amount of approximately SEK 1,800 million.

Also, Vattenfall's interest in Jämtkraft AB was divested for approximately SEK 550 million, and the shares in the Dutch gas storage project Zuidwending were divested for approximately SEK 1,300 million.

None of the divestments have had a significant effect on Vattenfall's net sales, profit or balance sheet.

Note 4 Exchange rates

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

	Currency	Average rate 2009	Average rate 2008	Balance sheet date rate 31 Dec. 2009	Balance sheet date rate 31 Dec. 2008
Europe	EUR	10.6354	9.6628	10.3530	10.9400
Denmark	DKK	1.4282	1.2962	1.3915	1.4680
Norway	NOK	1.2105	1.1704	1.2430	1.1035
Poland	PLN	2.4546	2.7331	2.5000	2.6200
UK	GBP	11.8664	12.1085	11.4850	11.2500
USA	USD	7.6431	6.5929	7.2125	7.7500

Note 5 Net sales

	2009	2008
Sales including excise taxes		
sale of goods (electricity, heat, gas, etc.)	203,018	161,464
rendering of services	6,466	6,602
Excise taxes	–4,077	–3,517
Net sales	**205,407**	**164,549**

Note 6 Operating segments

During the first half of 2009 the Group's activities were conducted primarily in three operating segments (Business Groups). In addition to the geographical breakdown of operations into Business Group Nordic (Sweden, Finland and Denmark) and Business Group Central Europe (Germany and Poland), Business Group Pan Europe has been established with responsibility for wind power, nuclear power and technological development in all countries in which Vattenfall has operations. Business Group Pan Europe is also responsible for European business development with focus on efficient use of energy and biomass. Starting with the third quarter of 2009, a fourth Business Group – Benelux – was established, consisting of business activities (excl. wind power, trading and treasury operations) in the acquired and thereby consolidated company N.V. Nuon Energy. In addition to these are the operating segment Supply & Trading, which is responsible for energy trading, and the segment Other (Treasury operations and Other Group functions).

Operating profit for the segment Other includes unrealised changes in market value (fair value) in accordance with IAS 39 for energy trading contracts administered by Supply & Trading. When the amounts are realised, the respective segments that gave rise to the underlying positions are affected.

Deliveries of electricity, heat and gas 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.

All operating segments are followed up and steered according to operating profit (EBIT), which is why financial items and expenses as well as taxes are reported in their entirety under the heading Other, as shown below. Operating profit (EBIT) is reported for all segments in accordance with IFRS.

Comparison figures for 2008 have been recalculated according to reflect the new segment structure.

Continued on page 96

Note 6 continued

Operating segments

2009	Business Group Pan Europe	Business Group Nordic	Business Group Central Europe	Business Group Benelux	Supply & Trading	Other	Eliminations	Total
External net sales	8,239	45,064	116,466	20,446	14,593	599	–	**205,407**
Internal net sales	12,874	–2,671	47,010	3,844	56,188	1,528	–118,773	**–**
Total	**21,113**	**42,393**	**163,476**	**24,290**	**70,781**	**2,127**	**–118,773**	**205,407**
Operating profit (EBIT)	2,113	7,504	18,938	–644	1,571	–1,544	–	**27,938**
– including items affecting comparability	145	–3,613	565	–439	–14	–	–	**–3,356**
Financial income and expenses	–	–	–	–	–	–10,204	–	**–10,204**
Profit before tax	**2,113**	**7,504**	**18,938**	**–644**	**1,571**	**–11,748**	**–**	**17,734**
Income tax expense	–	–	–	–	–	–4,286	–	**–4,286**
Profit for the year	**2,113**	**7,504**	**18,938**	**–644**	**1,571**	**–16,034**	**–**	**13,448**
Participations in the results of associated companies	627	221	476	–	–14	–	–	**1,310**
Depreciation and amortisation	2,386	4,300	10,922	1,799	61	140	–	**19,608**
Impairment losses affecting Operating profit (EBIT)	1,122	4,094	123	220	–	–	–	**5,559**
Reversed impairment losses affecting Operating profit (EBIT)	–	–	1,328	–	–	–	–	**1,328**
Investments	13,593	6,572	20,977	6,250	1,325	56,498	–2,226	**102,989**
Assets	157,777	113,737	247,169	103,550	73,716	200,429	–294,251	**602,127**
Net assets	53,249	70,964	92,351	60,949	26,578	–3,366	2	**300,727**

2008	Business Group Pan Europe	Business Group Nordic	Business Group Central Europe	Business Group Benelux	Supply & Trading	Other	Eliminations	Total
External net sales	7,614	48,417	97,883	–	11,421	–786	–	**164,549**
Internal net sales	12,793	–10,009	43,073	–	33,499	720	–80,076	**–**
Total	**20,407**	**38,408**	**140,956**	**–**	**44,920**	**–66**	**–80,076**	**164,549**
Operating profit (EBIT)	3,567	11,461	16,872	–	561	–2,566	–	**29,895**
– including items affecting comparability	8	–8	–325	–	–	–	–	**–325**
Financial income and expenses	–	–	–	–	–	–6,397	–	**–6,397**
Profit before tax	**3,567**	**11,461**	**16,872**	**–**	**561**	**–8,963**	**–**	**23,498**
Income tax expense	–	–	–	–		–5,735	–	**–5,735**
Profit for the year	**3,567**	**11,461**	**16,872**	**–**	**561**	**–14,698**	**–**	**17,763**
Participations in the results of associated companies	818	88	521	–	–	–	–	**1,427**
Depreciation and amortisaton	1,786	3,797	9,897	–	50	112	–	**15,642**
Impairment losses affecting Operating profit (EBIT)	–	–	423	–	–	–	–	**423**
Investments	10,627	6,551	63,864	–	62	54,534	–93,342	**42,296**
Assets	119,173	122,955	217,646	–	23,212	171,672	–208,831	**445,827**
Net assets	36,377	72,904	94,290	–	2,280	4,547	1,625	**212,023**

Note 7 Information about products and services

Products and services

2009	Electricity Generation	Supply & Trading	Electricity Networks	Heat	Other	Eliminations	Total
External net sales	40,516	14,593	54,491	19,390	98,027	–21,610	**205,407**
Internal net sales	43,781	56,188	16,755	12,739	11,889	–141,352	**–**
Total	**84,297**	**70,781**	**71,246**	**32,129**	**109,916**	**–162,962**	**205,407**
Operating profit (EBIT)	27,674	1,571	5,800	–609	–6,498	–	**27,938**
– including items affecting comparability	392	–14	648	–4,154	–228	–	**–3,356**

2008	Electricity Generation	Supply & Trading	Electricity Networks	Heat	Other	Eliminations	Total
External net sales	47,129	11,421	45,643	14,854	72,076	–26,574	**164,549**
Internal net sales	27,226	33,499	15,565	12,257	10,867	–99,414	**–**
Total	**74,355**	**44,920**	**61,208**	**27,111**	**82,943**	**–125,988**	**164,549**
Operating profit (EBIT)	24,227	561	4,654	3,310	–2,857	–	**29,895**
– including items affecting comparability	–413	–	–23	20	91	–	**–325**

Note 8 Information about geographical areas

Geographical areas

2009	Nordic countries	Germany and Poland	Netherlands and Belgium	Other	Eliminations	Total
External net sales	50,987	118,420	20,457	15,543	–	**205,407**
Internal net sales	717	47,565	3,999	57,702	–109,983	**–**
Total	**51,704**	**165,985**	**24,456**	**73,245**	**–109,983**	**205,407**
Operating profit (EBIT)	11,820	16,624	–1,757	1,251	–	**27,938**
– including items affecting comparability	–3,752	565	–1,421	1,252	–	**–3,356**
Intangible assets: non-current, Property, plant and equipment and Investment property	106,159	152,074	72,960	36,986	–	**368,179**

2008	Nordic countries	Germany and Poland	Netherlands and Belgium	Other	Eliminations	Total
External net sales	54,732	99,182	–	10,635	–	**164,549**
Internal net sales	–5,881	43,078	–	34,214	–71,411	**–**
Total	**48,851**	**142,260**	**–**	**44,849**	**–71,411**	**164,549**
Operating profit (EBIT)	16,760	15,140	–	–2,005	–	**29,895**
– including items affecting comparability	–	–325	–	–	–	**–325**
Intangible assets: non-current, Property, plant and equipment and Investment property	111,520	151,821	–	805	–	**264,146**

Vattenfall did not have transactions in 2008 or 2009 with a single external customer where revenues amounted to more than 10% of the Group's total net sales.

Note 9 Cost of products sold

Direct costs include production taxes and duties of SEK 5,811 million (6,241) and property taxes of SEK 1,658 million (1,815).

Note 10 Other operating income

Other operating income comprises capital gains from the sale of non-current assets, emission allowances and certificates, SEK 399 million (423) in operationally derived exchange rate gains, rental income and SEK 149 million (148) in governmental grants, and insurance compensation.

Note 11 Other operating expenses

Other operating expenses primarily comprise capital losses from the sale of non-current assets, emission allowances and certificates, SEK 629 million (587) in operationally derived exchange rate losses, and closure and restructuring expenses.

Note 12 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:

	2009	2008
Cost of products sold	19,011	15,041
Selling expenses	337	372
Administrative expenses	238	212
Research and development costs	7	4
Other operating expenses (investment property)	15	13
Total	**19,608**	**15,642**

Amortisation of non-current intangible assets is included in Cost of products sold above in the amount of SEK 934 million (409), Selling expenses in the amount of SEK 75 million (126) and Administrative expenses in the amount of SEK 63 million (59).

Note 13 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:

	2009	2008
Cost of products sold	5,555	419
Administrative expenses	4	–
Other operating expenses (investment property)	–	4
Total	**5,559**	**423**

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

	2009	2008
Cost of products sold	1,328	–
Total	**1,328**	**–**

Major impairment losses and reversed impairment losses above include:

Business Group Pan Europe
Given the Swedish state's increasingly clearer position to not introduce separate market support for offshore wind power, the value of Vattenfall's Swedish offshore projects has been analysed. The analysis shows that the previous carrying amount likely exceeds the current recoverable amount. This has resulted in impairment losses of assets under construction in the Kriegers Flak project, amounting to SEK 133 million. For the other Swedish offshore projects, no need to recognise impairment losses has been identified.

As part of the calculated value determined in connection with the acquisition of N.V. Nuon Energy, the present value of synergies in the wind power operations was based on an investment plan that pertained to the start of 2009. Subsequent to the acquisition, Vattenfall significantly scaled back its investment plans for wind power for the period 2010–2014. As a result, large parts of the estimated synergies cannot be realised at all or at the pace that had been assumed. This has led to an impairment loss of the goodwill that was reported for the wind power assets, in the amount of SEK 989 million.

Business Group Nordic
The decision within the EU to introduce a system of full auctioning of emission allowances, along with anticipations of lower margins for electricity generation in Denmark in the future, has led to impairment losses of SEK 4,088 million for the Danish combined heat and power assets. In the underlying calculations, an interest rate corresponding to a discount rate of 7% after tax has been used.

Business Group Central Europe
Within the cash generating unit Peak Load in Germany, impairment losses from prior years were partly reversed by an amount of SEK 760 million (2008: impairment loss SEK 387 million). Grid fees decided on by Bundesnetzagentur, the German network regulator, regarding electricity purchases for the pumped storage power plants, will be lower than assumed last year due to changed legal regulations.

Impairment losses from prior years for the distribution grid in Berlin have been reversed in the amount of SEK 547 million (0). One important reason is a settlement with the German federal network regulator regarding grid rates in the fourth quarter of 2009.

Note 14 Operating costs according to type

	2009	2008
Personnel costs	24,832	20,820
Depreciation and amortisation	19,608	15,642
Impairment losses of non-current assets	5,559	423
Reversed impairment losses of non-current assets	–1,328	–
Other operating costs incl. input commodities	133,898	101,572
Total	**182,569**	**138,457**

Note 15 Financial income

	2009	2008
Dividends	165	71
Interest income attributable to investments, etc.	1,202	1,692
Return from the Swedish Nuclear Waste Fund	1,188	1,452
Exchange rate differences, net	57	160
Net change in value from reassessment of other financial assets	153	–
Reversed impairment losses on shares and participations	–	5
Capital gains from divestments of shares and participations	49	32
Total	**2,814**	**3,412**

Note 16 Financial expenses

	2009	2008
Interest expenses attributable to loans, etc.	7,464	4,151
Interest components related to pension costs, net after deductions for expected returns on plan assets	1,297	943
Discounting effects attributable to provisions	3,398	2,800
Net change in value from reassessment of derivatives	854	1,709
Net change in value from reassessment of other financial assets	–	200
Capital losses from divestments of shares and participations	5	6
Total	**13,018**	**9,809**

Note 17 Ineffectiveness of hedges recognised in profit or loss

	2009	2008
Ineffectiveness of fair value hedges[1]	494	158
Ineffectiveness of cash flow hedges	32	40
Total	**526**	**198**
1) Ineffectiveness of fair value hedges is distributed as follows:		
Gains(+)/losses(–) from hedging instruments	–1,517	1,840
Gains(+)/losses(–) from hedged items	2,011	–1,682
Total	**494**	**158**

Note 18 Income tax expense

Profit before tax amounted to:

	2009	2008
Sweden	4,191	9,357
Other countries	13,543	14,141
Total	**17,734**	**23,498**

The reported income tax expense breaks down as follows:

	2009	2008
Current tax		
Current taxes related to the period:		
Sweden	215	2,774
Other countries	3,638	4,286
Adjustment of current tax for prior periods:		
Sweden	50	185
Other countries	–43	–553
	3,860	**6,692**
Deferred tax		
Sweden	724	–1,497
Other countries	–298	540
	426	**–957**
Total income tax expense	**4,286**	**5,735**

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

Per cent (%)	2009	2008
Swedish income tax rate	26.3	28.0
Difference in tax rate in foreign operations	1.7	–0.3
Current tax adjustment for previous periods	–	–1.6
Utilisation of previously non-valued losses and other temporary differences	–2.1	–
Tax-loss carryforwards from current year that are not valued	0.5	0.2
Revaluation of tax-loss carryforwards and other temporary differences pertaining to prior years	–4.0	0.7
Changed tax rates	–	–3.2
Non-deductible expenses[1]	5.8	0.6
Non-taxable income	–4.0	–
Effective tax rate	**24.2**	**24.4**

1) For 2008 non-deductible expenses and non-taxable income were reported net.

Accumulated tax-loss carryforwards are broken down as follows:

	2009	2008
Sweden	43	24
Other countries	3,588	6,097
Total	**3,631**	**6,121**

The tax-loss carryforwards fall due as follows:

	2009
2010	4
2011–2014	167
No time limit	3,460
Total	**3,631**

In the balance sheet, unrecognised tax-loss carryforwards represent a tax value of SEK 229 million.

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 2009–2017. The non-current part is represented in the balance sheet by a discounted value.

Balance sheet reconciliation – Current tax[1]	2009
Balance brought forward	1
Translation differences	–200
Acquired companies	824
Divested companies	109
Equity hedging	2,133
Change via income statement	3,860
Taxes paid, net	–4,739
Balance carried forward	**1,988**

1) Including tax liability reported under provision for tax disputes.

Balance sheet reconciliation – Deferred tax	Balance brought forward 2009	Translation differences	Acquired companies	Divested companies	Change via income statement	Change via Other comprehensive income	Balance carried forward 2009
Non-current assets	35,988	–1,210	7,923	–47	273	–	42,927
Current assets	6,675	–103	990	7	–732	–	6,837
Provisions	–9,318	124	–120	–5	–718	–	–10,037
Other non-current liabilities	268	15	–41	–88	–194	–	–40
Current liabilities	–6,366	52	4	–99	1,550	–	–4,859
Cash flow hedges	–1,726	105	–	–	–	1,576	–45
Tax losses carried forward	–782	35	–150	–	247	–	–650
Total	**24,739**	**–982**	**8,606**	**–232**	**426**	**1,576**	**34,133**

Note 19 Minority interests

	2009	2008
Minority interests in profit before tax	674	878
Minority interests in income tax expense	–122	–210
Total	**552**	**668**

Note 20 Financial instruments – Items of income, expense, gains or losses

Net gains(+)/losses(–) from:	2009	2008
Financial assets and financial liabilities at fair value through profit or loss for financial assets and financial liabilities held for trading	–1,965	–1,694
Available-for-sale financial assets	209	102
Loans and receivables	1,369	2,053
Financial liabilities valued at amortised cost	–3,674	–9,216
Total	**–4,061**	**–8,755**

Interest income amounts to SEK 826 million (533), and interest expenses amount to SEK 8,639 million (3,741) for financial assets and financial liabilities not carried at fair value through profit or loss.

Note 21 Intangible assets: non-current

	Development costs not yet capitalised		Capitalised development costs		Goodwill		Exploration and evaluation assets		Concessions and similar rights with finite useful lives		Renting rights, mining rights and similar rights with finite useful lives		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Cost														
Cost brought forward	101	45	1,839	1,494	946	289	–	–	6,130	3,244	5,014	4,901	**14,030**	**9,973**
Acquired companies	–	–	–	–	46,937	700	2,018	–	11,519	2,068	–	–	**60,474**	**2,768**
Investments	117	65	86	122	29	–	28	–	306	144	70	42	**636**	**373**
Advance payments capitalised	–	–	–	–	–	–	–	–	13	3	2	8	**15**	**11**
Divestments/Disposals	–1	–1	–	–	–	–	–	–	–305	–27	–42	–2	**–348**	**–30**
Reclassifications	–48	–22	51	60	–136	–	835	–	25	491	–4	–500	**723**	**29**
Assets held for sale	–	–	–	–	–	–	–	–	–47	–	–	–	**–47**	**–**
Divested companies	–	–	–	–	–	–	–	–	–74	–5	–6	2	**–80**	**–3**
Translation differences	–8	14	–69	163	–1,688	–43	–96	–	–443	212	–227	563	**–2,531**	**909**
Accumulated cost carried forward	**161**	**101**	**1,907**	**1,839**	**46,088**	**946**	**2,785**	**–**	**17,124**	**6,130**	**4,807**	**5,014**	**72,872**	**14,030**
Accumulated amortisation according to plan[1]														
Amortisation brought forward	–	–	–1,396	–1,052	–	–	–	–	–2,701	–2,216	–1,957	–1,624	**–6,054**	**–4,892**
Acquired companies	–	–	–	–	–	–	–	–	–44	–	–	–	**–44**	**–**
Amortisation for the year	–	–	–102	–190	–	–	–	–	–755	–205	–216	–199	**–1,073**	**–594**
Divestments/Disposals	–	–	–	–	–	–	–	–	295	25	19	1	**314**	**26**
Reclassifications	–	–	–	–6	–	–	–	–	–4	–90	5	98	**1**	**2**
Assets held for sale	–	–	–	–	–	–	–	–	26	–	–	–	**26**	**–**
Divested companies	–	–	–	–	–	–	–	–	54	–	6	2	**60**	**2**
Translation differences	–	–	62	–148	–	–	–	–	41	–215	100	–235	**203**	**–598**
Accumulated amortisation carried forward	**–**	**–**	**–1,436**	**–1,396**	**–**	**–**	**–**	**–**	**–3,088**	**–2,701**	**–2,043**	**–1,957**	**–6,567**	**–6,054**
Impairment losses														
Impairment losses brought forward	–	–	–195	–193	–	–	–	–	–20	–19	–528	–525	**–743**	**–737**
Acquired companies	–	–	–	–	–	–	–	–	–38	–	–	–	**–38**	**–**
Impairment losses for the year	–	–	–	–	–1,142	–	–	–	–	–	–	–	**–1,142**	**–**
Reclassifications	–	–	–	–2	–	–	–	–	–	2	–	–	**–**	**–**
Divested companies	–	–	–	–	–	–	–	–	5	–	–	–	**5**	**–**
Translation differences	–	–	–	–	30	–	–	–	1	–3	1	–3	**32**	**–6**
Accumulated impairment losses carried forward	**–**	**–**	**–195**	**–195**	**–1,112**	**–**	**–**	**–**	**–52**	**–20**	**–527**	**–528**	**–1,886**	**–743**
Residual value according to plan carried forward	**161**	**101**	**276**	**248**	**44,976**	**946**	**2,785**	**–**	**13,984**	**3,409**	**2,237**	**2,529**	**64,419**	**7,233**
Advance payment to suppliers													**12**	**24**
Total													**64,431**	**7,257**

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 2009, contractual commitments for the acquisition of non-current intangible assets amounted to SEK 1,488 million (5).

Note 22 Property, plant and equipment

	Buildings and land[1]		Plants and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress[2]		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Cost										
Cost brought forward[3]	79,938	72,783	443,391	382,843	10,169	9,682	30,424	17,901	**563,922**	**483,209**
Acquired companies	3,675	3	27,870	144	9,478	1	9,790	996	**50,813**	**1,144**
Investments[4]	380	238	5,069	3,454	2,519	587	33,176	19,037	**41,144**	**23,316**
Advance payments capitalised	13	2	767	267	2	4	1,352	1,150	**2,134**	**1,423**
Capitalised/Reversed future expenses for decommissioning, restoration, etc.	–9	362	1,793	8,160	–	–	–	–	**1,784**	**8,522**
Transfer from construction in progress	1,371	673	14,233	9,448	332	173	–15,936	–10,294	**–**	**–**
Divestments/Disposals	–424	–304	–4,514	–2,955	–1,150	–430	–397	–60	**–6,485**	**–3,749**
Other reclassifications	59	–267	437	1,139	141	–884	–222	–107	**415**	**–119**
Assets held for sale	–84	–	–1,590	–	–18	–	–3	–	**–1,695**	**–**
Divested companies	–401	–	–3,986	–	–280	–2	–1,002	–	**–5,669**	**–2**
Translation differences	–2,896	6,448	–18,503	40,891	–819	1,038	–1,629	1,801	**–23,847**	**50,178**
Accumulated cost carried forward	**81,622**	**79,938**	**464,967**	**443,391**	**20,374**	**10,169**	**55,553**	**30,424**	**622,516**	**563,922**
Accumulated depreciation according to plan[5]										
Depreciation brought forward	–38,414	–33,799	–259,986	–224,256	–8,123	–7,548	–	–	**–306,523**	**–265,603**
Acquired companies	–513	–1	–7,573	–38	–4,804	–	–	–	**–12,890**	**–39**
Depreciation for the year	–1,903	–1,712	–15,648	–12,816	–969	–507	–	–	**–18,520**	**–15,035**
Divestments/Disposals	346	207	4,047	2,558	942	414	–	–	**5,335**	**3,179**
Other reclassifications	–30	48	33	–342	11	374	–	–	**14**	**80**
Assets held for sale	44	–	1,083	–	9	–	–	–	**1,136**	**–**
Divested companies	122	–	1,593	–	237	1	–	–	**1,952**	**1**
Translation differences	1,424	–3,157	11,024	–25,092	517	–857	–	–	**12,965**	**–29,106**
Accumulated depreciation carried forward	**–38,924**	**–38,414**	**–265,427**	**–259,986**	**–12,180**	**–8,123**	**–**	**–**	**–316,531**	**–306,523**
Impairment losses										
Impairment losses brought forward	–1,218	–1,047	–6,018	–4,908	–67	–69	–7	–8	**–7,310**	**–6,032**
Acquired companies	–32	–	–1,722	–	–343	–	–	–	**–2,097**	**–**
Impairment losses for the year	–213	–32	–4,171	–387	100	–	–133	–	**–4,417**	**–419**
Reversed impairment losses for the year	6	–	1,322	–	–	–	–	–	**1,328**	**–**
Divestments/Disposals	37	13	125	18	122	–	4	–	**288**	**31**
Other reclassifications	–	1	–	–	–	9	–	1	**–**	**11**
Divested companies	64	–	646	–	–	–	–	–	**710**	**–**
Translation differences	69	–153	415	–741	10	–7	–	–	**494**	**–901**
Accumulated impairment losses carried forward	**–1,287**	**–1,218**	**–9,403**	**–6,018**	**–178**	**–67**	**–136**	**–7**	**–11,004**	**–7,310**
Residual value according to plan carried forward	**41,411**	**40,306**	**190,137**	**177,387**	**8,016**	**1,979**	**55,417**	**30,417**	**294,981**	**250,089**
Advance payment to suppliers									**8,044**	**5,988**
Total									**303,025**	**256,077**

1) Cost for buildings and land includes cost of land and water rights amounting to SEK 16,064 million (15,305), which are not subject to depreciation.

2) Interest during the construction period has been reported as an asset in the amount of SEK 738 million (155) for the year. The average interest rate for 2009 was 5.9% for borrowings in SEK and 4.1% for borrowings in EUR.

3) Government grants received, balance brought forward, amount to SEK 6,439 million (4,586). Accumulated interest reported as an asset totalling SEK 1,650 million (912) is included in cost of buildings.

4) Government grants received during the year amounted to SEK 241 million (196).

5) Estimated useful lives are for Hydro power installations 5–40 years, for Combined heat and power installations 5–50 years, for Wind power installations 20–35 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)

	2009	2008
Buildings	57,881	63,119
Land	25,630	25,412
Total	**83,511**	**88,531**

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

At 31 December 2009, contractual commitments for the acquisition of property, plant and equipment amounted to SEK 31,946 million (25,433).

Note 23 Investment property

	2009	2008
Cost		
Cost brought forward	2,218	2,181
Investments	4	3
Divestments/Disposals	–78	–266
Reclassifications	–	–2
Translation differences	–117	302
Accumulated cost carried forward	**2,027**	**2,218**
Accumulated depreciation according to plan[1]		
Depreciation brought forward	–606	–552
Depreciation for the year	–15	–13
Divestments/Disposals	27	41
Translation differences	34	–82
Accumulated depreciation carried forward	**–560**	**–606**
Impairment losses		
Impairment losses brought forward	–800	–723
Impairment losses for the year	–	–4
Divestments/Disposals	14	34
Reclassifications	–	1
Translation differences	42	–108
Accumulated impairment losses carried forward	**–744**	**–800**
Residual value according to plan carried forward	**723**	**812**
Estimated fair value	**896**	**1,013**

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

Investment property encompasses 124 (129) 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 115 million in (106). Direct costs for the concerned properties amounted to SEK 238 million (224), of which SEK 73 million (74) is related to properties that did not generate rental income.

At 31 December 2009, contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements amounted to SEK 203 million (11).

Note 24 Shares and participations owned by the Parent Company Vattenfall AB and other Group companies

Shares and participations owned by Parent Company Vattenfall AB

	Corporate Identity Number	Registered office	Number of shares 2009	Participation in % 2009	Carrying amount 2009
Nordic countries					
Bergeforsens Kraft AB	556044-8887	Sundsvall	3,240	60	3
Boda Kraft AB	556731-7242	Stockholm	1,000	100	–
Boda Kraft 2 AB	556744-4194	Stockholm	1,000	100	–
Boda Kraft 3 AB	556744-4202	Stockholm	1,000	100	–
Boda Kraft 4 AB	556744-6496	Stockholm	1,000	100	–
Borås Elhandel AB	556613-7765	Borås	1,000	100	100
Energibolaget Botkyrka-Salem Försäljn. AB	556014-7406	Tumba	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
Haparanda Värmeverk AB	556241-9209	Haparanda	200	50	1
Kraftgården AB	556532-5551	Bispgården	74,327	74	1
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 Nuclear Fuel AB	556440-2609	Stockholm	100	100	96
Vattenfall A/S	21 311 332	Copenhagen	10,040,000	100	10,705
Vattenfall Business Services Nordic AB	556439-0614	Stockholm	100	100	130
Vattenfall Elanläggningar AB	556257-5661	Sundsvall	1,000	100	1
Vattenfall Eldistribution AB	556417-0800	Stockholm	8,000	100	11
Vattenfall Inlandskraft AB	556528-2562	Jokkmokk	3,000	100	4
Vattenfall Kalix Fjärrvärme AB	556012-9958	Kalix	1,880	94	–
Vattenfall Kundservice AB	556529-7065	Stockholm	100,000	100	–
Vattenfall Oy	1071366-1	Helsinki	10,000	100	1,483
Vattenfall PHEW Holding AB	556785-9383	Stockholm	100	100	–
Vattenfall Poland AB	556467-0643	Uppsala	1,000	100	–
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

	Corporate Identity Number	Registered office	Number of shares 2009	Participation in % 2009	Carrying amount 2009
Vattenfall Services Nordic AB	556242-0959	Luleå	26,000	100	19
Vattenfall Energy Trading A/S	3181181	Copenhagen	500	100	49
Vattenfall Treasury AB (publ)	556439-0606	Stockholm	500	100	6
Vattenfall Treasury Financing AB	556752-2858	Stockholm	100	100	–
Vattenfall Tuggen AB	556504-2826	Stockholm	9,317	93	1
Vattenfall Vindkraft AB	556731-0866	Stockholm	1,000	100	–
Vattenfall Vätter El AB	556528-3180	Motala	100	100	291
Västerbergslagens Kraft AB	556194-9784	Ludvika	89,726	58	19
Västerbergslagens Energi AB	556565-6856	Ludvika	14,674	51	15
Övertorneå Värmeverk AB	556241-9191	Övertorneå	200	50	2
Överkalix Värmeverk AB	556241-9183	Överkalix	100	50	–
3C – Combat Climate Change AB	556765-0444	Stockholm	100	100	–
Germany					
Vattenfall (Deutschland) GmbH	(HRB) 62659	Hamburg	2	100	64,066
Vattenfall Energy Trading GmbH	(HRB) 80162	Hamburg	5,000	100	1,245
Poland					
Vattenfall Heat Poland S.A.	0000025667	Warsaw	24,589,091	99,83	4,855
GZE S.A.	0000013196	Gliwice	1,249,614	99,97	6,925
Vattenfall Poland Sp.z.o.o.	0000270893	Warsaw	10,000	100	5
Vattenfall Energy Trading Sp.z.o.o.	0000233066	Warsaw	80,000	100	9
Netherlands					
Vattenfall Nederland B.V.		Hoofdorp	200	100	–
N.V. Nuon Energy	33292246	Amsterdam	136,794,964	49[2]	102,974
Other countries					
Vattenfall Reinsurance S.A., Luxembourg	(B) 49528	Luxembourg	13,000	100	111
Pandion Ocean Power Limited, Ireland	E0461126	Maynooth	51	51	6
Aegir Wave Power Limited, Scotland	SC367232	Edinburgh	100	100	–
Total					**194,067**

1) The Group owns a further 20% through Forsmarks Kraftgrupp AB.

2) The remaining 51% of the shares will be paid in three tranches during the next five years. According to agreement Vattenfall has the majority of the votes in the company.

Larger shareholdings owned 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 % 2009
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
Vattenfall Vindkraft Lillgrund AB, Sweden	Malmö	100
Vattenfall Vindkraft Kriegers Flak AB, Sweden	Stockholm	100
Vattenfall Vindkraft A/S, Denmark	Esbjerg	100
Germany		
Dan Tysk Kabel GmbH	Hamburg	100
Fernheizwerk Märkisches Viertel GmbH	Berlin	100
Fernheizwerk Neukölln AG	Berlin	80
Kernkraftwerk Brunsbüttel GmbH & Co. oHG	Hamburg	67
Kraftwerke Schwarze Pumpe GmbH	Spremberg	100
Müllverwertung Borsigstrasse GmbH	Hamburg	85
MVR Müllverwertung Rugenberger Damm GmbH & Co. KG	Hamburg	55
Vattenfall Europe AG	Berlin	100
Vattenfall Europe Berlin AG & Co. KG	Berlin	100
Vattenfall Europe Business Services GmbH	Hamburg	100
Vattenfall Europe Distribution Berlin GmbH	Berlin	100
Vattenfall Europe Distribution Hamburg GmbH	Hamburg	100
Vattenfall Europe Generation AG & Co. KG	Cottbus	100
Vattenfall Europe Hamburg AG	Hamburg	100
Vattenfall Europe Mining AG	Cottbus	100
Vattenfall Europe Netzservice GmbH	Berlin	100
Vattenfall Europe Nuclear Energy GmbH	Hamburg	100
Vattenfall Europe Sales GmbH	Hamburg	100
Vattenfall Europe Transmission GmbH	Berlin	100
Vattenfall Europe New Energy GmbH	Hamburg	100
Nuon Energie und Service GmbH	Heinsberg	100
Unit Energy Stromvertrieb GmbH	Heinsberg	100
Nuon Deutschland GmbH	Odernheim	100
Poland		
Vattenfall Distribution Poland S.A.	Gliwice	100
Vattenfall Wolin-North Sp.z.o.o.	Szczecin	100
Vattenfall Business Services Poland Sp.z o.o.	Gliwice	100
Netherlands		
Emmtec Services B.V.	Emmen	100
Nuon International Renewables Projects B.V.	Amsterdam	100
Nuon Power Generation B.V.	Utrecht	100
Nuon Power Projects I B.V.	Amsterdam	100
N.V. Nuon Warmte	Amsterdam	100
Nuon UK Ltd	London	100
Nuon Retail Installatie Service B.V.	Amsterdam	100
Nuon Epe Gas Service B.V.	Amsterdam	100
N.V. Nuon Business	Amsterdam	100
N.V. Nuon Energy Sourcing	Amsterdam	100
Nuon Retail B.V.	Amsterdam	100
N.V. Nuon Sales	Amsterdam	100
Vattenfall Energy Trading Netherlands N.V.	Amsterdam	100

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Note 24 continued

	Registered office	Participation in % 2009
UK		
Vattenfall Wind Power Ltd	Hexham	100
Kentish Flats Ltd	London	100
Eclipse Energy UK Plc	Grantham	100
Thanet Offshore Wind Ltd	London	100
Belgium		
Nuon Belgium N.V.	Vilvoorde	100

Note 25 Participations in associated companies and joint ventures

	2009	2008
Balance brought forward	15,925	13,369
Acquired companies	1,107	–
Assets held for sale	–5,750	–
New share issues and shareholders' contributions	913	193
Divested companies	–433	–
Reclassifications from other shares and participations	–	14
Other reclassifications	–218	–
Profit participations and dividends	241	358
Translation differences	–858	1,991
Balance carried forward	**10,927**	**15,925**

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

	Corporate Identity Number	Registered office	Number of shares 2009	Participation in % 2009	Carrying amount Group 2009	Carrying amount Parent Company 2009
Associated companies and joint ventures owned by the Parent Company Vattenfall AB						
Nordic countries						
Gulsele AB, Sweden	556001-1800	Sollefteå	84,000	35	352	333
Preem Gas AB, Sweden	556037-2970	Stockholm	750	30	14	6
Associated companies and joint ventures owned by other Group companies than the Parent Company Vattenfall AB						
Nordic countries						
Ensted Havn I/S, Denmark	29636223	Aabenraa	500,000	50	690	–
Taggen Vindpark AB, Sweden	556739-6287	Sölvesborg	500	50	–	–
V² Plug-In Hybrid Vehicle Partnership HB, Sweden	969741-9175	Gothenburg	100,000	50	450	–
Germany						
DOTI Deutsche Offshore Testfeld und Infrastruktur GmbH & Co. KG	A 200395	Oldenburg		26	611	–
Kernkraftwerk Krümmel GmbH & Co. oHG	HRB 15033	Hamburg		50	4,780	–
Kernkraftwerk Stade GmbH & Co. oHG	HRB 12163	Hamburg		33	867	–
Kernkraftwerk Brokdorf GmbH & Co. oHG	HRB 17623	Hamburg		20	2,037	–
EHA Energie Handels Gesellschaft mbH & Co. KG	HRA 92729	Hamburg		50	90	–
Netherlands						
B.V. NEA		Dodewaard		22.5	16	–
NoordzeeWind c.v.		Oegstgeest		50	1,020	–
Total					**10,927**	**339**

Amounts pertaining to Vattenfall-owned participation of associated companies' revenues, profit, assets and liabilities:

	Revenues 2009	Profit 2009	Assets 31 Dec. 2009	Liabilities 31 Dec. 2009
Gulsele AB, Preem Gas AB and Taggen Vindpark AB	80	4	129	84
Kernkraftwerk Krümmel GmbH & Co. oHG, Kernkraftwerk Stade GmbH & Co. oHG and Kernkraftwerk Brokdorf GmbH & Co. oHG	2,348	540	21,849	13,624
Other companies	2,268	73	1,879	621
Total	**4,696**	**617**	**23,857**	**14,329**

Amounts pertaining to Vattenfall-owned participation of joint ventures' revenues, profit, assets and liabilities:

	Revenues 2009	Expenses 2009	Non-current assets 31 Dec. 2009	Current assets 31 Dec. 2009	Non-current liabilities 31 Dec. 2009	Current liabilities 31 Dec. 2009
NoordzeeWind c.v.	135	45	936	66	149	4
V² Plug-In Hybrid Vehicle Partnership HB	–	130	290	204	–	44
Total	**135**	**175**	**1,226**	**270**	**149**	**48**

Note 26 Other shares and participations

	2009	2008
Balance brought forward	5,439	694
Acquired companies	138	–
Investments	3	4,603
New share issues and shareholders' contributions	33	32
Profit from private partnerships	23	1
Divested companies	–597	–4
Reclassifications to participations in associated companies	–	–14
Impairment losses	–	5
Translation differences	–32	122
Balance carried forward	**5,007**	**5,439**

	Participation in % 2009	Carrying amount Group 2009	Carrying amount Parent Company 2009
Shares and participations owned by the Parent Company Vattenfall AB			
ENEA S.A., Poland	19	4,602	4,602
Other companies		7	7
Shares and participations owned by other Group companies than the Parent Company Vattenfall AB			
Germany			
BEU Berliner Energie Umweltsfonds GbR	50	64	–
EHA Energie Handels Gesellschaft mbH & Co. KG	50	–	–
European Energy Exchange	2	16	–
Sulfurcell Solartechnik GmbH	2	10	–
GNS Gesellschaft für Nuklear-Service GmbH	6	26	–
Other companies		34	–
Netherlands			
Windpoort C.V.	40	22	–
Energie Service Noord West C.V.	30	17	–
Vleemo N.V.	50	11	–
C.V. OudeLandertocht	50	13	–
C.V. Waterkaaptocht	50	11	–
Meerwarmte v.o.f.	50	14	–
Electrisk Verzekeringsmaatschappij	21	26	–
ELINI	13[1]	27	–
Other companies		40	–
Other countries/companies			
Asikkalan Voima Oy, Finland	50	34	–
Skellefteå Energi Underhåll AB, Sweden	50	10	–
Other companies		23	–
Total		**5,007**	**4,609**

1) The share of voting rights is 7%.

Note 27 Share in the Swedish Nuclear Waste Fund

	2009	2008
Balance brought forward	25,250	24,143
Payments	364	421
Disbursements	–775	–766
Returns	1,188	1,452
Balance carried forward	**26,027**	**25,250**

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. (2006:647). 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 2009, the fair value of the Vattenfall Group's share of the Swedish Nuclear Waste Fund was SEK 26,885 million (26,643).

As stated in Note 39 to the consolidated accounts, provisions for future expenses for decommissioning, etc. within Swedish nuclear power operations amount to SEK 29,323 million (27,697).

Contingent liabilities attributable to the Swedish Nuclear Waste Fund are described in Note 47 to the consolidated accounts.

Note 28 Other non-current receivables

	Receivables from associated companies		Other receivables	
	2009	2008	2009	2008
Balance brought forward	377	392	3,990	4,736
New receivables	46	11	1,384	163
Payments received	–36	–30	–959	–1,019
Impairment losses	–	–	–41	–143
Divested companies	–5	–	–805	–
Reclassifications	–304	–1	818	27
Translation differences	–2	5	–116	226
Balance carried forward	**76**	**377**	**4,271**	**3,990**
Breakdown of receivables:				
	2009	2008	2009	2008
Non-current interest-bearing receivables	76	73	588	1,312
Non-current noninterest-bearing receivables	–	304	3,683	2,678
Total	**76**	**377**	**4,271**	**3,990**

Note 29 Inventories

	2009	2008
Inventories held for own use		
Nuclear fuel	5,907	4,484
Materials and spare parts	3,394	3,023
Fossil fuel	3,472	4,198
Other	958	875
Total	**13,731**	**12,580**
Inventories held for trading		
Fossil fuel	806	–
Emission allowances	311	–
Total	**1,117**	**–**
Total inventories	**14,848**	**12,580**

Inventories recognised as an expense in 2009 amount to SEK 22,259 million (24,377). Inventory write-downs amounted to SEK 141 million (948) during the year. Reversed write-downs amounted to SEK 86 million (16).

Note 30 Intangible assets: current

Attributable to emission allowances and certificates held for own use.

	Emission allowances		Certificates		Total	
	2009	2008	2009	2008	2009	2008
Balance brought forward	2,182	8	1,103	741	**3,285**	**749**
Acquired companies	4,202	–	31	–	**4,233**	**–**
Purchases	12,147	5,358	1,932	1,467	**14,079**	**6,825**
Received free of charge	–	–	564	483	**564**	**483**
Sold	–678	–3,250	–1,407	–1,260	**–2,085**	**–4,510**
Redeemed	–5,397	–1	–1,130	–312	**–6,527**	**–313**
Disposals	–503	–8	–49	–11	**–552**	**–19**
Impairment losses	–152	–156	–	–	**–152**	**–156**
Reversed impairment losses	21	–	–	–	**21**	**–**
Translation differences	–412	231	–22	–5	**–434**	**226**
Balance carried forward	**11,410**	**2,182**	**1,022**	**1,103**	**12,432**	**3,285**

Note 31 Trade receivables and other receivables

	2009	2008
Accounts receivable – trade	32,508	26,129
Receivables from associated companies	311	941
Other receivables	9,333	7,223
Total	**42,152**	**34,293**

Age analysis

The collection period is normally between 10 and 30 days.

	2009			2008		
	Receivables, gross	Receivables impaired	Receivables, net	Receivables, gross	Receivables impaired	Receivables, net
Accounts receivable –trade						
Not due	28,835	12	28,823	23,803	5	23,798
Past due 1–30 days	1,868	47	1,821	1,040	3	1,037
Past due 31–90 days	744	65	679	367	3	364
Past due > 90 days	2,839	1,654	1,185	2,085	1,155	930
Total	**34,286**	**1,778**	**32,508**	**27,295**	**1,166**	**26,129**
Receivables from associated companies						
Not due	303	–	303	736	–	736
Past due 1–30 days	9	2	7	48	–	48
Past due 31–90 days	1	–	1	157	–	157
Past due > 90 days	2	2	–	–	–	–
Total	**315**	**4**	**311**	**941**	**–**	**941**
Other receivables						
Not due	9,299	–	9,299	6,826	2	6,824
Past due 1–30 days	17	6	11	345	–	345
Past due 31–90 days	5	–	5	19	1	18
Past due > 90 days	185	167	18	109	73	36
Total	**9,506**	**173**	**9,333**	**7,299**	**76**	**7,223**

Receivables impaired as above:

	2009	2008
Balance brought forward	1,242	1,244
Acquired companies	746	64
Provision for impairment losses	329	63
Impairment losses	–246	–185
Reversed impairment losses	–37	–27
Reclassifications	15	2
Divested companies	–8	–
Translation differences	–86	81
Balance carried forward	**1,955**	**1,242**

Note 32 Prepaid expenses and accrued income

	2009	2008
Prepaid insurance premiums	85	34
Prepaid expenses, other	4,544	812
Prepaid expenses and accrued income, electricity	2,704	2,644
Accrued income, other	2,474	2,170
Total	**9,807**	**5,660**

Note 33 Short-term investments

	2009	2008
Interest-bearing investments	46,385	18,606
Shares	–	726
Total	**46,385**	**19,332**

Note 34 Cash and cash equivalents

	2009	2008
Cash and bank balances	7,127	6,705
Cash equivalents	3,428	14,199
Total	**10,555**	**20,904**

Note 35 Assets held for sale

Refer to assets of German associated companies together with certain non-current assets owned by Vattenfall Europe AG. Also assets and liabilities of the subsidary Nuon Deutschland GmbH are included (see Note 3 to the consolidated accounts).

	2009
Intangible assets: non-current	20
Property, plant and equipment	544
Other non-current assets	5,757
Inventories	1
Trade receivables and other receivables	375
Prepaid expenses and accrued income	6
Cash and cash equivalents	653
Total assets	**7,356**

	2009
Pension provisions	11
Other interest-bearing provisions	66
Deferred tax liabilities	8
Trade payables and other liabilities	126
Accrued expenses and deferred income	453
Total liabilities	**664**

Note 36 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 unsubordinated debt instruments. There is no redemption requirement, although the intention is to repay the loan. The interest is fixed for the initial ten-year period, thereafter a floating rate is applied. The interest is conditional upon, among other things, Vattenfall's means of paying dividends to shareholders and the key ratio "Interest Coverage Trigger Ratio" amounting to at least 2.5.

	2009	2008
Balance brought forward	10,811	9,341
Discount allocation	15	27
Translation differences	–576	1,443
Balance carried forward	**10,250**	**10,811**

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

	2009	2008
Funds from operations (FFO)	36,700	30,735
Interest paid	7,404	3,846
FFO plus interest paid (a)	**44,104**	**34,581**
Interest expenses (b)	7,464	4,151
Interest Coverage Trigger Ratio (a/b)	**5.91**	**8.33**

Note 37 Other interest-bearing liabilities

	Non-current portion		Current portion		Total	
	2009	2008	2009	2008	2009	2008
Bond issues	108,155	53,660	5,843	8,593	**113,998**	**62,253**
Liabilities to credit institutions	6,909	5,683	1,179	1,729	**8,088**	**7,412**
Liability pertaining to acquisition of N.V. Nuon Energy	49,447	–	–	–	**49,447**	**–**
Liabilities to minority owners	7,597	6,310	378	373	**7,975**	**6,683**
Liabilities to associated companies	1,206	142	15,505	16,752	**16,711**	**16,894**
Other liabilities	1,114	1,227	5,911	2,067	**7,025**	**3,294**
Total	**174,428**	**67,022**	**28,816**	**29,514**	**203,244**	**96,536**

Of the above liabilities, the following amounts are due after more than five years: Bond issues SEK 62,040 million (26,652), Liabilities to credit institutions SEK 813 million (1,398), Liability pertaining to the acquisition of N.V. Nuon Energy SEK 22,245 million (0), Liabilities to minority owners SEK 7,447 million (6,160) and Other liabilities SEK 116 million (132).

The liability pertaining to the acquisition of the remaining 51% of the shares in N.V. Nuon Energy shall according to agreement be paid in three tranches during the next five years.

Note 38 Pension provisions

General

Vattenfall's pension obligations in the Group's Swedish, German and Dutch 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,

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Note 38 continued

known as ITP–Vattenfall. This pension plan guarantees employees a pension based on a percentage of their salary. These benefits are chiefly secured in a pension trust or through provisions in the balance sheet.

Certain of Vattenfall's obligations are secured through an insurance policy from Alecta (a Swedish mutual insurance company), e.g. spouse's benefits and disability benefits. 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 90 million (72). Alecta's surplus can be distributed among the policyholders and/or the insureds. At the end of 2009, Alecta's surplus in the form of its so-called collective funding amounted to 141% (112%). 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 secured through Pensionskasse der Bewag, a mutual insurance company. Obligations are secured 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.

Dutch pension plans

Nuon has a number of defined benefit plans and defined contribution plans for which premiums are paid to pension funds or insurance companies. The most significant pension plans have been transferred to the ABP pension fund and the "Metaal en Techniek" pension fund. These plans can be characterised as multi-employer plans.

The pension plans offered by these funds are, in fact, defined benefit plans. However, as Nuon does not have access to the required information and Nuon's participation in the multi-employer plans exposes Nuon to actuarial risks that pertain to present and former employees of other entities, both pension plans are recognised as defined contribution plans. The pension premiums paid during the financial year are accounted for as pension costs in the financial statements. If there is a contractual agreement with a multi-employer plan, determining how a surplus is distributed to the participants or a deficit is to be financed, and the plan is accounted for as a defined contribution plan, a receivable or liability following from the agreement should be recognised in the balance sheet. The resulting gains or losses are to be recognised in the income statement.

The pensions of the majority of Nuon's workforce are transferred to the ABP pension fund and the "Metaal en Techniek" pension fund. These plans do not contain the aforementioned contractual agreements. As a result, no receivable or liability has been recognised in the balance sheet.

Defined benefit obligations

	2009	2008
Present value of unfunded obligations	19,560	20,410
Present value of fully or partly funded obligations	19,057	18,865
Present value of obligations	**38,617**	**39,275**
Fair value of plan assets	17,420	17,436
Present value of net obligations	**21,197**	**21,839**
Unrecognised actuarial gains(+)/ losses(–) of the obligations	–674	–142
Unrecognised actuarial gains(+)/ losses(–) of plan assets	167	–945
Pension provisions	**20,690**	**20,752**

Changes in obligations

	2009	2008
Balance brought forward	39,275	33,757
Acquired companies	19	–
Divested companies	–37	–
Benefits paid by the plan	–2,185	–1,882
Service costs	642	606
Actuarial gains(+) or losses(–)	602	830
Current interest expense	2,019	1,706
Translation differences	–1,718	4,258
Balance carried forward	**38,617**	**39,275**

Changes in plan assets

	2009	2008
Balance brought forward	17,436	16,684
Benefits paid by the plan	–1,066	–507
Expected return on plan assets	722	762
Difference between expected and actual return (actuarial gain(+) or loss(–))	953	–1,057
Translation differences	–625	1,554
Balance carried forward	**17,420**	**17,436**

Plan assets consist of the following

	2009	2008
Equity securities	4,555	3,443
Debt instruments	10,420	11,837
Property	898	787
Other	1,547	1,369
Total	**17,420**	**17,436**

Historical information

	2009	2008	2007	2006	2005
Present value of obligations	38,617	39,275	33,757	35,647	37,615
Fair value of plan assets	17,420	17,436	16,684	15,977	16,248
Present value of net obligations	**21,197**	**21,839**	**17,073**	**19,670**	**21,367**

Payments for contributions to defined benefit plans during 2010 are estimated at SEK 1,595 million.

Pension costs

	2009	2008
Defined benefit plans:		
Current service cost	521	497
Interest expense	2,019	1,706
Expected return on plan assets	–722	–762
Past service cost	113	104
Other	129	9
Total cost for defined benefit plans	**2,060**	**1,554**
Cost for defined contribution plans	584	359
Total pension costs	**2,644**	**1,913**

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

	2009	2008
Cost of products sold	1,201	838
Selling expenses	45	50
Administrative expenses	101	82
Financial expenses	1,297	943
Total pension costs	**2,644**	**1,913**

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

	2009	2008
Discount rate	4.0–5.75	4.0–5.75
Expected return on plan assets	4.5–5.25	4.5–5.25
Future annual salary increases	2.5–4.0	2.5–3.9
Future annual pension increases	2.0	2.0

Note 39 Other interest-bearing provisions

	Non-current portion		Current portion		Total	
	2009	2008	2009	2008	2009	2008
Provisions for future expenses of nuclear operations	41,992	39,442	518	336	**42,510**	**39,778**
Provisions for future expenses of mining, gas and wind operations and other environmental measures/undertakings	12,954	13,070	1,509	1,534	**14,463**	**14,604**
Personnel-related provisions for non-pension purposes	2,748	3,851	1,019	1,196	**3,767**	**5,047**
Provisions for tax and legal disputes	5,815	6,301	1,592	1,636	**7,407**	**7,937**
Other provisions	2,092	1,404	171	277	**2,263**	**1,681**
Total	**65,601**	**64,068**	**4,809**	**4,979**	**70,410**	**69,047**

In Sweden a discount rate of 4.5% (4.5%) has been used for provisions for future expenses of nuclear operations. For all other provisions in Sweden, a discount rate of 4.5% (5.0%) has been used.

In Germany a discount rate of 5.25% (5.25%) has been used for provisions for future expenses of nuclear operations and for provisions for future expenses of mining operations and other environmental measures/undertakings. For all other provisions in Germany, a discount rate of 5.0% (5.0%) has been used.

See also Note 54 to the consolidated accounts.

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

For the Swedish operations, current assumptions indicate that all provisions will result in disbursements later than 2026.

Current plans for the decommissioning of the German nuclear power operations entail that approximately 93% of the provisions will result in cash flows after 2011. For 2010, disbursements are estimated at about 4% of the provisions. The corresponding figure for 2011 is 3%.

Provisions for future expenses of nuclear operations (changes in 2009)	Sweden	Germany	Total
Balance brought forward	27,697	12,081	**39,778**
Provisions for the period	41	473	**514**
Discounting effects	1,487	616	**2,103**
Revaluations versus non-current assets	1,028	819	**1,847**
Provisions used	–930	–108	**–1,038**
Translation differences	–	–694	**–694**
Balance carried forward	**29,323**[1]	**13,187**[2]	**42,510**

1) Of which approximately 26% (22%) pertains to the dismantling, etc. of nuclear power plants and approximately 74% (78%) to the handling of spent radioactive fuel.

2) Of which approximately 57% (58%) pertains to the dismantling, etc. of nuclear power plants and approximately 43% (42%) to the handling of spent radioactive fuel.

Provisions for future expenses of mining, gas and wind operations and other environmental measures/undertakings:
Provisions are made to restore sites and for other undertakings associated with the Group's permits to conduct lignite mining in Germany, and in the Netherlands for the dismantling and removal of assets and restoration of sites where the Group conducts gas operations. Provisions are also made for restoration of sites where the Group conducts wind operations and for environmental measures/undertakings within other activities carried out by the Group.

According to current estimations, approximately 75% of the provisions will result in cash outflows later than 2012. For 2010, disbursements corresponding to 10% of the provisions are estimated, while disbursements for the years 2011 and 2012 are estimated at 8% and 7% of the provisions, respectively.

Provisions for mining operations, etc. (changes in 2009)	
Balance brought forward	14,604
Acquired companies	766
Provisions for the period	444
Discounting effects	654
Revaluations versus non-current assets	–11
Provisions used	–848
Provisions reversed	–330
Divested companies	–11
Translation differences	–805
Balance carried forward	**14,463**

Personnel-related provisions for non-pension purposes:
Provisions are made for future costs pertaining to redundancy in the form of severance pay and other costs for giving notice to personnel.

Approximately 27% of the provisions that have been made are estimated to result in disbursements in 2010, while approximately 43% are estimated to be disbursed from 2011 to 2013. The remaining 30% is estimated to be relatively evenly distributed over the years 2014–2040.

Personnel-related provisions for non-pension purposes (changes in 2009)	
Balance brought forward	5,047
Acquired companies	375
Provisions for the period	1,302
Discounting effects	227
Revaluations	–1,421
Provisions used	–1,308
Provisions reversed	–131
Divested companies	–63
Translation differences	–261
Balance carried forward	**3,767**

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Note 39 continued

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

Approximately 37% of the provisions for tax and legal disputes are expected to result in disbursements in 2010 and 2011. The remaining provisions are estimated to result in cash flows during the years 2012–2014 (56%), and 7% thereafter.

Provisions for tax and legal disputes (changes in 2009)	
Balance brought forward	7,937
Acquired companies	114
Provisions for the period	539
Discounting effects	297
Revaluations	–64
Provisions used	–516
Provisions reversed	–416
Divested companies	–56
Translation differences	–428
Balance carried forward	**7,407**

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

Approximately 47% of these provisions are estimated to result in disbursements in 2010 and 2011, while the remaining approximately 34% are estimated to result in disbursements during the years 2012–2014, and 19% thereafter.

Other provisions (changes in 2009)	
Balance brought forward	1,681
Acquired companies	860
Provisions for the period	325
Discounting effects	10
Revaluations	–14
Provisions used	–243
Provisions reversed	–155
Divested companies	–126
Translation differences	–75
Balance carried forward	**2,263**

Note 40 Other noninterest-bearing liabilities (non-current)

Of the total liabilities of SEK 7,480 million (3,818), SEK 3,694 million (2,508) falls due after more than five years. Of the total liabilities SEK 6,431 million (3,016) refer to accrued expenses, SEK 721 million (515) to deferred income and SEK 328 million (287) to other liabilities.

Note 41 Trade payables and other liabilities

	2009	2008
Accounts payable-trade	33,913	18,005
Liabilities to associated companies	1,273	1,723
Other liabilities	6,920	4,778
Total	**42,106**	**24,506**

Note 42 Accrued expenses and deferred income

	2009	2008
Accrued personnel-related costs	5,550	3,186
Accrued expenses, emission allowances	6,144	6,811
Accrued expenses, connection fees	263	123
Accrued nuclear power–related fees and taxes	46	67
Accrued interest expense	4,597	1,579
Other accrued expenses	6,593	4,806
Deferred income and accrued expenses, electricity	6,356	4,422
Other deferred income	1,088	947
Total	**30,637**	**21,941**

Note 43 Carrying amounts and fair values of financial assets and financial liabilities by category

	2009		2008	
	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	27,061	27,061	14,858	14,858
Short-term investments	46,385	46,385	19,332	19,332
Cash equivalents (Note 34)	3,428	3,428	14,199	14,199
Total	**76,874**	**76,874**	**48,389**	**48,389**
Derivatives for hedging purpose (with positive fair values) for:				
Fair value hedges	4,706	4,706	4,812	4,812
Cash flow hedges	6,515	6,515	6,538	6,538
Hedges of net investments in foreign operations	888	888	242	242
Total	**12,109**	**12,109**	**11,592**	**11,592**
Loans and receivables				
Share in the Swedish Nuclear Waste Fund	26,027	26,885	25,250	26,643
Other non-current receivables	4,347	4,347	4,367	4,367
Trade receivables and other receivables	42,152	42,152	34,293	34,293
Cash and bank balances (Note 34)	7,127	7,127	6,705	6,705
Total	**79,653**	**80,511**	**70,615**	**72,008**

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets				
Other shares and participations	5,007	5,458	5,439	5,450
Total	**5,007**	**5,458**	**5,439**	**5,450**
Financial liabilities at fair value through profit or loss				
Derivatives with negative fair values for financial liabilities held for trading	28,409	28,409	12,045	12,045
Total	**28,409**	**28,409**	**12,045**	**12,045**
Derivatives for hedging purpose (with negative fair values) for:				
Fair value hedges	1,639	1,639	191	191
Cash flow hedges	4,644	4,644	11,915	11,915
Hedges of net investments in foreign operations	2,110	2,110	4,431	4,431
Total	**8,393**	**8,393**	**16,537**	**16,537**
Other financial liabilities				
Capital Securities	10,250	11,586	10,811	12,100
Other non-current interest-bearing liabilities	174,428	151,787	67,022	71,866
Other non-current noninterest-bearing liabilities	7,480	7,480	3,818	3,818
Current interest-bearing liabilities	28,816	21,515	29,514	29,686
Trade payables and other liabilities	42,106	42,106	24,506	24,506
Total	**263,080**	**234,474**	**135,671**	**141,976**

For assets and liabilities with a remaining maturity less than three months (e.g., cash and bank balances, trade receivables and other receivables and trade payables and other payables) the fair value is considered to be equal to the carrying amount.

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Financial assets and liabilities that are measured at fair value at 31 December 2009

	Level 1	Level 2	Level 3	Total
Assets				
Derivatives with positive fair values	27,216	9,425	2,529	**39,170**
Other financial assets measured at fair value	28,973	4,074	–	**33,047**
Total assets	**56,189**	**13,499**	**2,529**	**72,217**
Liabilities				
Derivatives with negative fair values	24,464	9,675	2,663	**36,802**
Other financial liabilities measured at fair value	–	86,411	–	**86,411**
Total liabilities	**24,464**	**96,086**	**2,663**	**123,213**

Changes in level 3 financial instruments for the year ended 31 December 2009

	Financial instruments at fair value through profit or loss
Balance brought forward	–
Acquired companies	1,163
Gains and losses recognised in profit or loss	–1,290
Translation differences	–7
Balance carried forward	**–134**
Total gains and losses for the period included in profit or loss for assets and liabilities held at 31 December 2009	–6

Sensitivity analysis for Level 3 contracts

TGSA:

A TGSA (Troll[1] Gas Sales Agreement) is a large gas supply agreement (coal-indexed) that extends further ahead in time than liquid trading in the gas market. Valuation of the agreement is against the market price, as long as a market price can be observed. For deliveries beyond the market horizon, long-term price forecasts (modelled prices) are used for the relevant commodities. TGSAs are hedged with OTC forward trades of underlying products. These trades are also marked against the same market and modelled prices. The long-term price forecasts are benchmarked against reliable financial information obtained from the company Markit; this information is well-known and is used by many energy companies, which entails a fair valuation of the portion of the TGSA that cannot be valued against market prices.

CDM:

Clean Development Mechanism (CDM) is a Kyoto Protocol initiative under which projects set up in developing countries to reduce atmospheric carbon generate tradable carbon credits called CERs (Certified Emissions Reductions). CERs can be used by industrialised nations to offset carbon emissions at home and meet their Kyoto reduction targets. Valuation of CERs is derived from so-called Risk Adjustment Factors (RAFs). These factors are calculated using the Carbon Valuation Tool developed by Point Carbon to quantify the risk and calculate the fair value of CDM projects or contracts. The tool is based on Point Carbon's valuation methodology, which was developed by several experienced market players. The valuation methodology is strictly empirical, and all risk parameters are extracted from Point Carbon's proprietary databases of CDM project data, which entails a correct valuation of the contracts even where market prices are not listed.

1) Troll is a gas field in the North Sea west of Norway.

Note 44 Specifications of the cash flow statement

Other adjustment items

	2009	2008
Undistributed results from participation in associated companies	–395	–359
Unrealised foreign exchange gains	–5,173	–392
Unrealised foreign exchange losses	36	5,720
Unrealised changes in values related to derivatives	5,331	–4,778
Changes in fair values for inventories	–143	–
Capital gains	–967	–202
Capital losses	864	78
Changes in interest receivables	–414	–380
Changes in interest liabilities	1,783	1,108
Changes in the Swedish Nuclear Waste Fund	–776	–1,108
Changes in provisions	986	–307
Revenue recognition of negative goodwill	–1,266	–
Total	**–134**	**–620**

Interest paid totalled SEK 7,404 million (3,846) and interest received totalled SEK 1,103 million (1,679). Dividends received totalled SEK 987 million (1,140).

Investments

	2009	2008
Acquisitions of Group companies	–56,193	–6,969
Investments in associated companies and other shares and participations	–368	–4,829
Investments in intangible assets: non-current, including advance payments	–637	–395
Investments in property, plant and equipment, including advance payments	–45,787	–30,100
Investments in investment property	–4	–3
Total	**–102,989**	**–42,296**

Divestments

	2009	2008
Divestments of shares and participations	4,414	33
Divestments of intangible assets: non-current	34	4
Divestments of property, plant and equipment	1,094	828
Total	**5,542**	**865**

Note 45 Specifications of equity

Share capital:
As of 31 December 2009 the registered share capital comprised 131,700,000 shares with a share quota value of SEK 50.

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 changes in values of commodity 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:

	2009		2008	
	Cash flow	Income statement	Cash flow	Income statement
Within 1 year	700	–281	–7,167	–7,533
Between 1–5 years	375	556	2,652	1,505
More than 5 years	–285	–285	–	–
	790	**–10**	**–4,515**	**–6,028**
No expected effect	–77	–135	–177	80
Total	**713**	**–145**	**–4,692**	**–5,948**

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

	2009	2008
Net sales	–7,643	–6,396
Cost of products sold	–595	3
Other operating income	34	–75
Other operating expenses	5	42
Financial expenses	–39	–40
Total	**–8,238**	**–6,466**

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

	2009	2008
Property, plant and equipment	–113	–17
Inventories	–1,396	385
Total	**–1,509**	**368**

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.

Note 46 Pledged assets

	2009	2008
For own liabilities and provisions		
Liabilities to credit institutions:		
Real estate mortgages as security for loans	699	1,472
Blocked bank funds as security for trading on energy exchanges	–	31
Blocked bank funds as security for redemption of minority shares	51	54
Other	2	74
Total	**752**	**1,631**

Real estate mortgages as security for loans mainly pertain to a loan of DKK 500 million from Realkredit Danmark A/S to Vattenfall A/S.

Note 47 Contingent liabilities

	2009	2008
Guarantees	3,147	1,537
Other contingent liabilities	3,219	3,061
Total	**6,366**	**4,598**

In certain rivers, joint regulation facilities exist for several hydro power plants. The owners of the power plants have payment obligations for their share of these regulation costs. Vattenfall has obligations to compensate certain owners of water rights, in rivers where hydro power stations are built, through the delivery of power. In 2009 such compensation deliveries amounted to 0.94 TWh (0.93), corresponding to approximately SEK 384 million (465).

Under Swedish law, Vattenfall has strict and unlimited liability for third-party loss resulting from dam accidents. Together with other hydro power producers in Sweden, Vattenfall has liability insurance that will pay out a maximum of SEK 8,000 million in benefits for these types of claims.

Atomic liability in Sweden is strict and limited to 300 million Special Drawing Rights (SDRs), corresponding to approximately SEK 3,400 million, which means that owners of nuclear power plants are only liable for losses up to this amount. The obligatory atomic liability insurance for this amount is issued by the Nordic atomic pool and by the mutual company ELINI (European Liability Insurance for the Nuclear Industry).

In its German operations, Vattenfall conducted a number of leasing transactions involving power plants. These agreements became effective in 2001. 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. Rents from the US counterparties have been received in advance and have been deposited in financial institutions with high credit ratings for the disbursement of the lease payments in accordance with the subleases, including payment for the option. Payment of the amounts under the lease contracts is made from these deposits. In the event that the lessees or the underlying customers fail to meet their obligations during the lease period, this would give rise to termination costs for Vattenfall. On the balance sheet date, these obligations amounted to a maximum of SEK 476 million (1,175), which is included in the reported contingent liabilities. Some of these leasing transactions were prematurely redeemed in 2009.

In its Swedish operations, Vattenfall conducted a number of leasing transactions involving power plants in 2003 and 2005. The transactions are based on sale & leaseback 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 through call options. The present value of the future lease payments, including the option amount, has been deposited with financial institutions with high credit ratings for the disbursement of the lease payments. In the event Vattenfall should 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 65 million (97). This amount is not included in the reported contingent liabilities.

In Germany, nuclear power operators have strict and unlimited liability to third parties. By law, nuclear power plants are required to have insurance or other financial guarantees for amounts up to EUR 2,500 million. Claims of up to EUR 256 million are covered by the German Mutual Atomic Energy Reinsurance Pool. The nuclear power plants and their German parent companies (in Vattenfall's case, Vattenfall Europe AG) are liable for amounts in excess of this, in proportion to the ownership interests the respective parent companies have in the nuclear power plants. It is not until these resources are exhausted that a joint liability insurance agreement ("Solidarvereinbarung") takes force between the owners of the German nuclear power plants (Vattenfall Europe, E.ON, RWE and EnBW), for amounts up to EUR 2,500 million. Since the liability is unlimited, the nuclear power plants and their German parent companies are ultimately liable for losses that exceed this amount. See also Note 33 to the Parent Company accounts on contingent liabilities.

Under Swedish law (the Act (2006:647) on the Financing of Future Expenses for Spent Nuclear Fuel), Sweden's nuclear power companies are required to guarantee to the Swedish state (the Swedish Nuclear Waste Fund) that sufficient funds exist to cover the future costs of nuclear waste management. As security for the subsidiaries Forsmarks Kraftgrupp AB and Ringhals AB, the Parent Company Vattenfall AB has made guarantee commitments for a combined value of SEK 17,113 million (17,113). Two types of guarantees have been made. The one guarantee 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 – so-called Financing Security), amounting to SEK 11,886 million. The other guarantee pertains to future cost increases stemming from unforeseen events (so-called Complementary Security), amounting to SEK 5,227 million. See also Note 27 to the consolidated accounts on the Share in the Swedish Nuclear Waste Fund and Note 39 on Provisions.

In 2009 Vattenfall AB, together with its subsidiary the Swedish Nuclear Fuel and Waste Management Company (SKB) and its other part-owners, signed a long-term co-operation agreement with the Östhammar and Oskarshamn municipalities. The agreement covers the period 2010–2025 and regulates development efforts in association with the implementation of the Swedish nuclear waste programme. Through development initiatives in areas such as training, enterprise and infrastructure, over time the parties will generate value-added worth SEK 1,500 million to SEK 2,000 million. The parties will finance the development efforts in relation to their ownership interests. The Vattenfall Group's ownership interest is 56%. Implementation of the efforts will be carried out across two periods: a period before all necessary permits have been received (Period 1), and a period during implementation and operation of the facilities (Period 2). Vattenfall has reported SEK 178 million as a provision and as a non-current asset, respectively, for its share of Period 1 activities.

In Group's operations, it occurs that certain land area are used without leases having been signed with the land owners or that the land owners are not known.

As part of the Group's business activities, in addition to the contingent liabilities stated here, guarantees are made for the fulfilment of various contractual obligations.

Note 48 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 through July 2020.

Note 49 Number of employees and personnel costs

Number of employees at 31 December by country[1]	2009			2008		
	Men	Women	Total	Men	Women	Total
Sweden	7,094	2,477	**9,571**	6,940	2,354	**9,294**
Denmark	609	118	**727**	604	114	**718**
Finland	285	217	**502**	286	239	**525**
Germany	16,500	5,576	**22,076**	15,956	5,269	**21,225**
Poland	2,215	678	**2,893**	2,150	643	**2,793**
Netherlands	4,582	1,688	**6,270**	–	–	**–**
UK	23	16	**39**	–	–	**–**
Other countries	–	–	**–**	25	8	**33**
Total	**31,308**	**10,770**	**42,078**	**25,961**	**8,627**	**34,588**

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Note 49 continued

Average number employees by country[2]	2009 Men	2009 Women	2009 Total	2008 Men	2008 Women	2008 Total
Sweden	6,882	2,270	**9,152**	6,947	2,179	**9,126**
Denmark	613	115	**728**	580	104	**684**
Finland	269	184	**453**	279	211	**490**
Germany	15,554	4,839	**20,393**	15,111	4,649	**19,760**
Poland	2,163	648	**2,811**	2,086	626	**2,712**
Netherlands	2,302	710	**3,012**	–	–	**–**
UK	25	19	**44**	6	3	**9**
Other countries	46	16	**62**	18	2	**20**
Total	**27,854**	**8,801**	**36,655**	**25,027**	**7,774**	**32,801**

Personnel costs	2009	2008
Salaries and other remuneration	19,382	15,655
Social security costs	5,450	5,165
(of which, pension costs)[3]	(1,347)	(1,504)
Total	**24,832**	**20,820**

Salaries and other compensation	2009 Senior executives	2009 Other employees	2009 Total	2008 Senior executives	2008 Other employees	2008 Total
Sweden	53	4,333	**4,386**	53	4,076	**4,129**
Denmark	1	562	**563**	1	471	**472**
Finland	6	233	**239**	4	222	**226**
Germany	166	11,819	**11,985**	174	10,022	**10,196**
Poland	17	548	**565**	20	572	**592**
Netherlands	4	1,560	**1,564**	–	–	**–**
UK	–	49	**49**	–	18	**18**
Other countries	–	31	**31**	–	22	**22**
Total[4]	**247**	**19,135**	**19,382**	**252**	**15,403**	**15,655**

Social security costs	2009	2008
Sweden	1,673	2,417
Denmark	58	47
Finland	57	56
Germany	3,168	2,538
Poland	100	102
Netherlands	389	–
UK	5	–
Other countries	–	5
Total	**5,450**	**5,165**

1) Based on where the employees are formally employed.

2) Based on where the employees perform their main work duties.

3) SEK 37 million (38) of the pension costs are attributable to senior executives. The Group's outstanding pension obligations attributable to these total SEK 678 million (594).

4) Total salaries and other compensation to senior executives include bonuses of SEK 64 million (49).

Benefits to board members and senior executives of Vattenfall AB

SEK thousands	Directors' fees and base salary 2009 including vacation pay	Other remuneration and benefits 2009	Pension and severance costs 2009	Estimated variable compensation for 2009 to be paid 2010
Lars Westerberg, Chairman of the Board	580	–	–	–
Hans-Olov Olsson, Board member (until 29 April 2009)	133	–	–	–
Viktoria Aastrup, Board member	350	–	–	–
Carl-Gustaf Angelin, Board member	39	–	–	–
Eli Arnstad, Board member	280	–	–	–
Johnny Bernhardsson, Board member	39	–	–	–
Christer Bådholm, Board member	350	–	–	–
Lars Carlsson, Deputy Board member	39	–	–	–
Ronny Ekwall, Board member (until 20 November 2009)	39	–	–	–
Lars-Göran Johansson, Deputy Board member	39	–	–	–
Lone Fønss Schrøder, Board member	350	–	–	–
Per-Ove Lööv, Deputy Board member (until 20 November 2009)	52	–	–	–
Björn Savén, Board member (from 29 April 2009)	187	–	–	–
Tuija Soanjärvi, Board member (until 29 April 2009)	117	–	–	–
Anders Sundström, Board member (until 29 April 2009)	93	–	–	–
Cecilia Vieweg, Board member (from 29 April 2009)	187	–	–	–
Lars G. Josefsson, President and CEO	11,955	93	8,182	–
Dag Andresen, Senior Executive Vice President and CFO	3,970	99	1,091	233
Helene Biström, Senior Executive Vice President, Head Business Group Pan Europe	3,024	68	793	–
Lars Gejrot, Senior Vice President Human Resources (from 1 February 2009)	2,693	52	727	111
Tuomo Hatakka, Senior Executive Vice President, Head of Business Group Central Europe	6,729	29	1,682	4 473

SEK thousands	Directors' fees and base salary 2009 including vacation pay	Other remuneration and benefits 2009	Pension and severance costs 2009	Estimated variable compensation for 2009 to be paid 2010
Øystein Løseth, Senior Executive Vice President (from 1 July 2009), Head of Business Group Benelux, First Senior Executive Vice President (from 15 November 2009)	2,278	259	528	3 334[5]
Hans-Jürgen Meyer, Finance Director Vattenfall Europe AG	4,141	73	1,089	3 860
Helmar Rendez, Senior Vice President Strategies	3,473	69	554	1 279
Hans von Uthmann, Senior Executive Vice President, Head of Business Group Nordic (until 31 December 2009)	5,004	65	9,952[1]	503
Doede Vierstra, Finance Director N.V. Nuon Energy (from 1 July 2009 until 31 December 2009)	2,071	36	7,589[2]	2 360[5]
Carolina Wallenius, Senior Vice President Communications (until 6 February 2009)[4]	399	7	3,553[3]	–
Total	**48,611**	**850**	**35,740**	**16 153**

1) Including severance costs.

2) Including severance costs pursuant to agreements with N.V. Nuon Energy.

3) Including severance pay and severance costs.

4) From 1 March 2009 until 1 July 2009, Christopher Eckerberg served as interim acting head of Group function Communications, and from 1 July 2009 until 31 December that position was held by Lars Gejrot.

5) Including for time prior to 1 July 2009. Løseth's programme will be concluded in 2010, at which time additional compensation will be paid. As from 1 April, no variable compensation will be paid to Løseth.

Board of Directors

In 2009, Chairman of the Board Lars Westerberg was paid a fee of SEK 580 thousand (387).

Combined fees of SEK 2,294 thousand (2,551) were paid to the other directors, as shown in the table above. Of the amount reported above, a fee of SEK 70 thousand (70) was paid to each the five non-executive directors who served on the Board's Audit Committee for the full year, and a fee of SEK 13 thousand (13) was paid to the employee representative who served in this position in 2009.

President and Chief Executive Officer

In 2009, Lars G. Josefsson, who is President and Chief Executive Officer of Vattenfall AB, received salary and other remuneration, including the value of a company car, amounting to SEK 12,048 thousand (12,048). As from 2005, no variable salary component is paid to the CEO.

The ordinary retirement age for Lars G. Josefsson (born 1950) is 60. Mr Josefsson has a pension solution which, in connection with his 2008 salary review, was locked at an amount corresponding to his pensionable salary in 2007, which was SEK 8,645 thousand and is indexed according to the CPI. In connection with his 2009 salary review, Mr Josefsson was offered an amount of SEK 500 thousand, which he was free to choose whether it would be applied toward a salary increase or pension premiums, whereby he chose a pension premium.

Occupational pension will thus be payable in the amount of 65% of said pensionable salary, indexed according to the CPI, until 65 years of age (SEK 5.7 million/year). Thereafter, retirement benefits will be payable in accordance with the ITP plan. Above and beyond this is a pension supplement of 32.5% of the portion of his salary in excess of 30 times the Price Base Amount. The latter supplemental benefit is time-restricted until the age of 80. After the age of 76, it will be scaled down by one-fifth for each subsequent year and ceases completely at the age of 80. This corresponds to SEK 2.9 million/year between 65 and 75 years of age, and after the scale-down, SEK 0.5 million/year after reaching 80 years of age. The pension obligation described above is covered by periodic premiums paid to insurance companies. The benefits are vested, i.e., they are not conditional on future employment. Mr Josefsson has earned SEK 52 million of the pension obligation, and the total obligation amounts to SEK 59 million. In addition to this is the value of the pension premium referred to above (SEK 0.5 million), which Mr Josefsson chose in his 2009 salary review.

According to his employment contract, 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 at most 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 out monthly.

For former Group CEO Carl-Erik Nyquist (born 1936), an estimated capital value of SEK 2.9 million remains in his occupational pension.

Other senior executives

Salaries and other compensation

For other senior executives who have been members of the Executive Group Management – a total of 10 individuals (10) – the sum of salaries and other compensation for 2009, including the value of company cars, was SEK 34,539 thousand (28,370). A breakdown and estimated variable compensation is shown in the table above.

Pension benefits

The costs for pension benefits in 2009 are shown in the table above.

Dag Andresen, Helene Biström, Lars Gejrot, Tuomo Hatakka and Øystein Løseth have defined contribution pension solutions, which also applied for Carolina Wallenius and Doede Vierstra.

Hans von Uthmann, who left his position on 31 December 2009, had a defined benefit solution through ITP and a retirement age of 62, plus a so-called extension of 32.5% on salary amounts in excess of 30 times the Base Amount. In addition, the average of his fixed salary during the last five years was pensionable, while his variable salary component was not pensionable. The total pension costs amounted to SEK 647 thousand, of which SEK 470 thousand pertained to Alternative ITP (a high-earner solution). All pension benefits are vested, i.e., they are not conditional upon future employment.

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 earned during the period in question. A departure from the principal of monthly payment and settlement was made in one case in 2009. Thereafter, the guidelines were adhered to.

Tuomo Hatakka, Hans-Jurgen Meyer, Helmar Rendez and Øystein Løseth have fixed-term employment contracts.

Drafting and decision processes

In 2006 the Board established a compensation committee to conduct drafting work for 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 its work to the Board of Directors in such a way that 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. (See also Corporate governance report, incl. the Board of Directors and Executive Group Management.)

Incentive programmes

Against the background of the Swedish government's guidelines on executive compensation and incentive programmes, the Board of Vattenfall

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Note 49 continued

AB has adopted a programme which as from 2005 applies for the Swedish operations and for all employees in Sweden. In accordance with the government's guidelines, the Group CEO does not receive any variable salary component. Regarding other managers and employees, no one has a variable salary component that exceeds the equivalent of two months' salary per year, or 16.7% of normal base salary. Also, for certain managers, the normal base salary can be reduced by 16.7%, depending on outcome. The maximum level for most employees normally averages approximately SEK 17 thousand per year.

As previously, the basis of the incentive programmes is the Group's goal for long-term value creation[1]. The Group target applies for all employees. Further, the result of each unit and individual is measured.

In other countries the Group's value creation target is also used in agreements on variable salary for senior executives and other employees, where applicable.

See also below under the Government's guidelines (20 April 2009) for terms of employment for senior executives of state-owned companies.

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

Long-term target programme (LTI)

Starting in 2008, the members of the Executive Group Management (excluding the CEO) and the business unit managers (totalling approximately 25 persons) also have agreements on the long-term target (LTI) for the period 2008–2010. In these agreements, targets are set only with respect to the Group's five strategic ambitions. The maximum outcome at the end of the period can amount to four extra months' salary if the three-year targets have been met.

The Governments's guidelines (20 April 2009) for terms of employment for senior executives of state-owned companies

The Annual General Meeting has resolved that the government's guidelines for terms of employment for senior executives in state-owned companies (20 April 2009) shall apply for Vattenfall AB.

In addition, the AGM has assigned the Board to look into how existing contracts containing terms for variable salary can be renegotiated in the most suitable manner possible, so that they are compatible with these guidelines.

Vattenfall's board has defined the positions that can be considered to be senior based on the impact they have on the Group's earnings, whereby the unit's sales and size have been determining factors. Including the persons included in the Executive Group Management, a total of 15 positions have been identified. Individual reviews are being performed with respect to the compensation structures (fixed salary), which are to apply as from 2010. At the time of publication of this Annual Report, the situation was as follows: For the executives who are members of the Executive Management Group in 2010 (ten persons), six receive only fixed salary and no variable salary based on annual targets or long-term targets (LTI). For the other positions, individual reviews and recruitment are being conducted. For new hires, only fixed salary will be offered.

This issue has been dealt with by the Board's compensation committee, which hired the services of external advisers for this purpose.

Note 50 Gender distribution among senior executives

	Women, %		Men, %	
	2009	2008	2009	2008
Gender distribution among board members	17	10	83	90
Gender distribution among other senior executives	22	18	78	82

Note 51 Leasing

Leasing expenses

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

	2009	2008
Machinery/equipment		
Cost	602	827
Accumulated depreciation according to plan	–130	–163
Residual value according to plan	**472**	**664**

Future payment commitments, as of 31 December 2009, for leasing contracts and rental contracts are broken down as follows:

	Finance leasing, nominal	Finance leasing, present value	Operating leasing
2010	115	110	669
2011	104	98	949
2012	105	95	867
2013	107	93	827
2014	106	88	812
2015 and beyond	380	279	1,998
Total	**917**	**763**	**6,122**

The current year's leasing expenses for Group assets amounted to SEK 467 million (624).

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 2009, the cost of assets reported under Operating leases amounted to SEK 1,529 million (1,550). Accumulated depreciation amounted to SEK 762 million (709) and accumulated impairment losses amounted to SEK 30 million (34).

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

	Finance leasing	Operating leasing
2010	–	399
2011	–	309
2012	–	252
2013	–	201
2014	–	184
2015 and beyond	–	619
Total	**–**	**1,964**

Note 52 Auditors' fees

	2009	2008
Auditing fees		
Ernst & Young	44	51
PricewaterhouseCoopers	24	13
Swedish National Audit Office	1	1
Total	**69**	**65**
Other fees		
Ernst & Young	33	23
PricewaterhouseCoopers	31	34
Total	**64**	**57**

Note 53 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 49 to the consolidated accounts, Number of employees and personnel costs.

Disclosures of transactions with associated companies in 2009 and associated receivables and liabilities as per 31 December 2009 are described below.

Gulsele AB
Gulsele sells electricity generated by its own hydro power plants. Vattenfall's interest income from the company amounted to SEK 2 million. Interest-bearing receivables as per 31 December amounted to SEK 76 million.

V² Plug-In Hybrid Vehicle Partnership HB
The company's business is to develop and sell technology related to hybrid electric power of automobiles. Vattenfall's operating liabilities per 31 December amounted to SEK 321 million. In addition to this liability, Vattenfall has an obligation to contribute an additional SEK 620 million to the company.

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 138 million. Trade liabilities as per 31 December amounted to SEK 21 million.

Kernkraftwerk Brokdorf GmbH & Co. oHG
This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 706 million. Sales revenue from the company amounted to SEK 2 million. Vattenfall's interest expense to the company amounted to SEK 69 million. Trade liabilities and loan liabilities as per 31 December amounted to SEK 199 million and SEK 3,938 million, respectively.

Kernkraftwerk Krümmel GmbH & Co. oHG
This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 1,593 million. Sales revenue from the company amounted to SEK 489 million. Vattenfall's interest expense to the company amounted to SEK 176 million. Trade receivables amounted to SEK 6 million as per 31 December. Trade liabilities and loan liabilities as per 31 December amounted to SEK 193 million and SEK 10,042 million, respectively.

Kernkraftwerk Stade GmbH & Co. oHG
This is a nuclear power plant that is being decommissioned. Vattenfall's purchases from the company amounted to SEK 255 million. Vattenfall's interest expense to the company amounted to SEK 48 million. Trade liabilities and loan liabilities as per 31 December amounted to SEK 202 million and SEK 2,619 million, respectively.

GASAG Berliner Gaswerke AG
GASAG Berliner Gaswerke sells, distributes and stores natural gas in the Berlin area. Vattenfall received SEK 108 million in sales revenue from the company, and purchases from the company totalled SEK 3,679 million. Trade liabilities amounted to SEK 416 million.

ENSO Energie Sachsen Ost AG
The company generates and distributes electricity and heat. The company also provides services in gas, water, telecommunications and waste collection. Vattenfall received SEK 2,003 million in sales revenue from the company, while purchases amounted to SEK 145 million. Trade receivables and liabilities as per 31 December amounted to SEK 112 million and SEK 1 million, respectively.

Städtische Werke AG (Kassel)
This company provides electricity, heat, gas, water and waste collection services. Vattenfall's sales revenue from the company amounted to SEK 1,225 million, while purchases from the company amounted to SEK 1,298 million. Trade receivables and trade liabilities as per 31 December amounted to SEK 120 million and SEK 128 million, respectively.

EHA Energie Handels Gesellschaft mbH & Co. KG
The company buys and sells electricity and gas. The company also provides administrative and consulting services. Vattenfall's sales revenue from EHA amounted to SEK 1,292 million, while purchases from the company amounted to SEK 718 million. Operating receivables as per 31 December amounted to SEK 1 million.

DOTI Deutsche Offshore Testfeldt und Infrastructure GmbH KG
DOTI conducts planning work and operates an offshore wind power test facility. Vattenfall's purchases from the company amounted to SEK 9 million. Operating receivables as per 31 December amounted to SEK 32 million.

Note 54 Important estimations and assessments

The various provisions made in Vattenfall's consolidated balance sheet are reviewed on an annual basis. The review of 2009 led to changes in earlier assumptions about discount rates in the calculation of provisions as follows:

For pension provisions in Sweden, the discount rate is unchanged at 4.0% compared with a year ago. Also in Germany, the corresponding discount rate was unchanged at 5.75% compared with a year ago.

For provisions for future expenses of nuclear operations in Sweden, the discount rate is unchanged at 4.5% compared with a year ago. The corresponding discount rate in Germany, which also is applicable for provisions for future expenses of mining operations and other environmental measures/undertakings, is unchanged at 5.25%.

For other provisions than those mentioned above, the discount rate is unchanged compared with a year ago, at 5.0%, for provisions made in Denmark , while the discount rate for such provisions made in Sweden was lowered from 5.0% to 4.5%. The discount rate for such provisions made in Germany is unchanged at 5.0%. The corresponding discount rate for provisions made in Finland was 4.5%, Poland 5.5% and the UK 5.0%.

Note 55 Events after the balance sheet date

After the balance sheet date, negotiations were initiated with a potential buyer of Vattenfall's subsidiary, 50 Hertz Transmission GmbH (formerly Vattenfall Europe Transmission GmbH), which owns and operates Vattenfall's high voltage grid in Germany. At the time of signing of the Annual Report, the negotiations were in their final stages, however, the commercial approval process still contains some uncertainties. Vattenfall intends to report back on the financial consequences at a later date.

PARENT COMPANY

Parent Company Income Statement

Amounts in SEK million, 1 January–31 December	Note	2009	2008
Net sales	4, 5	29,745	31,844
Cost of products sold	6	–17,712	–18,118
Gross profit		**12,033**	**13,726**
Selling expenses		–797	–850
Administrative expenses		–1,163	–1,726
Research and development costs		–159	–329
Other operating income	7	139	277
Other operating expenses	8	–93	–117
Operating profit	9, 10	**9,960**	**10,981**
Result from participations in Group companies	11	–1,532	34,579
Result from participations in associated companies	12	682	12
Result from other shares and participations	13	616	20
Interest income and similar profit/loss items	14	10,125	1,558
Interest expenses and similar profit/loss items	15	–7,952	–13,431
Group contributions		–	1,315
Profit before appropriations and tax		**11,899**	**35,034**
Appropriations	16	–2,680	3,498
Profit before tax		**9,219**	**38,532**
Income tax expense	17	–2,622	–1,024
Profit for the year		**6,597**	**37,508**

Parent Company Balance Sheet

Amounts in SEK million	Note	31 Dec. 2009	31 Dec. 2008
Assets			
Non-current assets			
Intangible assets	18		
Capitalised development costs		–	16
Concessions and similar rights		83	20
Renting and similar rights		62	14
Total intangible assets: non-current		**145**	**50**
Property, plant and equipment	19		
Buildings and land		11,206	11,229
Plants and machinery and other technical installations		7,608	7,100
Equipment, tools, and fixtures and fittings		31	36
Construction in progress		2,299	1,783
Total property, plant and equipment		**21,144**	**20,148**
Other non-current assets			
Participations in Group companies	20, 21	194,067	87,542
Receivables from Group companies	22	9,472	7,630
Participations in associated companies	20, 21	339	520
Receivables from associated companies	22	–	333
Other shares and participations	20, 21	4,609	4,632
Deferred tax assets	17	135	1,615
Other non-current receivables	22	434	1,032
Total other non-current assets		**209,056**	**103,304**
Total non-current assets		**230,345**	**123,502**
Current assets			
Inventories	23	361	322
Intangible assets: current	24	762	710
Current receivables	25	51,282	33,353
Current tax assets	17	–	1,688
Cash and cash equivalents	26	281	375
Total current assets		**52,686**	**36,448**
Total assets		**283,031**	**159,950**
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital (131,700,000 shares with a share quota value of SEK 50)		6,585	6,585
Statutory reserve		1,286	1,286
Non-restricted equity			
Retained earnings		44,718	10,633
Profit for the year		6,597	37,508
Total equity		**59,186**	**56,012**
Untaxed reserves	16	**10,175**	**7,495**
Provisions	27	**183**	**109**
Non-current liabilities			
Non-current interest-bearing liabilities	28	181,863	59,557
Non-current noninterest-bearing liabilities	29	3,138	2,803
Total non-current liabilities		**185,001**	**62,360**
Current liabilities			
Current interest-bearing liabilities	30	1,458	7,932
Current tax liabilities	17	461	–
Other current noninterest-bearing liabilities	31	26,567	26,042
Total current liabilities		**28,486**	**33,974**
Total equity, provisions and liabilities		**283,031**	**159,950**
Pledged assets	32	51	85
Contingent liabilities	33	250,397	205,020
Commitments under consortium agreements	34		

Parent Company Statement of Changes in Equity

Amount in SEK million	Share capital	Statutory reserve	Non-restricted equity	Total
Balance brought forward 2008	6,585	1,286	24,122	**31,993**
Dividend paid to owners	–	–	–8,000	**–8,000**
Group contributions	–	–	–7,624	**–7,624**
Tax effect of Group contributions	–	–	2,135	**2,135**
Profit for the year	–	–	37,508	**37,508**
Balance carried forward 2008	**6,585**	**1,286**	**48,141**	**56,012**
Dividend paid to owners	–	–	–6,900	**–6,900**
Group contributions	–	–	4,718	**4,718**
Tax effect of Group contributions	–	–	–1,241	**–1,241**
Profit for the year	–	–	6,597	**6,597**
Balance carried forward 2009	**6,585**	**1,286**	**51,315**	**59,186**

As of 31 December 2009 the registered share capital comprised 131,700,000 shares with a share quota value of SEK 50.

Parent Company Cash Flow Statement

Amounts in SEK million, 1 January–31 December	2009	2008
Operating activities		
Funds from operations (FFO)		
Profit for the year	6,597	37,508
Adjustments for the effect of items not included in the cash flow:		
Income tax expense	2,622	1,024
Appropriations	2,680	–3,498
Depreciation and amortisation	2,723	806
Dividend-contingent Group contributions	–	–1,315
Unrealised exchange rate effects	–9,885	6,102
Change in provisions	74	–35
Capital gains	–	–31,409
Other	–	1,270
Tax paid	–233	–2,872
Cash flow from changes in operating assets and operating liabilities	–4,784	2,998
Cash flow from operating activities	**–206**	**10,579**
Investing activities		
Investments in Group companies, associated companies and other shares and participations	–58,873	–9,139
Investments in property, plant and equipment and intangible assets: non-current	–2,005	–1,320
Investment grants received	8	10
New share issue/shareholder contribution rendered	–13	–45,247
Divestments of property, plant and equipment and intangible assets: non-current	33	271
Divestments of shares and participations	822	49,227
Cash flow from investing activities	**–60,028**	**–6,198**
Cash flow before financing activities	**–60,234**	**4,381**
Financing activities		
Changes in loans	65,725	2,078
Group contributions received	1,315	1,564
Dividend paid to owners	–6,900	–8,000
Cash flow from financing activities	**60,140**	**–4,358**
Cash flow for the year	**–94**	**23**
Cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	375	352
Cash flow for the year	–94	23
Cash and cash equivalents at the end of the year	**281**	**375**

Interest paid totalled SEK 7,952 million (3,343) and interest received totalled SEK 1,944 million (1,558). Dividends received totalled SEK 412 million (3,269).

NOTES TO THE PARENT COMPANY ACCOUNTS

(Amounts in SEK million unless stated otherwise.)

Contents

Note 1 Company information

Vattenfall AB's 2009 Annual Report was approved in accordance with a decision by the Board of Directors on 11 March 2010. Vattenfall AB, which is the Parent Company of 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 disclosed in the Annual Report will be submitted at the Annual General Meeting (AGM) on 29 April 2010.

Note 2 Accounting policies

General

The Parent Company Vattenfall AB's accounts are prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2.2 – Accounting for Legal Entities, issued by the Swedish Financial Reporting Board (RFR). RFR 2.2 entails that Vattenfall AB shall apply all standards and interpretations issued by IASB and IFRIC as endorsed by the European Commission for application within the EU. This should be done as far as this is possible within the framework of the Swedish Annual Accounts Act by taking into consideration the relationship between accounting and taxation.

Vattenfall AB has adopted the exemption rule regarding IAS 39 according to RFR 2.2, which entails that financial instruments are reported at cost.

Accounting policies and methods of calculations are unchanged from those applied in the 2008 Annual Accounts.

New and amended accounting standards effective as of 2010 are expected to have no or minimal impact on Vattenfall AB's financial statements.

The accounting policies applied are stated in the applicable parts of Note 2 to the consolidated accounts with the following amendments for the Parent Company Vattenfall AB.

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 and are recognised according to the Act on Safeguarding of Pension Obligations, ("Tryggandelagen"). The provision reported in the balance sheet corresponds to these pension obligations, recognised net against plan assets of Vattenfall's Pension Foundation.

Income taxes

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 the heading 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 4 to the consolidated accounts.

Note 4 Net sales

	2009	2008
Sales including excise taxes		
sale of goods (electricity, heat, etc.)	29,260	31,095
rendering of services	742	970
Excise taxes	–257	–221
Net sales	**29,745**	**31,844**

Net sales per geographic area

	2009	2008
Nordic countries	27,605	28,816
Germany and Poland	2,113	3,019
Other	27	9
Total	**29,745**	**31,844**

Net sales for products and services

	2009	2008
Electricity Generation	6,695	10,162
Supply & Trading	1,368	–1,878
Energy Sales	19,023	21,214
Heat	2,351	2,115
Other	308	231
Total	**29,745**	**31,844**

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% (10%) of sales and 31% (27%) of purchase costs.

Note 6 Cost of products sold

Direct costs include production taxes and duties of SEK 245 million (217) and property taxes of SEK 1,258 million (1,270).

Note 7 Other operating income

Other operating income consists primarily of capital gains from the sale of non-current assets, emission allowances and certificates, 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, emission allowances and certificates 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:

	2009	2008
Cost of products sold	769	745
Selling expenses	89	52
Administrative expenses	13	7
Total	**871**	**804**

Amortisation of non-current intangible assets is included above in Cost of products sold in the amount of SEK 8 million (4), in Selling expenses in the amount of SEK 89 million (51) and in Administrative expenses in the amount of SEK 11 million (4).

Note 10 Impairment losses

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

	2009	2008
Cost of products sold	2	–
Administrative expenses	–	2
Total	**2**	**2**

Impairment losses of non-current intangible assets are included above in Administrative expenses in the amount of SEK 0 million (2).

Note 11 Result from participations in Group companies

	2009	2008
Dividends	318	3,255
Impairment losses	–1,850	–
Capital gains/losses on divestments[1]	–	31,324
Total	**–1,532**	**34,579**

1) For 2008 attributable to an intra-Group non-taxable capital gain on the sale of shares to a wholly owned subsidiary.

Note 12 Result from participations in associated companies

Attributable to dividends from associated companies and capital gains/losses from the sale of associated companies.

Note 13 Result from other shares and participations

	2009	2008
Dividends	90	2
Capital gains/losses on divestments	526	18
Total	**616**	**20**

Note 14 Interest income and similar profit/loss items

	2009	2008
Interest income from subsidiaries	1,707	1,099
Other interest income	237	459
Foreign exchange gains	8,181	–
Total	**10,125**	**1,558**

Note 15 Interest expenses and similar profit/loss items

	2009	2008
Interest expenses to subsidiaries	4,899	3,341
Other interest expenses	3,053	2
Foreign exchange losses	–	10,088
Total	**7,952**	**13,431**

Note 16 Appropriations and untaxed reserves

	Balance brought forward	Provision/ Dissolution (–)	Balance carried forward
Accelerated depreciation	914	–312	602
2005 Tax allocation reserve	1,022	–	1,022
2006 Tax allocation reserve	1,730	–	1,730
2007 Tax allocation reserve	2,307	–	2,307
2008 Tax allocation reserve	1,522	–	1,522
2009 Tax allocation reserve	–	2,992	2,992
Total	**7,495**	**2,680**	**10,175**

Note 17 Income tax expense

The reported income tax expense is broken down as follows:

	2009	2008
Current tax	1,142	2,318
Deferred tax	1,480	–1,294
Total	**2,622**	**1,024**

The income tax expense for the year attributable to previous years amounts to SEK 23 million (183). The tax effect of the standard tax interest on tax allocation reserves amounts to SEK 137 million (89).

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

Per cent (%)	2009	2008
Swedish income tax rate	26.3	28.0
Tax adjustment for previous periods	–1.2	–0.9
Changed tax rate	–	0.3
Capital gain, non taxable	–3.5	–22.2
Non-taxable income	–1.5	–2.6
Impairment loss	5.2	–
Non-deductive interest	3.0	0.1
Non-deductible expenses	0.1	–
Effective tax rate	**28.4**	**2.7**

Note 18 Intangible assets: non-current

	Capitalised development costs		Goodwill		Concessions and similar rights		Renting and similar rights		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Cost										
Cost brought forward	301	301	13	13	369	344	47	50	**730**	**708**
Investments	–	–	–	–	167	25	48	1	**215**	**26**
Divestments/Disposals	–	–	–	–	–13	–	–	–4	**–13**	**–4**
Accumulated cost carried forward	**301**	**301**	**13**	**13**	**523**	**369**	**95**	**47**	**932**	**730**
Accumulated amortisation according to plan										
Amortisation brought forward	–169	–118	–13	–13	–349	–341	–33	–33	**–564**	**–505**
Amortisation for the year	–16	–51	–	–	–91	–8	–	–1	**–107**	**–60**
Divestments/Disposals	–	–	–	–	–	–	–	1	**–**	**1**
Accumulated depreciation carried forward	**–185**	**–169**	**–13**	**–13**	**–440**	**–349**	**–33**	**–33**	**–671**	**–564**
Impairment losses										
Impairment losses brought forward	–116	–114	–	–	–	–	–	–	**–116**	**–114**
Impairment losses for the year	–	–2	–	–	–	–	–	–	**–**	**–2**
Accumulated impairment losses carried forward	**–116**	**–116**	**–**	**–**	**–**	**–**	**–**	**–**	**–116**	**–116**
Carrying amount	**–**	**16**	**–**	**–**	**83**	**20**	**62**	**14**	**145**	**50**

At 31 December 2009 there were no contractual commitments for the acquisition of non-current intangible assets.

Note 19 Property, plant and equipment

	Buildings and land[1]		Plants and machinery and other technical installations		Equipment tools, and fixtures and fittings		Construction in progress		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Cost										
Cost brought forward	17,513	17,467	15,506	15,504	135	145	1,783	988	**34,937**	**34,104**
Investments	–	–	–	1	3	5	1,787	1,288	**1,790**	**1,294**
Grants received	–	–	–	–	–	–	–8	–10	**–8**	**–10**
Transfer from construction in progress	213	80	1,050	397	–	–	–1,263	–479	**–**	**–2**
Divestments/Disposals	–	–34	–128	–396	–24	–15	–	–4	**–152**	**–449**
Accumulated cost carried forward	**17,726**	**17,513**	**16,428**	**15,506**	**114**	**135**	**2,299**	**1,783**	**36,567**	**34,937**
Accumulated depreciation according to plan										
Depreciation brought forward	–6,284	–6,056	–8,400	–8,131	–99	–104	–	–	**–14,783**	**–14,291**
Depreciation for the year	–235	–249	–523	–488	–6	–7	–	–	**–764**	**–744**
Divestments/Disposals	1	21	109	219	22	12	–	–	**132**	**252**
Accumulated depreciation carried forward	**–6,518**	**–6,284**	**–8,814**	**–8,400**	**–83**	**–99**	**–**	**–**	**–15,415**	**–14,783**
Impairment losses										
Impairment losses brought forward	–	–	–6	–6	–	–	–	–	**–6**	**–6**
Impairment losses for the year	–2	–	–	–	–	–	–	–	**–2**	**–**
Accumulated impairment losses carried forward	**–2**	**–**	**–6**	**–6**	**–**	**–**	**–**	**–**	**–8**	**–6**
Residual value according to plan carried forward	**11,206**	**11,229**	**7,608**	**7,100**	**31**	**36**	**2,299**	**1,783**	**21,144**	**20,148**
Accumulated accelerated depreciation	–	–	–6,197	–6,507	–9	–11	–	–	**–6,206**	**–6,518**
Carrying amount	**11,206**	**11,229**	**1,411**	**593**	**22**	**25**	**2,299**	**1,783**	**14,938**	**13,630**

1) Cost for buildings and land includes cost for land and water rights amounting to SEK 6,619 million (6,623), which are not subject to depreciation.

Tax assessment values

	2009	2008
Buildings	36,628	36,772
Land	22,016	22,279
Total	**58,644**	**59,051**

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

At 31 December 2009 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	
	2009	2008	2009	2008	2009	2008
Balance brought forward	87,542	55,658	520	520	4,632	33
Investments/acquisitions	108,980	4,537	–	–	–	4,602
Shareholder contributions[1]	13	45,247	–	–	–	–
Divestments[1]	–618	–17,900	–181	–	–23	–3
Impairment losses	–1,850	–	–	–	–	–
Balance carried forward	**194,067**	**87,542**	**339**	**520**	**4,609**	**4,632**

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 24–26 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	
	2009	2008	2009	2008	2009	2008
Balance brought forward	7,630	6,512	333	362	1,032	2,196
New receivables	1,842	1,118	–333	–	457	–
Payments received	–	–	–	–29	–1,055	–1,164
Balance carried forward	**9,472**	**7,630**	**–**	**333**	**434**	**1,032**

Note 23 Inventories

	2009	2008
Biomass	45	48
Fossil fuels	282	246
Materials and spare parts	34	28
Total	**361**	**322**

The amount of inventories recognised as an expense in 2009 amount to SEK 772 million (650). 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 polices.

	Emission allowances		Certificates	
	2009	2008	2009	2008
Balance brought forward	58	–	652	432
Purchases	221	139	1,499	1,435
Received free of charge	–	–	217	236
Sold	–177	–81	–1,076	–1,074
Redeemed	–59	–	–573	–377
Balance carried forward	**43**	**58**	**719**	**652**

Note 25 Current receivables

	2009	2008
Accounts receivable-trade	3,301	3,631
Receivables from Group companies	45,486	26,579
Receivables from associated companies	–	87
Other receivables	274	517
Prepaid expenses and accrued income	2,221	2,539
Total	**51,282**	**33,353**

Age analysis of Current receivables
The collection period is normally 30 days

	2009			2008		
	Receivables gross	Receivables impaired	Receivables net	Receivables gross	Receivables impaired	Receivables net
Accounts receivable – trade						
Not due	3,125	–	3,125	3,431	–	3,431
Past due 1–30 days	48	–	48	141	–	141
Past due 31–90 days	36	–	36	26	–	26
Past due > 90 days	92	–	92	57	24	33
Total	**3,301**	**–**	**3,301**	**3,655**	**24**	**3,631**
Receivables from Group companies						
Not due	45,486	–	45,486	26,579	–	26,579
Total	**45,486**	**–**	**45,486**	**26,579**	**–**	**26,579**
Receivables from associated companies						
Not due	–	–	–	87	–	87
Total	**–**	**–**	**–**	**87**	**–**	**87**
Other receivables						
Not due	269	–	269	497	–	497
Past due 31–90 days	1	–	1	–	–	–
Past due > 90 days	4	–	4	20	–	20
Total	**274**	**–**	**274**	**517**	**–**	**517**

Note 26 Cash and cash equivalents

Cash and cash equivalents amount to SEK 281 million (375).

Funds in the Group cash pool managed by the subsidiary Vattenfall Treasury AB amount to SEK 34,156 million (16,525) and are reported in the balance sheet as current receivables from Group companies.

Note 27 Provisions

	2009	2008
Personnel-related provisions for non-pension purposes	123	109
Provisions for environmental measures/undertakings	60	–
Total	**183**	**109**

	2009	2008
Pension obligations[1, 2]	2,956	2,763
Less: Plan assets, carrying amount	–2,956	–2,763
Total pension provisions at year-end	**–**	**–**
1) Of which, information registered by PRI	1,920	1,807
2) Of which, covered by credit insurance with FPG/PRI	2,688	2,468

The Parent Company's pension obligations are subject in their entirety to the Act on Safeguarding of Pension Obligations ("Tryggandelagen").

	2009	2008
Fair value of plan assets at the beginning of the year	3,362	3,642
Return on plan assets	–13	–280
Fair value of plan assets at the end of the year	**3,349**	**3,362**

Plan assets consist of the following:

	2009	2008
Equity securities	1,457	874
Debt instruments	1,222	1,916
Property	61	–
Other	609	572
Total	**3,349**	**3,362**

Note 28 Non-current interest-bearing liabilities

Pertains to liabilities to Group companies in the amount of SEK 89,221 million (59,557), and external liabilities amounting to SEK 92,642 million (0). Of the liabilities, SEK 89,932 million (21,673) 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

	2009	2008
Liabilities to Group companies	2,695	2,467
Other liabilities	443	336
Total	**3,138**	**2,803**

Liabilities to Group companies pertain mainly 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 (201) falls due after more than five years.

Note 30 Current interest-bearing liabilities

SEK 18 million (0) is attributable to the Swedish tax account and SEK 1,440 million (7,932) is attributable to liabilities to Group companies.

Note 31 Other current noninterest-bearing liabilities

	2009	2008
Advance payments from customers	47	28
Accounts payable – trade	748	758
Liabilities to Group companies	21,089	22,356
Liabilities to associated companies	7	28
Other liabilities	600	754
Accrued expenses and deferred income	4,076	2,118
Total	**26,567**	**26,042**

Breakdown of accrued expenses and deferred income:

	2009	2008
Accrued personnel-related costs	120	163
Other accrued expenses	3,030	327
Deferred income and accrued expenses, electricity	900	650
Deferred income and accrued expenses, Group companies	–	978
Other deferred income	26	–
Total	**4,076**	**2,118**

Note 32 Pledged assets

	2009	2008
Blocked bank funds as security for trading on Nord Pool	–	31
Blocked bank funds as security for redemption of minority shares	51	54
Total	**51**	**85**

Note 33 Contingent liabilities

	2009	2008
Guarantees		
of which:		
for Vattenfall Treasury's:		
lending to Group companies, associated companies and other	63,253	45,084
external borrowing for Group companies	82,279	71,377
borrowing from Group companies and associated companies	61,906	46,912
for lending by:		
Group companies, associated companies and other	3,527	5,291
Swedish Nuclear Waste Fund	17,113	17,113
Contract guarantees	10,661	8,215
Other contingent liabilities	11,658	11,028
Total	**250,397**	**205,020**

In certain rivers, joint regulation facilities exist for several hydro power plants. The owners of the power plants have payment obligations for their share of these regulation costs.

Vattenfall has an obligation to compensate certain owners of water rights in rivers where hydro power stations are built, through delivery of power. In 2009 such compensation deliveries amounted to 0.94 TWh (0.93), corresponding to approximately SEK 384 million (465).

Under Swedish law, Vattenfall has strict and unlimited liability for third-party loss resulting from dam accidents. Together with other hydro power producers in Sweden, Vattenfall has liability insurance that will pay a maximum of SEK 8,000 million in benefits for these types of claims.

Atomic liability in Sweden is strict and limited to 300 million Special Drawing Rights (SDRs), corresponding to approximately SEK 3,400 million, which means that owners of nuclear power plants are only liable for losses up to this amount. The obligatory atomic liability insurance for this amount is issued by the Nordic atomic pool and by the mutual company ELINI (European Liability Insurance for the Nuclear Industry).

The Parent Company's contingent liabilities pertaining to subsidiaries amounted to SEK 248,673 million (189,084), which are included in the reported contingent liabilities. Vattenfall Treasury AB is a wholly owned subsidiary of Vattenfall AB with responsibility for the Group's borrowing, liquidity management and management of therewith associated financial risks. Vattenfall AB has provided, in total, SEK 207,431 million (163,448) in guarantees to cover all intra-Group and external obligations of Vattenfall Treasury AB and subsidiaries' obligations to Vattenfall Treasury AB. This amount is included in the reported contingent liabilities.

In 2009 Vattenfall AB, together with its subsidiary the Swedish Nuclear Fuel and Waste Management Company (SKB) and the other part-owners of that company, signed a long-term co-operation agreement with the Östhammar and Oskarshamn municipalities. The agreement covers the period 2010–2025 and regulates development efforts in association with the implementation of the Swedish nuclear waste programme. Through development initiatives in areas such as training, enterprise and infrastructure, over time the parties will generate value-added worth SEK 1,500 million to SEK 2,000 million. The parties will finance the development efforts in relation to their ownership interests. The Vattenfall Group's ownership interest is 56%. Implementation of the efforts will be carried out across two periods: a period before all necessary permits have been received (Period 1), and a period during implementation and operation of the facilities (Period 2). Vattenfall has reported SEK 178 million as a provision and as a non-current asset, respectively, for its share of Period 1 activities.

As security for energy trading conducted by the subsidiary Vattenfall Energy Trading GmbH, Vattenfall AB has provided guarantees with a total value of SEK 23,345 million (17,044). On the balance sheet date, utilised guarantees totalling approximately SEK 8,338 million (8,141) were included in reported contingent liabilities.

Under Swedish law (the Act (2006:647) on the Financing of Future Expenses for Spent Nuclear Fuel), Sweden's nuclear power companies are required to pledge assets to the Swedish state (the Swedish Nuclear Waste Fund) to guarantee that sufficient funds exist to cover the future costs of nuclear waste management. As security for the subsidiaries Forsmarks Kraftgrupp AB and Ringhals AB, Vattenfall AB has made guarantee commitments for a combined value of SEK 17,113 million (17,113). The amounts are included in the company's reported contingent liabilities. 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 – so-called Financing Security), totalling SEK 11,186 million. The other guarantee pertains to future cost increases stemming from unforeseen events (so-called Complementary Security), totalling SEK 5,227 million. Both amounts have been determined based on a probability-based risk analysis in which the former amount has been determined as such that there is a 50% probability that it, together with currently funded amounts (the median value), will provide full cost coverage. The latter amount essentially consists of the supplement that would be required if the corresponding probability was 90%.

In June 2008 Vattenfall AB and its wholly owned subsidiary Vattenfall Europe AG entered into a so-called control agreement (Beherrschungsvertrag). Such control arrangements are very common in German company groups. The agreement in question gives Vattenfall AB the opportunity to effectively govern the German part of the Vattenfall Group and the opportunity to use Vattenfall Europe AG's capital and cash flow. In the event that a net loss should arise in Vattenfall Europe AG's annual report during the term of the control agreement, and such net loss cannot be compensated through the dissolution of reserves that have been set off during the term of the control agreement, Vattenfall AB is obligated to cover the net loss.

See also Note 47 to the consolidated accounts on contingent liabilities.

Note 34 Commitments under consortium agreements

See Note 48 to the consolidated accounts.

Note 35 Average number of employees and personnel costs

	2009			2008		
Average number of employees	Men	Women	Total	Men	Women	Total
Sweden	781	295	**1,076**	777	276	**1,053**

Personnel costs	2009	2008
Salaries and other remuneration	706	685
Social security expenses	–74	523
(of which pension costs)[1]	(–248)	(239)
Total	**632**	**1,208**

1) SEK 16 million (11) 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 78 million (71). Vattenfall AB has taken out compensation of SEK 500 million from the pension foundation, which explains the negative amount for 2009.

None of the board members receive any pension benefits in connection with their board duties.

	2009			2008		
Salaries and other remuneration	Senior executives[1]	Other employees	Total	Senior executives[1]	Other employees	Total
Sweden	21	685	**706**	24	661	**685**

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. Total salaries and other remuneration to board members and presidents include bonuses of SEK 0 million (1).

For benefits to senior executives at Vattenfall AB, see Note 49 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	
	2009	2008	2009	2008
Total sickness-related absence	2.1	2.1	2.6	2.6
Total sickness-related absence:				
– for women	3.3	3.9	3.8	4.3
– for men	1.7	1.4	2.2	2.2
– for employees aged 29 and younger	1.3	1.3	2.2	2.6
– for employees aged 30–49 years	2.1	1.9	2.4	2.5
– for employees aged 50 and above	2.2	2.5	2.9	3.3
Percentage of sickness-related absence lasting 60 days or more	33.3	47.8	27.4	28.2

Note 37 Gender distribution among senior executives

	Women, %		Men, %	
	2009	2008	2009	2008
Gender distribution among board members	36	36	64	64
Gender distribution among other senior executives	31	22	69	78

Note 38 Leasing

Leasing expenses

Future payment commitments, as of 31 December 2009, for leasing contracts and rental contracts break down as follows:

	Finance leasing	Operating leasing
2010	–	22
2011	–	20
2012	–	19
Total	**–**	**61**

Leasing expenses for the year attributable to the Parent Company amounted to SEK 24 million (10).

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 2009, the cost of assets reported under Operating leases amounted to SEK 645 million (672). Accumulated depreciation amounted to SEK 190 million (186) and accumulated impairment losses to SEK 30 million (34).

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

	Finance leasing	Operating leasing
2010	–	2
2011	–	1
2012	–	1
2013	–	1
2014	–	1
2015 and beyond	–	4
Total	**–**	**10**

Note 39 Auditors' fees

	2009	2008
Auditing fees		
Ernst & Young	9	9
Swedish National Audit Office	1	1
Total	**10**	**10**
Other fees		
Ernst & Young	4	7
Total	**4**	**7**

Note 40 Related party disclosures

See Note 53 to the consolidated accounts.

PROPOSED DISTRIBUTION OF PROFITS

The Annual General Meeting has at its disposal profits totalling SEK 51,315,052,436.

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

To be distributed to the shareholders, SEK	5,240,000,000
To be carried forward, SEK	46,075,052,436

The proposed distribution is equivalent to a dividend of SEK 39,79 per share. The dividend is scheduled for payment on 3 May 2010.

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 5,240,000,000 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 13).

The Board of Directors and President's affirmation upon signing the Annual Accounts for 2009
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 face.

Stockholm, 11 March 2010

Lars Westerberg
Chairman of the Board

Viktoria Aastrup Director	Carl–Gustaf Angelin Director	Eli Arnstad Director	Johnny Bernhardsson Director
Christer Bådholm Director	Lone Fønss Schrøder Director	Björn Savén Director	Cecilia Vieweg 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 2009. 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 50–128 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, 11 March 2010

Ernst & Young AB Hamish Mabon Authorised Public Accountant	Per Redemo Authorised Public Accountant Swedish National Audit Office

QUARTERLY REVIEW

Amounts in SEK million	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Income statement items								
Net sales	45,404	35,259	37,016	46,870	52,528	42,128	45,346	65,405
EBITDA	15,203	10,078	9,272	11,407	17,149	10,145	9,123	15,360
Operating profit (EBIT)	11,426	6,316	5,591	6,562	12,860	5,881	3,524	5,673
Operating profit (EBIT)[1]	11,369	6,301	5,586	6,964	12,857	5,805	3,515	9,117
Financial income	714	740	341	1,617	687	415	1,036	676
Financial expenses	–2,072	–1,580	–2,389	–3,768	–2,790	–2,823	–3,734	–3,671
Profit before tax	10,068	5,476	3,543	4,411	10,757	3,473	826	2,678
Profit for the period	7,184	4,043	2,481	4,055	8,091	2,625	622	2,110
– of which, attributable to owners of the Parent Company	6,809	3,808	2,584	3,894	7,751	2,456	831	1,858
– of which, attributable to minority interests	375	235	–103	161	340	169	–209	252
Cash flow items								
Funds from operations (FFO)	11,828	–666	8,687	10,886	18,760	2,568	3,997	11,375
Free cash flow	5,027	74	7,464	6,398	8,455	5,594	7,081	6,436
Balance sheet items								
Cash and cash equivalents and short-term investments	30,582	22,896	27,878	40,236	84,097	101,874	59,966	56,940
Equity	132,822	112,372	124,068	140,886	150,485	145,060	137,668	142,404
– of which, attributable to owners of the Parent Company	120,035	101,708	113,364	129,861	139,577	133,752	130,870	135,620
– of which, attributable to minority interests	12,787	10,664	10,704	11,025	10,908	11,308	6,798	6,784
Interest-bearing liabilities	71,082	75,968	77,501	107,347	146,123	166,903	218,815	213,494
Net debt	39,545	52,011	48,476	66,000	60,571	63,478	157,317	154,987
Provisions	74,090	74,270	76,046	89,799	90,380	89,076	87,726	91,100
Noninterest-bearing liabilities	72,352	91,322	83,972	107,795	112,905	99,582	155,074	155,129
Net assets, weighted average value	160,925	165,321	170,719	179,114	190,355	200,168	219,202	245,016
Balance sheet total	350,346	353,932	361,587	445,827	499,893	500,621	599,283	602,127
The key ratios are presented as percentages (%) or times (x)								
Operating margin, %	25.2	17.9	15.1	14.0	24.5	14.0	7.8	8.7
Operating margin, %[1]	25.0	17.9	15.1	14.9[3]	24.5	13.8	7.8[3]	13.9
Pre-tax profit margin, %	22.2	15.5	9.6	9.4	20.5	8.2	1.8	4.1
Pre-tax profit margin, %[1]	22.0	15.5	9.6[3]	10.2[3]	20.5	8.1	1.8[3]	9.3
Return on equity, %[2]	17.0	14.8	14.0	13.6	13.9	12.5	11.0	9.5
Return on equity, %[1,2]	16.9	14.7	13.9[3]	13.8[3]	14.1[3]	12.6[3]	11.1[3]	11.4
Return on net assets, %[2]	16.2	16.1	16.0	15.1	14.9	13.9	11.7	10.0
Return on net assets, %[1,2]	16.2[3]	16.1[3]	16.0	15.3[3]	15.1[3]	14.0[3]	11.8[3]	11.4
EBIT interest cover, (x)	8.1	7.6	3.7	2.4	6.8	3.1	1.4	2.1
EBIT interest cover, (x)[1]	8.1	7.6	3.7	2.5[3]	6.8	3.1	1.4	3.4
FFO interest cover, (x)	9.1	0.3	6.3	4.6	10.6	2.3	2.4	5.0
FFO interest cover, net, (x)	12.4	–0.5	8.4	5.6	13.1	2.5	2.7	5.6
Cash flow interest cover after maintenance investments, (x)	5.0	1.1	6.3	3.3	6.2	4.3	3.8	3.6
FFO/gross debt, %[2]	47.4	37.0	39.7	28.6	25.8	24.5	16.5	17.2
FFO/net debt, %[2]	85.1	54.0	63.4	46.6	62.2	64.4	23.0	23.7
EBITDA/net financial items, (x)	14.6	22.4	7.9	4.8	11.1	6.1	4.0	6.2
EBITDA/net financial items, (x)[1]	14.5	22.4	7.9	5.0[3]	11.1	6.0	4.0	7.6
Equity/total assets, %	37.9	31.7	34.3	31.6	30.1	29.0	23.0	23.7
Gross debt/equity, %	53.5	67.6	62.5	76.2	97.1	115.1	158.9	149.9
Net debt/equity, %	29.8	46.3	39.1	46.8	40.3	43.8	114.3	108.8
Gross debt/gross debt plus equity, %	34.9	40.3	38.4	43.2	49.3	53.5	61.4	60.0
Net debt/net debt plus equity, %	22.9	31.6	28.1	31.9	28.7	30.4	53.3	52.1
Net debt/EBITDA, (x)	0.9	1.1	1.0	1.4	1.3	1.3	3.3	3.0
Other information								
Investments	5,027	12,773	6,312	18,184	7,008	9,939	68,466	17,576
Electricity sales, TWh	54.2	44.1	41.5	49.5	53.2	42.2	45.8	53.4
Average number employees	32,510	32,627	33,069	32,801	33,129	33,382	40,075	36,655

1) Excl. items affecting comparability.

2) Last 12-month values.

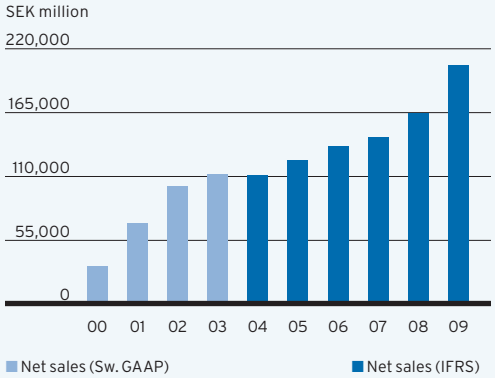
3) The amount is adjusted compared to previously published information in the 2008 Annual Report and Interim Reports for Q1–Q3 2009, since the definition of items affecting comparability has been changed.

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.

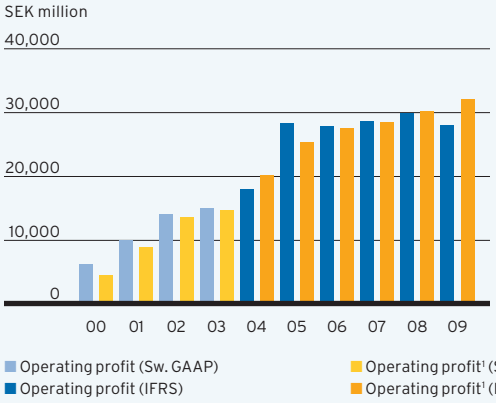
TEN–YEAR REVIEW

Net sales



Comment: Net sales have grown more than six-fold since 2000, mainly due to Vattenfall's substantial international expansion. From having been essentially a national, Swedish electric utility, through a series of major acquisitions primarily in Germany, Poland, Denmark, the UK and the Netherlands, Vattenfall has grown to become Europe's fifth largest generator of electricity and largest producer of heat.

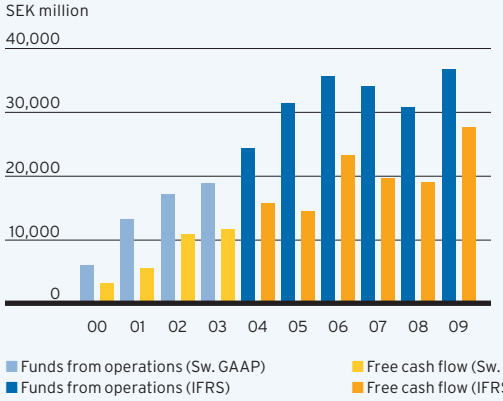
Operating profit



1) Excl. items affecting comparability.

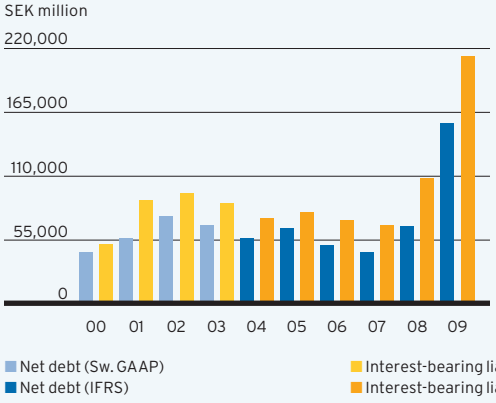
Comment: Vattenfall's operating profit has also grown substantially during the last 10 years, mainly due to successful integration work, but also as a result of higher production volumes and higher wholesale electricity prices.

Funds from operations (FFO) and Free cash flow



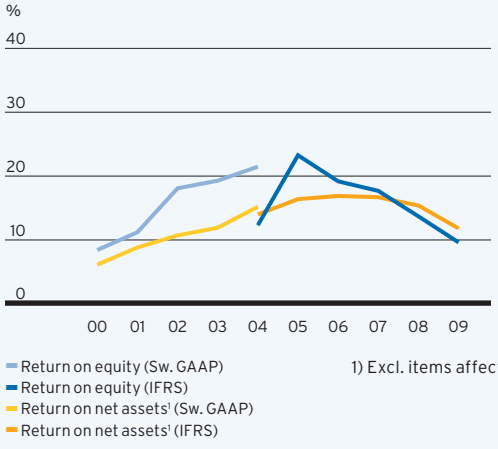
Comment: Funds from operations and free cash flow have increased during the last 10-year period.

Net debt and Interest-bearing liabilities



Comment: Debt increased int the early 2000s in connection with sizeable acquisitions in Germany and Poland. This was followed by a period of consolidation, and the level of borrowing decreased. Debt increased again in 2008 and 2009 in connection with an increase in investments, the largest of which was the acquisitions of N.V. Nuon Energy.

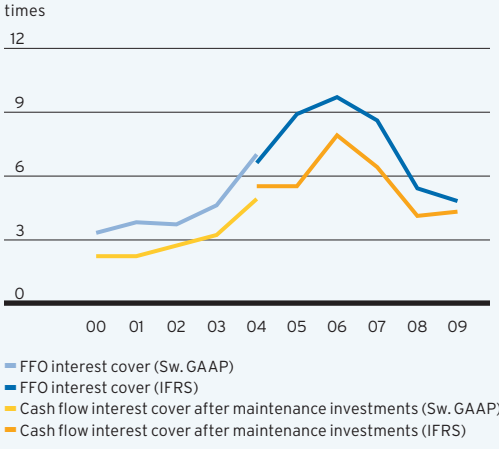
Return on equity



1) Excl. items affecting comparability.

Comment: Return on equity has varied between 8.3% (2000, Swedish GAAP) and 23.2% (2005, IFRS) during the 10-year period, compared with Vattenfall's current target return of 15% over a business cycle.

FFO interest cover



Comment: The FFO interest cover ratio has varied between 2.2 (2000, Swedish GAAP) and 7.9 (2006, IFRS), compared with Vattenfall's current target that the ratio should vary from 3.5–4.5 over a business cycle. This target was achieved during the last 7 years.

	Swedish GAAP					IFRS					
Amounts in SEK million	2000	2001	2002	2003	2004	2004	2005	2006	2007	2008	2009
Income statement items											
Net sales	31,695	69,003	101,025	111,935	111,016	111,016	123,794	135,802	143,639	164,549	205,407
EBITDA	11,670	18,207	25,489	24,450	31,347	33,161	43,175	43,938	45,821	45,960	51,777
Operating profit (EBIT)	6,193	9,916	13,997	14,868	19,501	17,887	28,363	27,821	28,583	29,895	27,938
Operating profit (EBIT)[1]	4,474	8,779	13,550	14,605	18,682	20,102	25,377	27,448	28,497	30,220	31,294
Financial income	1,037	2,232	3,010	2,267	1,772	2,969	3,810	3,839	2,276	3,412	2,814
Financial expenses	–2,536	–4,737	–6,386	–5,203	–4,020	–6,297	–6,013	–6,135	–6,926	–9,809	–13,018
Profit before tax	4,694	7,411	10,621	11,932	17,253	14,559	26,160	25,525	23,933	23,498	17,734
Profit for the year	3,432	5,287	8,224	9,529	12,348	9,604	20,518	19,858	20,686	17,763	13,448
– of which, attributable to owners of the Parent Company	2,970	4,190	7,566	9,123	11,776	8,944	19,235	18,729	19,769	17,095	12,896
– of which, attributable to minority interests	462	1,097	658	406	572	660	1,283	1,129	917	668	552
Cash flow items											
Funds from operations (FFO)	5,830	13,148	17,106	18,804	24,159	24,302	31,386	35,673	34,049	30,735	36,700
Free cash flow	3,050	5,478	10,820	11,606	15,684	15,684	14,341	23,178	19,650	18,963	27,566
Balance sheet items											
Cash and cash equivalents and short-term investments	7,543	10,340	15,473	14,647	13,616	13,616	14,074	22,168	22,659	40,236	56,940
Equity	42,802	61,101	57,532	64,328	73,947	85,551	90,909	107,674	124,132	140,886	142,404
– of which, attributable to owners of the Parent Company	37,817	42,021	47,572	54,949	64,759	75,437	80,565	96,589	111,709	129,861	135,620
– of which, attributable to minority interests	4,985	19,080	9,960	9,379	9,188	10,114	10,344	11,085	12,423	11,025	6,784
Interest-bearing liabilities	50,854	88,723	94,838	85,631	73,013	73,013	78,663	71,575	67,189	107,347	213,494
Net debt	43,311	55,736	75,207	66,890	55,411	55,411	64,343	49,407	43,740	66,000	154,987
Provisions	–	–	–	–	–	61,941	65,123	66,094	73,985	89,799	91,100
Noninterest-bearing liabilities	21,603	109,219	123,906	115,006	109,955	64,700	90,373	77,823	72,930	107,795	155,129
Net assets, weighted average value	74,968	100,701	127,479	124,229	123,423	134,125	143,001	151,155	157,252	179,114	245,016
Balance sheet total	115,259	259,043	276,276	264,965	256,915	285,205	325,068	323,166	338,236	445,827	602,127
The key ratios are presented as percentages (%) or times (x)											
Operating margin, %	19.5	14.4	13.9	13.3	17.6	16.1	22.9	20.5	19.9	18.2	13.6
Operating margin, %[1]	14.1	12.7	13.4	13.0	16.8	18.1	20.5	20.2	19.8	18.4[2]	15.2
Pre-tax profit margin, %	14.8	10.7	10.5	10.7	15.5	13.1	21.1	18.8	16.7	14.3	8.6
Pre-tax profit margin, %[1]	9.0	9.1	10.1	10.4	14.8	15.1	18.7	18.5	16.6	14.5[2]	10.2
Return on equity, %	8.3	11.1	18.0	19.2	21.4	12.2	23.2	19.1	17.6	13.6	9.5
Return on equity, %[1]	4.0	9.7	17.3	18.8	20.4	13.9	19.4	18.7	17.5	13.8[2]	11.4
Return on net assets, %	8.3	9.8	11.0	12.0	15.8	12.2	18.4	17.1	16.6	15.1	10.0
Return on net assets, %[1]	6.0	8.7	10.6	11.8	15.1	13.9	16.3	16.8	16.6	15.3[2]	11.4
EBIT interest cover, (x)	2.9	2.6	2.7	3.3	5.3	4.4	7.6	7.2	6.7	4.5	3.1
EBIT interest cover, (x)[1]	2.2	2.3	2.6	3.2	5.1	5.0	6.9	7.1	6.7	4.6[2]	3.4
FFO interest cover, (x)	3.3	3.8	3.7	4.6	7.0	6.6	8.9	9.7	8.6	5.4	4.8
FFO interest cover, net, (x)	4.9	6.2	6.1	7.4	11.7	8.9	15.1	15.9	12.2	7.1	5.6
Cash flow interest cover after maintenance investments, (x)	2.2	2.2	2.7	3.2	4.9	5.5	5.5	7.9	6.4	4.1	4.3
FFO/gross debt, %	11.5	14.8	18.0	22.0	33.1	30.0	39.9	49.8	50.7	28.6	17.2
FFO/net debt, %	13.5	23.6	22.7	28.1	43.6	43.9	48.8	72.2	77.8	46.6	23.7
EBITDA/net financial items, (x)	7.8	7.3	7.6	8.3	13.9	10.8	19.3	18.4	15.1	9.1	6.5
EBITDA/net financial items, (x)[1]	6.1	6.8	7.4	8.2	13.6	11.5	18.0	18.2	15.0	9.2[2]	6.9
Equity/total assets, %	37.6	23.7	20.9	24.4	28.8	30.0	28.0	33.3	36.7	31.6	23.7
Gross debt/equity, %	118.4	144.9	164.7	133.0	98.7	85.3	86.5	66.5	54.1	76.2	149.9
Net debt/equity, %	101.2	91.2	130.7	104.0	74.9	64.8	70.8	45.9	35.2	46.8	108.8
Gross debt/gross debt plus equity, %	54.2	59.2	62.2	57.1	49.7	46.0	46.4	39.9	35.1	43.2	60.0
Net debt/net debt plus equity, %	50.3	47.7	56.7	51.0	42.8	39.3	41.4	31.5	26.1	31.9	52.1
Net debt/EBITDA, (x)	3.7	3.1	3.0	2.7	1.8	1.7	1.5	1.1	1.0	1.4	3.0
Other information											
Dividend to owners of the Parent Company	990	1,030	1,675	2,400	5,600	5,600	5,800	7,500	8,000	6,900	5,240[3]
Investments	23,840	43,443	39,932	11,356	12,601	12,731	24,497	17,220	18,964	42,296	102,989
Electricity sales, TWh	83.1	149.9	188.3	184.2	189.2	189.2	197.2	191.1	193.8	189.3	194.6
Average number employees	13,123	23,814	34,248	35,296	33,017	33,017	32,231	32,308	32,396	32,801	36,655

1) Excl. items affecting comparability.

2) The amount is adjusted compared with previously published information in the 2008 Annual Report, since the definition of items affecting comparability has been changed.

3) Proposed dividend.

FACTS ABOUT VATTENFALL'S MARKETS

	Business Group Pan Europe		Business Group Nordic		Business Group Central Europe		Business Group Benelux[1]	Total	
	2009	2008	2009	2008	2009	2008	2009	2009	2008
Installed capacity electricity & heat, MW[2]									
Hydro power	–	–	8,419	8,362	2,880	2,894	–	11,299	11,256
Nuclear power	7,608	7,559	–	–	–	–	–	7,608	7,559
Fossil-based power	–	–	3,090	3,090	12,339	12,178	3,743	19,172	15,268
of which, gas	–	–	320	320	1,725	1,598	2,860	4,905	1,918
of which, lignite	–	–	–	–	7,123	7,125	–	7,123	7,125
of which, hard coal	–	–	1,490	1,490	2,703	2,667	883	5,076	4,157
of which, oil	–	–	1,280	1,280	788	788	–	2,068	2,068
Wind power	859	611	–	–	–	–	–	859	611
Biomass, waste	–	–	322	300	62	102	–	384	402
Total Electricity	**8,467**	**8,170**	**11,831**	**11,752**	**15,280**	**15,174**	**3,743**	**39,322**	**35,096**
Total Heat			**4,544**	**4,354**	**14,778**	**13,518**	**3,079**	**22,401**	**17,872**
Generated electricity, TWh[3]									
Hydro power	–	–	31.2	35.5	2.5	3.0	0.2	33.9	38.5
Nuclear power	41.5	46.2	–	–	–	–	–	41.5	46.2
Fossil-based power	–	–	7.3	6.2	65.2	68.1	7.9	80.4	74.2
of which, gas	–	–	0.6	0.6	3.4	3.6	5.3	9.0	4.2
of which, lignite	–	–	–	–	50.4	51.7	–	50.4	51.7
of which, hard coal	–	–	6.7	5.5	11.4	12.8	2.5	20.6	18.3
of which, oil	–	–	–	–	–	–	–	–	–
Wind power	1.7	1.6	–	–	–	–	–	1.7	1.6
Biomass, waste	–	–	0.3	0.4	1.1	1.3	–	1.4	1.7
Total Electricity	**43.2**	**47.7**	**38.8**	**42.1**	**68.9**	**72.3**	**8.0**	**158.9**	**162.1**
Heat sales, TWh									
Fossil-based power	–	–	6.0	5.2	25.0	24.0	0.6	31.6	29.2
of which, gas	–	–	1.2	1.0	4.5	3.7	0.6	6.3	4.7
of which, lignite	–	–	–	–	4.2	4.4	–	4.2	4.4
of which, hard coal	–	–	4.7	4.1	16.2	15.8	–	20.9	19.9
of which, oil	–	–	0.1	0.1	0.1	0.1	–	0.2	0.2
Biomass, waste	–	–	5.1	5.2	1.3	1.2	–	6.4	6.4
Total Heat	**–**	**–**	**11.1**	**10.4**	**26.3**	**25.3**	**0.6**	**37.9**	**35.6**
Gas sales, TWh	–	–	0.2	0.1	0.2	0.2	19.7	20.1	0.3
Number of retail customers, electricity	–	–	1,257,000	1,053,000	3,654,000	3,559,000	2,597, 000	7,508,000	4,612 000
Electricity volume, TWh retail customers	–	–	10.8	6.2	11.2	10.7	5.1	27.1	16.9
Electricity volume, TWh resellers	–	–	6.4	5.6	21.0	21.5	–	27.4	27.1
Electricity volume, TWh industries	–	–	37.2	38.3	19.1	23.2	3.9	60.2	61.5
Number of network customers	–	–	1,307,000	1,299,000	4,362,000	4,287,000	–	5,669,000	5,586,000
Number of gas customers	–	–	300		13,000	5,000	2,112,000	2,125,300	5,000
Electricity network	–	–	–	–					
Transited volume, TWh	–	–	74.5[4]	79.8[4]	40.7[5]	43.1[5]	–	115.2	122.9
Transmission grid, km	–	–	9,740	9,755	–	–	–	9,740	9,755
Distribution network, km	–	–	247,700	189,300	163,500	103,100	–	411,200	292,400
Number of employees (full-year equivalents)									
Business Groups	5,667	5,112	5,544	5,625	21,713	21,345	6,009	38,933	32,082
Group total[6]	–	–	–	–	–	–	–	40,026	32,998

1) Quarters 3–4. Historical comparison figures not available, since Business Group Benelux was not part of the Vattenfall Group until 1 July 2009.

2) Certain values for 2008 have been adjusted compared with previously published information.

3) Rounding differences of 0.1 TWh exist for some items.

4) Excl. generation transiting.

5) Excl. transmission grid.

6) There are 363 (218) employees in Supply & Trading and 730 (698) in Other in addtion to the number of employees in Vattenfall's four Business Groups.

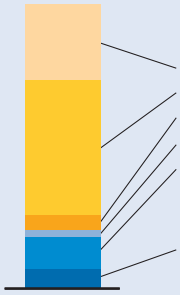
Pro rata – Generation data corresponding to Vattenfall's ownership in the respective facilities

	Business Group Pan Europe		Business Group Nordic		Business Group Central Europe		Business Group Benelux	Total	
	2009	2008	2009	2008	2009	2008	2009	2009	2008
Installed capacity electricity & heat, MW									
Hydro power	–	–	7,989	7,901	2,880	2,894	–	10,869	10,795
Nuclear power	6,146	6,111	–	–	–	–	–	6,146	6,111
Fossil-based power	–	–	3,090	3,090	12,337	11,965	3,718	19,145	15,055
of which, gas	–	–	320	320	1,725	1,598	2,835	4,880	1,918
of which, lignite	–	–	–	–	7,123	7,125	–	7,123	7,125
of which, hard coal	–	–	1,490	1,490	2,702	2,454	883	5,075	3,944
of which, oil	–	–	1,280	1,280	788	788	–	2,068	2,068
Wind power	859	604	–	–	–	–	–	859	604
Biomass, waste	–	–	322	300	44	83	–	366	383
Total Electricity	**7,005**	**6,715**	**11,401**	**11,291**	**15,261**	**14,942**	**3,718**	**37,384**	**32,948**
Total Heat	**–**	**–**	**4,515**	**4,325**	**14,637**	**12,175**	**–**	**19,152**	**16,500**
Generated electricity, TWh									
Hydro power	–	–	29.1	34.4	2.5	3.0	–	31.6	37.4
Nuclear power	28.3	31.6	–	–	–	–	–	28.3	31.6
Fossil-based power	–	–	7.3	6.2	65.4	66.9	0.6	75.9	73.1
of which, gas	–	–	0.6	0.6	3.5	3.6	0.6	4.7	4.2
of which, lignite	–	–	–	–	50.5	51.5	–	50.5	51.5
of which, hard coal	–	–	6.7	5.5	11.4	11.9	2.6	20.8	17.4
of which, oil	–	–	–	–	–	–	–	–	–
Wind power	1.7	1.6	–	–	–	–	–	1.7	1.6
Biomass, waste	–	–	0.3	0.4	1.1	1.3	–	1.4	1.7
Total Electricity	**30.0**	**33.2**	**36.7**	**41.0**	**68.9**	**71.2**	**3.2**	**138.8**	**145.4**
Heat sales, TWh									
Fossil-based power	–	–	6.0	5.2	26.1	22.4	–	32.1	27.6
of which, gas	–	–	1.2	1.0	5.0	4.0	–	6.2	5.0
of which, lignite	–	–	–	–	4.4	4.6	–	4.4	4.6
of which, hard coal	–	–	4.7	4.1	16.6	13.6	–	21.3	17.7
of which, oil	–	–	0.1	0.1	0.1	0.1	–	0.2	0.2
Biomass, waste	–	–	5.0	5.0	1.1	1.0	–	6.1	6.0
Total Heat	**–**	**–**	**11.0**	**10.2**	**27.2**	**23.4**	**–**	**38.2**	**33.6**
Gas sales, TWh									
Total Gas	**–**	**–**	**0.2**	**0.1**	**1.4**	**0.8**	**22.4**	**24.0**	**0.9**

Electricity balance[1]

Internal generation and electricity input

TWh	2009	2008
Hydro power	33.9	38.5
Nuclear power	41.5	46.2
Fossil-based power	80.4	74.2
Wind power	1.7	1.6
Biomass, waste	1.4	1.7
Total internal generation	**158.9**	**162.1**
Purchased power	59.3	53.8
Spot market	2.0	1.2
Total electricity input	**220.0**	**217.1**
Consumption within the Group	10.2	11.2
Total	**210.0**	**205.9**



Sales

TWh	2009	2008
Nordic countries	56.0	55.7
Germany and Poland	99.1	98.2
Netherlands and Belgium	11.5	–
Other countries	4.9	4.1
Spot market	23.2	31.4
Total electricity sales	**194.6**	**189.3**
Delivery to minority owners	14.5	15.7
Other	0.9	0.9
Total	**210.0**	**205.9**

Comment: Vattenfall's total electricity generation decreased by 2.0% in 2009, to 158.9 TWh (162.1). Of total generation, the acquired company N.V. Nuon Energy accounted for 8.0 TWh. Hydro power generation decreased by 11.9% to 33.9 TWh (38.5), due to lower water supply. Nuclear power generation decreased by 10.2% to 41.5 TWh (46.2). Fossil-based power generation increased by 8.4% to 80.4 TWh (74.2). Wind power generation increased by 6,3% to 1.7 TWh (1.6). The decrease in electricity generation was compensated by purchased power, which increased by 10.2% to 59.3 TWh (53.8).

Comment: Total electricity sales increased by 2.8% in 2009, to 194.6 TWh (189.3). Excluding N.V. Nuon Energy, electricity sales decreased by 3.4%. Sales to the Nordic countries rose 0.5%. Sales to industrial and corporate customers decreased, but were compensated by an increase in sales to retail customers. Sales to Germany and Poland increased by 0.9% to 99.1 TWh (98.2). Sales to Germany increased by 3%, mainly due to higher sales to other counterparties (OTC trading). The increase in OTC sales in Germany also explains the decrease in volume to the spot market.

1) Rounding effects of 0.1 TWh exist for some items. Certain values for 2007 have been adjusted compared with previously published information.

DEFINITIONS AND CALCULATIONS OF KEY RATIOS

Figures for the Group in 2009. 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	=	Capital gains and capital losses from shares and other non-current assets and impairment losses and impairment losses reversed pertaining to non-current assets and other non-recurring items.
Free cash flow	=	Cash flow from operating activities less maintenance investments.
Capital Securities	=	Perpetual subordinated securities, junior to all Vattenfall's unsubordinated debt instruments. 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 are presented as percentages (%) or times (x).

Key ratios based on full year amounts 2009:

Operating margin, %	=	100 x	Operating profit (EBIT) / Net sales	27,938 / 205,407	=		**13.6**
Operating margin excl. items affecting comparability, %	=	100 x	Operating profit (EBIT) excl. items affecting comparability / Net sales	31,294 / 205,407	=		**15.2**
Pre-tax profit margin, %	=	100 x	Profit before tax / Net sales	17,734 / 205,407	=		**8.6**
Pre-tax profit margin excl. items affecting comparability, %	=	100 x	Profit before tax excl. items affecting comparability / Net sales	21,045 / 205,407	=		**10.2**
Return on equity, %	=	100 x	Profit for the period attributable to owners of the Parent Company / Average equity for the period attributable to owners of the Parent Company excl. the Reserve for cash flow hedges	12,896 / 136,229	=		**9.5**
Return on equity excl. items affecting comparability, %	=	100 x	Profit for the period attributable to owners of the Parent Company excl. items affecting comparability / Average equity for the period attributable to owners of the Parent Company excl. the Reserve for cash flow hedges	15,502 / 136,229	=		**11.4**
Return on net assets, %	=	100 x	Operating profit (EBIT) + discounting effects attributable to provisions / Weighted average of net assets for the period	24,540 / 245,016	=		**10.0**
Return on net assets excl. items affecting comparability, %	=	100 x	Operating profit (EBIT) excl. items affecting comparability + discounting effects attributable to provisions / Weighted average of net assets for the period	27,896 / 245,016	=		**11.4**

EBIT interest cover, (x)	=	Operating profit (EBIT) + financial income excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	29,564	=	**3.1**
		Financial expenses excl. discounting effects attributable to provisions	9,620		
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	32,920	=	**3.4**
		Financial expenses excl. discounting effects attributable to provisions	9,620		
FFO interest cover, (x)	=	Funds from operations (FFO) + financial expenses excl. discounting effects attributable to provisions	46,320	=	**4.8**
		Financial expenses excl. discounting effects attributable to provisions	9,620		
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	44,694	=	**5.6**
		Financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	7,994		
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	35,889	=	**4.3**
		Financial expenses excl. discounting effects attributable to provisions and interest components related to pension costs	8,323		
FFO/gross debt, %	= 100 x	Funds from operations (FFO)	36,700	=	**17.2**
		Interest-bearing liabilities	213,494		
FFO/net debt, %	= 100 x	Funds from operations (FFO)	36,700	=	**23.7**
		Net debt	154,987		
EBITDA/net financial items, (x)	=	Operating profit before depreciation and amortisation (EBITDA)	51,777	=	**6.5**
		Financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	7,994		
EBITDA excl. items affecting comparability/net financial items, (x)	=	Operating profit before depreciation and amortisation (EBITDA) excl. items affecting comparability	55,133	=	**6.9**
		Financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	7,994		

Key rations based on the balance sheet per 31 December 2009:

Equity/total assets, %	= 100 x	Equity	142,404	=	**23.7**
		Balance sheet total	602,127		
Gross debt/equity, %	= 100 x	Interest-bearing liabilities	213,494	=	**149.9**
		Equity	142,404		
Net debt/equity, %	= 100 x	Net debt	154,987	=	**108.8**
		Equity	142,404		
Gross debt/gross debt plus equity, %	= 100 x	Interest-bearing liabilities	213,494	=	**60.0**
		Interest-bearing liabilities + equity	355,898		
Net debt/net debt plus equity, %	= 100 x	Net debt	154,987	=	**52.1**
		Net debt + equity	297,391		
Net debt/EBITDA, (x)	=	Net debt	154,987	=	**3.0**
		Operating profit before depreciation and amortisation (EBITDA)	51,777		

VATTENFALL'S HISTORY

Olidan, on the Göta River, was one of the first hydro power stations built between 1909 and 1916 by the newly formed Swedish State Power Board.

1909 The restructuring of the Trollhättan canal and hydro power plant to the 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, 12 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 Avedöre 2. Construction begins of a pilot Carbon Capture and Storage plant in Schwarze Pumpe.

2007 The Lillgrund wind farm, with 48 turbines, is commissioned and begins delivering electricity at the end of the year.

2008 Vattenfall lays out its strategic direction during the autumn – Making electricity clean. This also summarises Vattenfall's climate vision – to be climate-neutral by 2050. In September the world's first pilot CCS plant using oxyfuel technology is inaugurated in Germany. During the autumn Vattenfall acquires several wind power companies in the UK: AMEC Wind Energy Ltd, Eclipse Energy UK Plc, and Thanet Offshore Wind Ltd, the UK's largest offshore wind farm ready for construction.

2009 On 1 July Vattenfall acquires 49% of Dutch energy company N.V. Nuon Energy, with approximately 6,000 employees, and takes over operative control of the company. Consideration for the remaining 51% will be paid by Vattenfall in three tranches in the coming five years. Vattenfall begins collaborations with car makers (BMW and Volvo) on development of electric and plug-in hybrid cars.

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