

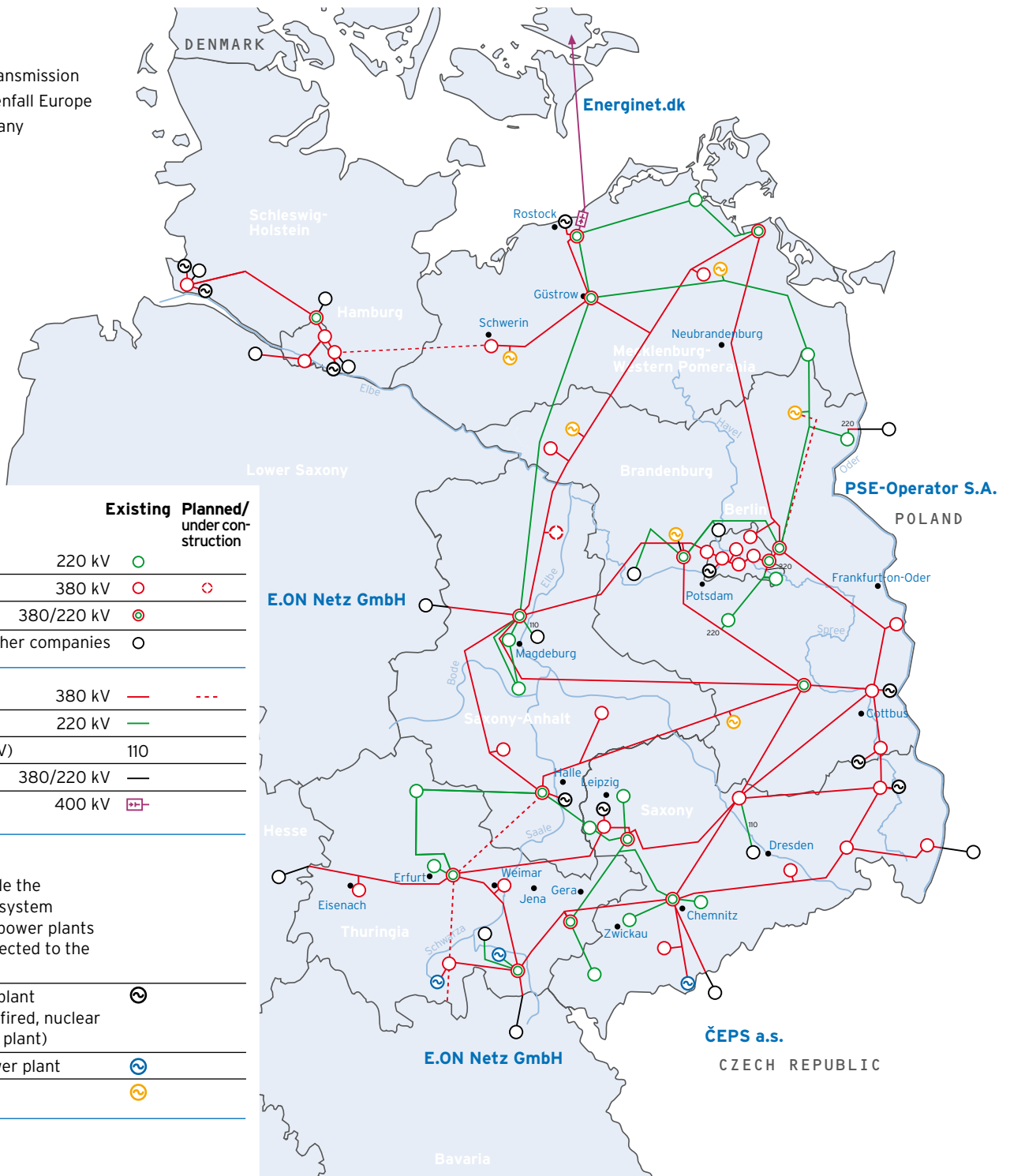
ANNUAL REPORT

2006

Vattenfall Europe Transmission

THE EXTRA-HIGH VOLTAGE SYSTEM OF VATTENFALL EUROPE TRANSMISSION GMBH

The system area of transmission system operator Vattenfall Europe Transmission in Germany



	Existing	Planned/ under construction
Switching station	220 kV	
	380 kV	
	380/220 kV	
Other companies		
Overhead line	380 kV	
Overhead line	220 kV	
Operating voltage (kV)	110	
Other companies	380/220 kV	
HVDCT cable	400 kV	

System users:

Our customers include the regional distribution system operators as well as power plants and wind farms connected to the transmission system.

Conventional power plant (lignite- or hard-coal fired, nuclear or gas turbine power plant)	
Pumped-storage power plant	
Wind power plant	

As at: End of 2006

AT A GLANCE

2006

Sales revenues	€ m	2,682.5
Use-of-system charges	€ m	614.3
Renewable Energies Act/Income and expenses	€ m	1,842.1
Combined Heat and Power Act/Income and Expenses	€ m	287.5

Balance sheet total after deduction of the special loss account	€ m	1,762.7
Economic equity	€ m	681.6
Net profit for the year before transfer	€ m	47.0
Cash flow from operating activities	€ m	125.1

Fixed assets	€ m	1,211.3
Investments	€ m	54.3
Depreciation	€ m	90.7

Maximum network load	MW	15,027
Electric circuit length	km	9,540

Staff - annual average	Number	488
Staff at 31/12	Number	494
Personnel expenses	€ m	34.9

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SUPERVISORY BOARD AND MANAGEMENT

Members of the Supervisory Board

Mats Fagerlund	Member of the Management Board of Vattenfall Europe AG, Berlin, Member of the Group Management of Vattenfall AB, Stockholm – Chairman –
Hans-Jürgen Schmidt *	Regional District Head Northeast of the Industrial Trade Union IGBCE (mining, chemical & energy industry) – Vice Chairman –
Alfred Geißler	Member of the Management Board of Vattenfall Europe AG, Berlin
Frank Hörnlein *	Electrical engineer
Dr. Lutz Pscherer *	Electrical engineer
Dr. Klaus Rauscher	Chairman of the Management Board of Vattenfall Europe AG, Berlin, Member of the Group Management of Vattenfall AB, Stockholm

Members of the Management

Jürgen Grieger	Commercial Managing Director
Wolfgang Neldner	Technical Managing Director

* Employee representative

REPORT OF THE SUPERVISORY BOARD FOR 2006

In the past financial year, the Supervisory Board fully assumed the responsibilities assigned to it by the law and the Articles of Association. It oversaw the work of the Management and provided assistance as well as advice. As in previous years, the Supervisory Board was directly involved in all decisions of fundamental importance for the Company.

Three regular and one extraordinary meetings of the Supervisory Board were held in financial year 2006. In these meetings, the Management provided written and verbal reports about the course of business operations, the Company's business situation, strategy and business planning on a timely basis, in detail and in compliance with legal requirements. In the run-up to the meetings, the Supervisory Board received briefing papers in accordance with the agenda. These papers, as well as supplementary information requested in and out of meetings, allowed the Supervisory Board to assume its supervisory responsibilities in a well-targeted manner. Variations of business performance and profits compared to the plans and targets were explained in detail, and reviewed by the Supervisory Board on the basis of the papers submitted. Specific matters were also discussed out of meetings. The Management additionally maintained a regular exchange of information and ideas with the Supervisory Board Chairman, keeping him informed e.g. on current developments of the business situation, important business transactions and occurrences, and upcoming decisions. The Supervisory Board passed its votes on the decisions proposed by the Management following profound reviews and deliberations, in particular where this was specifically required by relevant laws or the Articles of Association. All Supervisory Board members participated in the Supervisory Board meetings of the year 2006.

The Supervisory Board also supported the Company in meeting its legal obligations, e.g. with regard to non-discriminatory exercise of the network business and cooperation with the regulator Bundesnetzagentur (Federal Network Agency). Approval procedures, incl. e.g. the procedure for approval of use-of-system charges by the regulator, were of central importance in this context.

Further topics included support to the Management in the cooperation with other European system operators at the level of international boards and organizations, and in collaborating with the authorities having responsibility on the basis of the relevant ordinances.

Statutory auditors PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, had been mandated by the Supervisory Board to audit the 2006 annual financial statements pursuant to a decision taken at the Shareholders' Meeting. The annual financial statements prepared by the Company, including the book-keeping system, as well as the management report were audited, and as a result given an unqualified audit certificate by the mandated auditor. In connection with the audit of the annual financial statements, the Company's risk early warning system was reviewed and confirmed.

The annual financial statements and the management report for 2006, as well as the statutory auditor's audit report, were made available to all Supervisory Board members in good time. The annual statements were discussed in detail in the presence of, and following a report given by, the statutory auditor in the Supervisory Board meeting on 21 March 2007.

The annual financial statements and the management report for 2006 were reviewed by the Supervisory Board. No objections are raised against this report and the declarations of the Management contained therein. The Supervisory Board therefore endorses the audit result reached.

The Supervisory Board expresses its thanks to the Management, the Works Council members and all employees for their work and commitment in financial year 2006.

Berlin, March 2007

On behalf of the Supervisory Board



Mats Fagerlund
(Chairman)

MANAGEMENT REPORT

1. BUSINESS OPERATIONS AND BUSINESS ENVIRONMENT

Vattenfall Europe Transmission GmbH (VE Transmission) operates the transmission system of the Vattenfall Europe group at the voltage levels 220 kV and 380 kV. The system extends across the east German Federal states, Berlin and Hamburg and has a circuit length of approx. 9,500 km. The Company's customers include the distribution system operators (DSOs) of the regional electricity companies operating in the control area of VE Transmission and directly connected to the extra-high voltage system, the operators of power plants and wind farms feeding into the transmission system, transit customers, balancing group customers and customers feeding energy into the network under the German Renewable Energies Act (EEG) and the Combined Heat and Power Act (CHP Act).

As a transmission system operator (TSO) responsible for a control area, VE Transmission is in charge of providing the system at maximum safety and security levels, low prices, and in a user-friendly, efficient and environmentally friendly way, as well as for ensuring the overall balance of generation and consumption within the entire electricity system. In doing so, Vattenfall Europe Transmission guarantees free access to, and non-discriminatory use of, its transmission system. Vattenfall Europe Transmission as an independent legal entity meets the Unbundling requirements by maintaining clear-cut contractual relationships to the other companies of the Vattenfall Europe group. A non-discrimination programme has been published and is being practised.

Due to the central location of its network, VE Transmission has an important function in European electricity trading, connecting:

- the Danish, Polish, Czech and German networks,
- the European mainland to Scandinavia, and
- the interconnection organisations UCTE and NORDEL.

In accordance with the EEG, VE Transmission ensures take-off of all renewable energy-based production in the control area and its immediate transport, its Germany-wide distribution and the operations to balance variations in feeding in compliance with the requirements.

Legal framework of the energy industry

The regulations governing system operation are contained in the "Second Act on New Regulation of the Energy Industry Act" (EnWG 2005), the ordinances pertaining to it, like the "Ordinance on Access to Electricity Supply Systems" (StromNZV) and the "Ordinance on Charges for Access to Electricity Supply Systems" (StromNEV), and in the "Act on the Priority of Renewable Energies" (EEG 2004).

The First Act on Amendment of the Renewable Energies Act (EEG 2006) became effective on 01 December 2006. It has had repercussions on the way VE Transmission is managing its EEG operations (e.g. as a result of the requirement to settle the bills of EEG feeding for each individual generation asset) and on the volume of data to be published under the transparency regulations.

Another law promulgated in December 2006 was the Act on Acceleration of Infrastructure Planning. This act also amended the Energy Industry Act (EnWG). On the one hand, legal instruments are implemented which are designed to accelerate the plan approval procedures and expropriation procedures for the construction of overhead power lines. No general necessity to build parts of the extra-high voltage system in the form of underground cabling is stipulated, especially because the law states that construction has to be economically reasonable. On the other hand, the law declares that the TSOs are responsible for building interconnecting lines to hook up offshore wind farms, provided construction of the latter commences before 31 December 2011. This provision commits VE Transmission and other operators to build and operate such connecting lines at sea. The costs of erec-

tion and operation of the lines will be shared between the German TSOs as laid down in the CHP Act.

Moreover, the Federal Ministry of Economics amended the General Terms and Conditions for the Supply of Electricity (AVBEltV) and is currently working on further ordinances.

The EU Commission adopted an amendment to the Regulation on the Conditions of Access to the Power System for Cross-Border Electricity Trading on 09 November 2006. New guidelines accompanying this regulation lay down the details of methods for congestion management of cross-border interconnection capacity to ensure effective access to the transmission systems. This implies, among other things, that the methods used in congestion management have to send efficient economic signals to the market players and TSOs, and have to be conducive to competition. Additionally, more far-reaching information duties for the TSOs have been introduced to improve transparency. VE Transmission closely cooperates with the regulators involved and other TSOs to support, and assist in, the resulting implementation of these duties.

System provision

In financial year 2006, VE Transmission consistently provided and operated its network in accordance with applicable standards and in an economically appropriate way. The impacts resulting from technical faults and weather-related disturbances were under control to the largest possible extent, so that the operability of the transmission system was ensured in the course of 2006.

The effects of an exceptional weather-related situation (tornado) in the Hamburg area caused a limitation of the transmission capability in this sub-system from 27 March to 21 April 2006. Because of a further weather-related disturbance occurring on 31 December 2006, the submarine cable of the Kontek d.c. connection between the control areas of VE Transmission and Energinet.dk was severely damaged by third-party impact so that this connection would remain unavailable for several weeks. Assuming its responsibility as

system operator under section 13 EnWG, VE Transmission instigated the immediate remediation of the defects.

VE Transmission has received numerous inquiries from customers regarding hooking up planned conventional power plants and (on- and offshore) wind farms to the transmission system. These are being processed according to a standardised, non-discriminatory procedure. In 2006, several feasibility studies for network hook-up of conventional power plants, and reviews of the potential for network hook-up of offshore wind farms, were completed by mutual agreement with the customers. Efficient and sustainable solutions for connection to the system and for partly necessary network extensions are devised in close collaboration with the customer.

Coordinated system planning with neighbouring TSOs, as well as with the connection customers (distribution system operators, power plant operators), is very important for VE Transmission. A phased process ensures that the projects are closely agreed between all system operators. Besides coordinated system planning in the scope of the UCTE activities, coordination in the recently defined European regions is of great significance. With a view to the enhanced requirements being made on the transmission system, VE Transmission places its focus on extending the system without delay. The traditionally close coordination with the neighbouring TSOs at bilateral and multilateral level is continued. This applies equally to exchanges with directly connected and future customers.

With a view to unresolved issues concerning the integration of renewable energies into the power supply system, VE Transmission participates in German and European integration studies like the "European Wind Integration Study (EWIS)". The "dena II" study, a study on system integration of generators using renewable resources which is due to be launched in 2007, is also actively supported by VE Transmission. Further activities include the search for solutions to ensure effective generation management, a factor in-

dispensable to system security. These efforts are pursued in collaboration with the industry associations, and in some cases also directly with companies of the renewable electricity industry.

Maintenance of the net asset base of the network was ensured by investments and maintenance works in line with the respective requirements. Against the backdrop of ever more challenging requirements being made on the transmission system with a view to long-distance transport of renewable energy (pursuant to the EEG) and unhindered pan-European electricity trading (according to EU requirements), the focus of investment activities in 2006 was again on network reinforcement works and the preparation of ample network extension projects. Future investment projects will have to take the numerous inquiries for network connection of planned conventional power plants and wind farms into account in both planning and implementation.

In 2006, a new substation in the northwest of the system territory which exclusively serves the purpose of absorbing renewable-based energy was completed and commissioned. The approval procedures for new overhead lines in the north and southwest of the system territory have made further progress. An approval procedure has been opened for a new overhead line in the east of the system territory. All approval procedures have to overcome considerable problems with acceptance by the general public. We provide comprehensive education and explanations to the municipalities and citizens, mostly in a community context.

System control

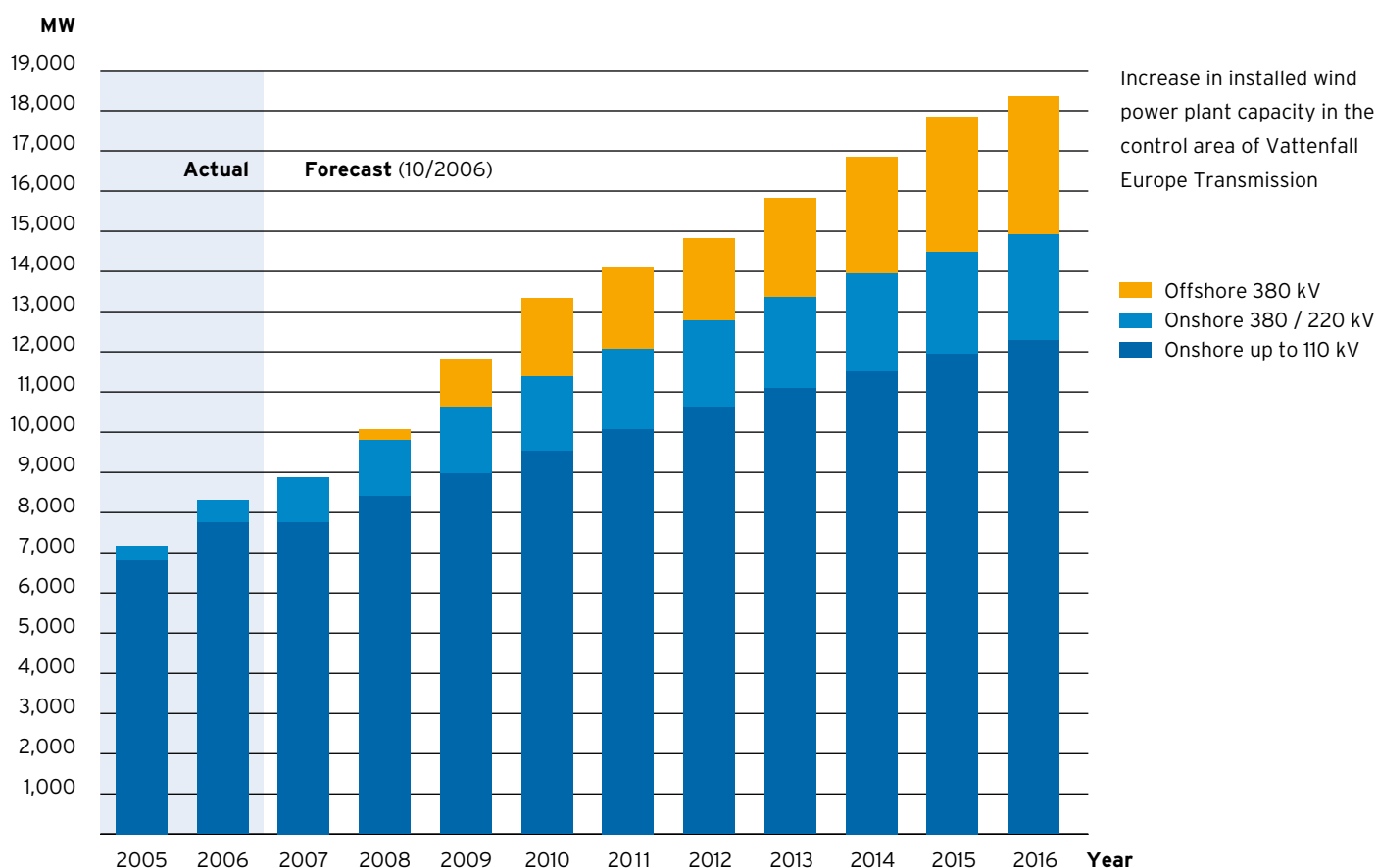
System control in the Company's control area was performed in line with all requirements and standards. The required control power was procured via tendering procedures. In addition, imbalance power had to be kept available, and an increasing volume of EEG balancing transactions had to be carried out on the basis of market mechanisms, to ensure energy fed in from EEG units was transferred as required.

The installed capacity of wind power generation in the VE Transmission control area reached 8,310 MW at year-end 2006 (which is equivalent to 41 per cent of all capacity installed in Germany). The installed wind power therefore rose by 1,150 MW, i.e. 16 per cent versus year-end 2005, which means no downward trend in the erection of new EEG units has yet come into sight for the control area of VE Transmission. Against this backdrop, the key challenge was to flexibly adjust control of the considerable fluctuations in wind power feeding so that the German and European system security was consistently guaranteed. The maximum reached in terms of simultaneous feeding from wind power plants in the VE Transmission control area during the financial year was 6,533 MW on 01 November 2006. To manage such situations, VE Transmission enforced an operational concept for the assumption of system responsibility on 13 June 2006. This concept describes the cooperation with all customers connected to the transmission system in situations where risks have to be averted, or faults remedied, in the electric system.

On the basis of this concept, a reduction of power feeding according to section 13, subsection 2 EnWG became for the first time necessary, and was performed on 31 December 2006 in order to safeguard the system security in the control area after – in a situation of high wind power feeding and low load on the system – all possible network- and market-related responses provided for by section 13, subsection 1 EnWG had been fully exhausted.

Cooperation between the German and neighbouring foreign TSOs has now been enhanced by a complete set of agreements on emergency assistance guaranteeing mutual help in critical situations. On the basis of these agreements, VE Transmission provided assistance to the Polish and Czech TSOs on several occasions in summer.

On 04 November 2006, the largest ever incident within UCTE occurred outside our control area in



the continental European grid. Its repercussions also affected the VE Transmission system. The entire UCTE grid fell apart into three sub-systems with different frequencies. No system fault occurred in the VE Transmission control area (which was characterised by a high frequency), so that no material outage of generation or supply was caused. The concentrated work of the operating staff in our central control room contributed to the fact that the sub-systems were re-connected as early as after about 40 minutes.

As far as the procurement of imbalance power is concerned, several changes resulted from the need to comply with requirements stated in the EnWG and ordinances. For example, all four German TSOs presented to regulator Bundesnetzagentur (BNetzA) a method for joint procurement of control energy that had been developed within a short period of time and in close coordination with the market partners. After it had been adjusted and adopted by the authority, the method for procurement of minutes reserve was the first one to be implemented by the German TSOs on 01 December 2006. BNetzA is expected to issue similar regulations for primary and secondary control in 2007.

Energy volumes required by VE Transmission to cover physically caused system losses had so far been exclusively procured in the wholesale market. The first public tender procedures were carried out in 2006

to cover part of the requirements for the years 2007 and 2008 in the form of annual profiles.

System use

The requirements of the new Energy Industry Act and the Ordinance on Charges for Access to Electricity Supply Systems (StromNEV) had to be complied with for the first time when the use-of-system charges for 2006 were calculated. VE Transmission filed a corresponding rate case with BNetzA for the year 2006 at the end of October 2005. The authority had to take its decision on approval within six months.

Until the time the six-month term for approval had expired, the use-of-system price for 2005 had still been used (on the basis of the capacity rate and individual demand factors). As no legally binding notice had been received from BNetzA by the time of expiry of the stipulated approval period, the applied-for prices became effective on 03 May 2006 based on the concept of the so-called “fiction of approval”. They were invoiced for use of the system until 30 June 2006. These prices were at the same level as before, although capacity and energy prices were calculated in compliance with the ordinance on the basis of a forecasted sales structure.

As the rate case approval granted by BNetzA mandated a distinct reduction versus the envisaged prices,

VE Transmission lodged an appeal before the Düsseldorf Higher Regional Court, the court of appeal having jurisdiction in this matter. An initial result of these expedited proceedings was that the approval did not take retroactive effect – as intended by BNetzA – for the period 01 November 2005 to 30 June 2006. The validity of the regulated prices for the period commencing on 01 July 2006, in contrast, was not reversed by the court. In response, the Company charged the prices fixed by BNetzA in its notice dated 06 June 2006 during the period 01 July 2006 to the end of the year. The corresponding proceedings in the main action are still pending.

With a view to the necessary price adjustments to customer contracts resulting from the new EnWG and the related Ordinances on Access to Electricity Supply Systems and on Charges for Access to Electricity Supply Systems (StromNZV and StromNEV, respectively), the talks with network customers which had started at an early time were continued, and the first agreements on adjustments were signed.

Cross-border electricity trading

The European initiatives for promotion of cross-border electricity trading and the establishment of regional markets are actively supported by VE Transmission.

In the Central and Eastern European region where the cross-border lines to the Czech and Polish transmission systems are relevant, the joint procedure for award of limited transmission capacity via coordinated explicit auctions was continued on the basis of years, months and days, with CEPS, PSE-Operator, E.ON Netz and SEPS being involved. In close coordination with the TSOs and regulators of the region, investigations into a future, load-flow based method were launched to further improve the harmonisation of electricity trading activities and system security.

In the Northern European region to which VE Transmission is connected via the Kontek d.c. link, a test of the so-called market coupling procedure, a method

for award of capacity allocation for congestion management which had begun in October 2005, was continued.

Balancing group management

At the end of 2006, approx. 270 balancing groups were maintained and billed for the traders and electricity sales organisations operating in the VE Transmission control area. The two-month period envisaged by StromNZV for balancing group billing is respected.

VE Transmission proactively supports the implementation of standardised balancing group contracts and billing processes as pursued by BNetzA for nationwide application. VE Transmission participated in preparing proposals for BNetzA for this purpose, and in agreeing them between the respective companies.

Management of the business under the EEG/CHP Acts

The total volume of EEG electricity absorbed by the system in our control area reached 15.4 TWh in 2006 (previous year: 13.4 TWh). After taking into account the EEG electricity purchased from other TSOs (3.5 TWh) and delivered to them (9.5 TWh), a total 9.4 TWh EEG electricity had to be delivered to traders and electricity sales organisations supplying final customers in the control area. For the first time, a nationwide monthly forecast of the volume of EEG electricity and, on this basis, a monthly calculation of deliveries to utilities supplying final customers were performed in this financial year. This approach aims to minimise the time interval between feeding and delivery of renewable energies.

The German TSOs jointly retained Institut für Energie und Umwelt Leipzig (IE Leipzig) (Leipzig Institute for Energy and the Environment) and Internationales Wirtschaftsforum Regenerative Energien (IWR) (International Economic Forum for Renewable Energies) to achieve improvements in the quality of forecasting of renewable-based power generation. The results of this cooperation will be used to en-

hance the current generation forecasts for the year 2007 and the annual forecasts for the ensuing years to minimise the costs of imbalance energy.

VE Transmission is currently conducting talks with many partners to drive forward the integration of all types of renewable energies, including the future option of biomass-based energy and off-shore wind energy. Upholding the requirements of reasonably acceptable economics and security of the system deserves due attention in this context.

Previously unresolved litigation arising from the forerunner of the EEG, the so-called Electricity Feeding Act, was definitively resolved in the ended financial year. In the scope of the procedure for burden sharing between the TSOs in compliance with the CHP Act of 12 May 2000 (the so-called Interim CHP Act), payments of approx. € 80 million were shared between the TSOs after further disputes had been settled by judgments having the force of *res judicata*. All litigation concerning the VE Transmission control area has now been settled, with the exception of the pending lawsuit instigated by industrial power plant operator KWG Stassfurt GmbH and some cases concerning relatively small volumes.

Human resources

On 31 December 2006, VE Transmission had 494 employees and 22 apprentices, with the average age being 43.0 years, and the share of female employees 21.3 per cent. The percentage of employees on part-time contracts was three per cent, and 5.9 per cent of our employees worked in multiple shift operation. The Company employed 18 severely handicapped employees and employees with a similar status at year-end, which is equivalent to a share of around 3.6 per cent.

In comparison with the previous year (31/12/2005: 508 employees and 20 apprentices), the headcount reduced by 14 persons. This net headcount development is the aggregate result of 47 leavers and 33 joiners.

Slightly over 50 per cent of the leavers in 2006 departed on the basis of company early retirement and semi-retirement schemes (24 persons).

The Company's HR development programme gave five young people the opportunity to start a traineeship in 2006.

The 22 apprentices are trained in both technical and commercial occupations. All four apprentices finishing their training in 2006 were taken over into full employment on contracts limited to one year.

2. BUSINESS SITUATION

Sales volumes and revenues

In financial year 2006, VE Transmission transported approx. 83 billion kilowatt-hours (kWh) electricity (previous year: 85 billion kWh). The maximum network load was reached on 21 November 2006 at 15,027 MW (previous year: 15,176 MW).

VE Transmission's sales revenues amounted to € 2,682.5 million (previous year: € 2,283.2 million) in financial year 2006. Of this amount, € 1,842.1 million (previous year: € 1,526.6 million) was accounted for by electricity sold under the EEG, and € 614.3 million (previous year: € 612.5 million) by network revenues. The lion's share of the € 399.3 million (17.5 per cent) increment in sales revenues is due to rising renewable-based electricity deliveries. The price-related decrease in vertical network revenues was compensated by a distinct increase in horizontal revenues.

The revenues from balancing group management at € 85.4 million (previous year: € 40.8 million) nearly doubled in the financial year. Most of this increase is attributable to the cost of imbalance energy that is apportioned and passed on to the traders and electricity sales organisations operating in the control area via balancing group settlement. The balancing item for these passed-on costs, i.e. the cost of procurement of control energy, is correspondingly higher.

Other operating income amounted to € 359.7 million (previous year: € 430.2 million), with € 287.5 million (previous year: € 302.1 million) relating to income from burden sharing under the CHP Act which is matched by corresponding expenses.

Expenses and income

The € 2,989.8 million (previous year: € 2,683.7 million) operating expenses continue to be nearly 75 per cent (€ 2,192.5 million, previous year: € 1,888.4 million) defined by the expenses under the EEG (€ 1,842.1 million) and the CHP Act (€ 350.4 million) which match with identical revenue items resulting from the passing-on of costs. Additionally, the expenses for balancing stochastically fed-in wind energy amount to € 186.3 million (previous year: € 148.8 million) which – after netting with the corresponding € 56.3 million revenues from sales of imbalance energy (previous year: € 35.3 million) – aggregate to a net expenditure item of € 130.0 million (previous year: € 113.5 million).

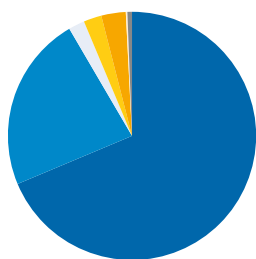
Expenses for purchasing system support services rose to € 182.6 million in the financial year. This increment has to be squared with € 5.5 million revenues from the passing-on of costs to other TSOs. The ex-

penses for balancing network losses at € 82.1 million is approximately at last year's level. A total € 45.4 million was spent on maintenance of the TSO assets (previous year: € 45.9 million).

Personnel expenses (€ 34.9 million) have remained nearly unchanged over the previous year (€ 34.6 million). Depreciation, on the other hand, increased to € 90.7 million (previous year: € 63.5 million) after transmission system assets in Berlin and Hamburg had been transferred to VE-T effective 01 January 2006.

The income before interest and taxes amounts to € 53.4 million (previous year: € 31.9 million). After the cost of penalty interest for previously disputed liabilities under the CHP Act was passed on, the net interest result improved versus last year, reaching € -6.3 million (previous year: € -10.7 million). The € 47.0 million net profit transferred to the shareholder contains an income tax element (previous year: € 11.4 million taxes on income, profit € 9.6 million profit).

Besides the operating profit, a further variable used for control of the Company is the performance indicator of controllable cost per equivalent power line kilometre.



Sales revenues 2006

■ EEG electricity supplies	€	1,842.1 million
■ Use-of-system charges	€	614.3 million
■ EEG imbalance energy	€	56.3 million
■ Electricity supplies CHP Act	€	62.9 million
■ Balancing group management	€	85.4 million
■ System support services to other TSOs	€	5.5 million
■ Other sales revenues	€	16.0 million
		€ 2,682.5 million

Net assets and financial position

Following the transfer of title for the previously leased transmission system assets in Berlin and Hamburg to VE Transmission with effect from 01 January 2006, the balance sheet total increased nearly € 500 million versus the previous year. Economic equity increased by around € 440 million. The economic equity ratio which includes the equity share of special items and excludes the special loss account according to the DM Balance Sheet Act (DMBilG) increased to 38.7 per cent (previous year: 19.1 per cent). Tangible fixed assets (€ 1,211.3 million) still accounts for about two thirds of the Company's assets, and is now covered by economic equity at a rate of over 50 per cent (previous year: around one third).

Accounts receivable increased by nearly € 100 million in comparison with the previous year, while provisions also rose, mainly those originating from management of the EEG business.

Most of the € 85.9 million increase in cash flows from operating activities to € 125.1 million results from the absence of rent payments to Vattenfall Europe Berlin AG & Co. KG (VE Berlin) and Vattenfall Europe Hamburg AG (VE Hamburg) as a result of the devolution of assets as of 01 January 2006.

After taking account of the construction cost subsidies (€ 13.3 million), € 40.0 million cash (previous year: € 56.9 million) was used for investments. € 295.0 million midterm shareholder loans were repaid in the financial year. Follow-up financing was secured by raising a new € 220.0 million loan, and, otherwise, via the overdraft facility provided by the shareholder.

Participations

Vattenfall Europe Netcom GmbH operates its business in the field of design & build as well as operation of telecommunication systems and networks, and renders telecommunication and other related services. The company generated a net income of € 3.8 million (previous year: € 2.7 million) on sales revenues that increased to € 17.9 million (previous year: € 17.5 million) in the financial year. This net income was fully transferred to VE Transmission on the basis of an Agreement on Profit & Loss Transfer. VE Netcom had an average 88 (previous year: 92) employees in the financial year.

3. IMPORTANT EVENTS IN THE NEW FINANCIAL YEAR 2007

A sustained hurricane with tornado force squalls in some areas began to rage in the late hours of 18 January 2007. The hurricane that was given the meteorological name “Cyril” wreaked severe havoc, mainly in a corridor reaching from the central German Harz mountains to the Czech Republic. The assets affected

included extra-high voltage lines operated by VE Transmission, with some towers being entirely or partly damaged.

Immediate field assignments of staff held on standby, and close cooperation with the local distribution system operators and the authorities having responsibility, helped limit the interruptions of supply caused in the Magdeburg area to just a few hours. Right after that, security precautions were taken, and maintenance works started. It is anticipated that the required maintenance expenditure will detract from the 2007 profits.

After the risks and opportunities inherent in the pending proceedings on appeal against the rate case notice for 2006 issued by regulator BNetzA on 06 June 2006 had been once more weighed, and in consideration of the rate case notice for 2007 dated 20 December 2006, the Company decided to partly withdraw the appeal. Aspects that are not covered by the partial withdrawal, and therefore continue to be the subject matter of the proceedings on appeal conducted before the Düsseldorf Higher Regional Court, include the methodology of calculation of returns on equity (the so-called “double quotation”) and of trade taxes on earnings, as well as the retroactive effect of the notice envisaged by BNetzA.

No further events of material importance for VE Transmission had occurred by the time the annual financial statements were signed.

4. RISK REPORT

In application of the Risk Instruction of VE Transmission, the Company’s business risks are regularly recorded, assessed and monitored by the respective risk owners on the basis of standardised procedures. The respective value-at-risk figures are calculated working from a scenario-based assessment of risks by their potential amount of loss and probability of occurrence. As the risk monitoring system differentiates between the relevance of the individual risks, and as the respective risk information is integrated

into internal reporting, the documentation of risks also helps to ensure rationalised and sustainable management of the Company and its operations.

It became evident in the reporting year that the regulatory risks deserved particular attention. The approved use-of-system charges for 2007 were recently confirmed by BNetzA in its notice dated 20 December 2006. Despite the considerable increase of approved use-of-system charges over the rates approved for the second half of 2006, profits for financial year 2007 are expected to drop with a view to the predicted trend in costs.

The prospect of incentive regulation being introduced, in all likelihood, in 2009 suggests that insufficient returns on capital employed resulting from regulatory action remain a considerable business risk. This risk applies both with a view to previously made investments and to investments needed in future to safeguard the security of supply. The regulatory risk culminates in the question to what extent the sales revenues endorsed by BNetzA will be sufficient to cover the cost incurred in a given year, much of which is not controllable by the Company.

Permanent economic risks reside in the year-by-year increase in the cost of balancing the fluctuating input of renewable energies, and in the procurement of control power and energy for recovering network losses. With a view to the price peaks observed in late 2005, e.g. in the market for minutes reserve, short-term monitoring of electricity price related risks was reinforced, and the procurement strategy modified, as early as at the beginning of 2006. At the time the German TSOs started to jointly tender their daily procurement of minutes reserve based on a procedure mandated by regulator BNetzA, considerable price peaks reoccurred in December 2006 and continued into the following year, although at a somewhat reduced amplitude. VE Transmission has, together with the other TSOs, put forward proposals to BNetzA for adjustment of the procedure so that similar price peaks can in future be avoided.

In order to reduce the dependence on short-term price fluctuations, the price for EEG energy deliveries committed to in 2005 and due in 2007 has been hedged. Furthermore, a major share of the required loss energy for the years 2007 and 2008 has been publicly tendered following consultation with BNetzA in this regard.

The responsibility VE Transmission has pursuant to the Infrastructure Planning Acceleration Act, i.e. to build and operate connection lines to hook up offshore wind farms, involves both technical and financial risks, especially with a view to the volume of the required investment funds. Implementing this law will therefore require clear regulations to ensure that the costs which are certain to be incurred are indeed recognised in both the calculation of use-of-system charges as well as in potential adjustments to previously approved use-of-system charges during a given year.

Enforcement of the follow-up ordinance to AVBeltV, the General Terms and Conditions for the Supply of Electricity, in November 2006 exposed the distribution system operators to tighter rules for liability in the event of failures of supply. Both the effects expected after enforcement of the new liability rules, and potential responses designed to mitigate these effects, are currently under review (insurance cover). Should this cause considerable additional charges to system operators, this would entail rising costs and a corresponding impact on use-of-system charges.

Additionally, the Company is exposed to technical risks inherent in the transmission system which are mitigated by a well-targeted maintenance strategy, and limited in their financial implications by the existing insurance cover.

A special aspect concerns the legal obligation to assume system responsibility for the transmission of electrical energy as the TSO's contribution to a safe, secure and reliable energy supply system. Against the background of the considerable – and further increasing – influence of volatile wind power, the focus is

here on consistently ensuring the system's balance between generation and consumption.

The Company's IT systems and applications are regularly audited and evaluated in application of the existing IT security instructions. In addition, the IT applications were checked from the angle of data protection and their non-discriminatory nature in 2006.

The adequacy and effectiveness of the risk management system is regularly audited, including for compliance with legal requirements.

5. LOOKING AHEAD

In the interest of ensuring the security of supply as required by the relevant EU Directives and the Energy Industry Act (EnWG), VE Transmission will continue to invest in extensions of the networks. Completion of these projects will facilitate channelling the superproportionately high volumes of EEG electricity fed into the system in the VE Transmission control area to regions with less EEG feeding. This will also help to meet the UCTE requirements for safe European grid operation and the stipulations of the German legal framework for safe and secure operation of the control area. Further works for reinforcement and extensions of the networks will be necessitated by the numerous inquiries for connection of conventional power plants and offshore wind farms to the system. Especially the latter are likely to require considerable investment volumes as the Infrastructure Planning Acceleration Act puts VE Transmission under the obligation to install lines hooking up offshore wind farms construction of which starts before 31 December 2011. The related offshore extensions to the transmission system represent a new challenge to the Company.

While the costs of actual network operation – i.e. of maintenance, personnel, administration and operation – are unlikely to show large variations in 2007 versus 2006, the costs of system support services, en-

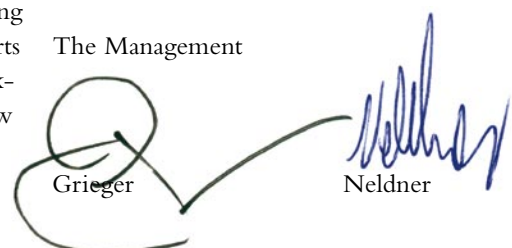
ergy for network losses and EEG balancing are highly exposed to movements in electricity prices and the projected further increase in wind energy feeding, and are therefore difficult to forecast since these parameters are very volatile. Across the board, it can be said that the systematically rising costs of EEG balancing are likely to trigger further increases in network tariffs.

Based on the price approval for use-of-system charges to be granted by BNetzA for 2008, the prices for 2009 and the following years are planned to be approved under an incentive regulation scheme. The specific features of the TSO (e.g. system responsibility according to section 13 EnWG, maintenance of system stability, management of EEG balancing) have to be taken into account and reflected in proper regulation of the procedure. The BNetzA report on incentive regulation of 30 June 2006 maps this requirement at least in part. Incentive regulation will be key to the future cost/revenue ratio of the Company and the desired market-based returns on capital employed.

VE Transmission will remain committed to meeting its statutory responsibilities for electricity transmission in its control area, for the promotion of renewable energies and of the European single market, at a high quality and in its customers' interest, and thereby contribute to the availability of a safe and secure electricity supply system. The Company this way contributes to climate protection and economic development, especially in the eastern German economic area.

Berlin, 15 February 2007

The Management



Grieger

Neldner

FINANCIAL STATEMENTS

Balance sheet as at 31 December 2006 (in € million)

ASSETS

	Notes	31/12/2006	31/12/2005
Fixed assets	(1)		
Intangible assets		36.7	36.5
Tangible assets		1,172.7	768.8
Financial assets		1.9	2.0
		1,211.3	807.3
Current assets			
Inventories	(2)	1.5	2.2
Accounts receivable and other assets	(3)	545.7	447.1
Liquid funds		0.1	-
		547.3	449.3
Prepaid expenses		4.1	11.9
Special loss account from formation of provisions	(4)	4.5	4.8
		1,767.2	1,273.3

SHAREHOLDER'S EQUITY AND LIABILITIES

	Notes	31/12/2006	31/12/2005
Shareholder's equity	(5)		
Share capital		200.0	150.0
Capital reserve		455.8	69.7
Revenue reserves		0.0	0.0
		655.8	219.7
Special items	(6)	43.3	40.6
Provisions	(7)	446.8	320.9
Liabilities	(8)	535.8	612.9
Deferred income		85.5	79.2
		1,767.2	1,273.3

Profit and loss account (in € million)

	Notes	2006	2005
Sales revenues	(9)	2,682.5	2,283.2
Change in inventories		-0.5	0.7
Other internally produced and capitalised assets		1.5	1.5
Other operating income	(10)	359.7	430.2
Cost of materials	(11)	-2,467.6	-2,068.5
Personnel expenses	(12)	-34.9	-34.6
Depreciation	(13)	-90.7	-63.5
Other operating expenses	(14)	-396.6	-517.1
Financial result	(15)	-6.3	-10.7
Result of ordinary activities		47.1	21.2
Other taxes		-0.1	-0.2
Profit transferred according to the Profit and Loss Transfer Agreement (2005 incl. tax allocation)		-47.0	-21.0
Net profit for the year		-	-

Cash flow statement (in € million)

	Notes	2006	2005
Result of the period before profit transfer		47.0	21.0
Depreciation of fixed assets		90.7	63.5
Increase in provisions		125.2	11.4
Loss from disposal of fixed assets		0.9	0.4
Income from disposal of fixed assets		-0.1	-0.9
Other expenses and income not affecting cash		6.2	5.1
Increase in inventories, trade accounts receivable and other assets		-102.8	-63.4
Increase in trade accounts payable and other liabilities		-42.0	2.1
Cash flow from operating activities	(16)	125.1	39.2
Proceeds from disposal of intangible and tangible assets		0.1	2.2
Payments for investments in intangible and tangible assets		-53.5	-63.2
Proceeds from construction cost subsidies		13.3	4.0
Proceeds from disposal of financial assets		0.1	0.1
Cash flows from investing activities		-40.0	-56.9
Proceeds from financial loans raised		257.0	100.0
Repayments of financial loans		-295.0	-61.3
Payments for profit transfer to shareholder		-47.0	-21.0
Cash flows from financing activities		-85.0	17.7
Net changes in cash funds		0.1	-
Cash funds as at 01 January		-	-
Cash funds as at 31 December	(17)	0.1	-

Movements in fixed assets (in € million)

	Acquisition and/or production costs					31/12/2006
	01/01/2006	Transfer	Additions	Book transfers	Disposals	
Intangible assets						
Software, licences, other asset rights	4.6	1.0	1.4	35.9	2.9	40.0
Advance payments	35.9	-	-	-35.9	-	-
	40.5	1.0	1.4	-	2.9	40.0
Advance payments						
Land, rights equivalent to land and buildings incl. buildings on third-party land	71.6	35.4	0.7	0.1	2.6	105.2
Plant and machinery	1,661.3	618.8	31.1	19.2	11.4	2,319.0
Office equipment and fixtures	52.3	1.6	1.0	0.3	2.5	52.7
Advance payments and assets under construction	29.7	3.2	20.1	-19.6	0.0	33.4
	1,814.9	659.0	52.9	-	16.5	2,510.3
Financial assets						
Shares in subsidiaries	1.5	-	-	-	-	1.5
Other loans	0.5	-	-	-	0.1	0.4
	2.0	-	-	-	0.1	1.9
Fixed assets	1,857.4	660.0	54.3	-	19.5	2,552.2

	Depreciation						Book values	
	01/01/2006	Transfer	Additions	Book transfers	Disposals	31/12/2006	31/12/2006	31/12/2005
	4.0	1.0	1.2	-	2.9	3.3	36.7	0.6
	-	-	-	-	-	-	-	35.9
	4.0	1.0	1.2	-	2.9	3.3	36.7	36.5
	21.9	6.4	3.3	0.0	0.5	31.1	74.1	49.7
	978.0	208.5	83.9	0.1	11.0	1,259.5	1,059.5	683.3
	46.2	1.0	2.3	-0.1	2.4	47.0	5.7	6.1
	-	-	-	-	-	-	33.4	29.7
	1,046.1	215.9	89.5	-	13.9	1,337.6	1,172.7	768.8
	-	-	-	-	-	-	1.5	1.5
	-	-	-	-	-	-	0.4	0.5
	-	-	-	-	-	-	1.9	2.0
	1,050.1	216.9	90.7	-	16.8	1,340.9	1,211.3	807.3

NOTES

GENERAL PRELIMINARY REMARKS

Vattenfall Europe Transmission GmbH (hereinafter called "VE Transmission") is entered in the Commercial Register of the Berlin-Charlottenburg Local Court under register no. HRB 84446.

The Company is included in the consolidated annual financial statements of Vattenfall Europe AG (Vattenfall Europe) with its registered office in Berlin, and in the consolidated annual financial statements of Vattenfall AB with its registered office in Stockholm. The consolidated annual financial statements of Vattenfall Europe AG are available at the Berlin-Charlottenburg Local Court. The company is there entered in the Commercial Register under no. HRB 86854. According to Sec. 291 of the German Commercial Code (HGB), these annual financial statements exempt Vattenfall Europe Transmission from preparing consolidated annual financial statements including VE Netcom, Berlin. The consolidated annual financial statements of Vattenfall AB covering the largest group of consolidated companies are available at Bolagsverket in Sundsvall. The company is there entered under register no. 556036-2138.

A Profit & Loss Transfer Agreement is in place between VE Transmission and Vattenfall Europe. The Company is in fiscal unity with Vattenfall Europe in terms of corporate income tax, trade tax and sales tax.

By virtue of Agreements on Split-Off and Take-Over dated 04 April 2006, the "transmission system" parts of the assets of VE Berlin and VE Hamburg (transferring companies) were, according to the Reorganisation Act, split off and taken over by VE Transmission (absorbing company) with effect from 01 January 2006. The split-offs became legally effective upon their entry in the Commercial Registers of Berlin-Charlottenburg on 24 April 2006 and Hamburg on 03 May 2006.

The net assets as the shareholder's contribution in kind were taken over at the book values of the transferring companies (basis rollover). Upon take-over of the net assets, the share capital of VE Transmission increased € 50.0 million to € 200.0 million. The remaining € 386.1 million net assets raise the Company's capital reserve.

The net assets taken over at 01 January 2006 and the effects on the respective items of the balance sheet are shown below:

ASSETS (in € million)	
	01/01/2006
Fixed assets	
Intangible assets	0.0
Tangible assets	443.1
	443.1
SHAREHOLDER'S EQUITY AND LIABILITIES (in € million)	
	01/01/2006
Net assets	436.1
Special items	
Special item with share of reserves from value adjustments according to Sec. 6b Income Tax Act	1.3
Special item for investment grants	4.4
	5.7
Other provisions	0.7
Liabilities to related companies	0.6
	443.1

The annual financial statements of Vattenfall Europe Transmission have been prepared in accordance with the accounting standards of German commercial law and the supplementary provisions of the German GmbH Act regulating limited liability companies. All figures are shown in million euros. Individual items in the balance sheet and in the profit and loss account

have been combined to improve the clarity of presentation, and are reported separately in the Notes.

Furthermore, industry-specific regulations (Sec. 10 EnWG) have been complied with.

Since financial year 2006, Vattenfall Europe has no longer charged any income tax allocation. In the previous financial year, € 9.6 million tax allocations were charged.

ACCOUNTING AND VALUATION METHODS

ASSETS

Purchased intangible assets are recorded at cost and depreciated on a straight-line basis according to their prospective useful lives.

Tangible assets are carried at acquisition or production costs less depreciation. Manufacturing costs include direct costs and appropriate overheads. Interest on borrowings is not included.

Additions to assets performed between 1991 and 2001 are depreciated on a straight-line basis; otherwise, the method of declining-balance depreciation is used. The transition to the straight-line method is made at the moment where the latter produces higher depreciation amounts.

Construction cost subsidies received are shown on the liabilities side.

Depreciation is fundamentally based on (minimum) useful lives as accepted under the relevant tax regulations, and has since 2004 been performed on a pro rata temporis basis. Low-value assets are fully depreciated and allocated to disposals in the year of their acquisition.

Unscheduled depreciation is carried at a lower fair value. Any differences between the permissible valuation under tax law and the permissible valuation under commercial law which are due to special depreciation in accordance with Sec. 4 Development Area Act (FGG) are reported under special items with share of reserves.

Financial assets are valued at acquisition cost.

Inventories are valued at acquisition or production cost, or at their lower value at accounting date, with permissible methods to simplify valuation being applied. Production costs include direct costs and adequate overheads on a pro-rata basis. Interests on borrowings are not included. Individual valuations are carried out to determine adequate deductions for inventory risks that arise from reduced suitability for use.

Other current assets are carried at nominal value or the lower fair value. All identifiable individual risks, as well as the general credit risk, are taken into account by way of adequate deductions.

A Special loss account from formation of provisions is reported on the asset side for provisions which had to be formed because Sec. 249, Subsec. 1, Sentence 1 HGB (German Commercial Code) was applied for the first time in the DM Opening Balance Sheet (DMEB) of VEAG Vereinigte Energiewerke AG as transferor. This Special loss account varies in response to use and release of the underlying DMEB provisions. Any use of provisions will cause depreciation of the Special loss account and hence expenses which are reported in the profit and loss account according to expense types; where DMEB provisions are released, the Special loss account is set off against the provisions with no effect on income.

SHAREHOLDER'S EQUITY AND LIABILITIES

Special depreciation under tax law, gains from asset disposals as well as investment grants are disclosed as Special items on the liabilities side. Special depreciation according to the Development Area Act is released - depending on the useful life of the respective asset - during or after the preferential period, while investment grants are released on a straight-line basis in conformity with the respective useful life. Gains from asset disposals are accounted for in the Special item even if they have already been transferred to newly acquired assets. The Special item is released according to the useful life of the respective asset.

Provisions for pensions and similar obligations are, as far as pension commitments with congruent counterinsurance are concerned, carried at the higher value of the going-concern value under tax law and the value of the counterinsurance claim. The remaining pension commitments are valued at their going-concern value. The going-concern value is, according to actuarial principles, determined on the basis of an interest rate for accounting purposes of 6 per cent p.a. The calculations as per 31 December 2006 are based on the charts 2005 G published by Prof. Dr. Klaus Heubeck.

Provisions for taxes and Other provisions adequately and sufficiently reflect all identifiable risks and contingent liabilities. Obligations arising from semi- and early retirement programmes are valued at cash value according to actuarial principles, using an interest rate for accounting purposes of 5.5 per cent p.a. The calculations are based on the charts 2005 G published by Prof. Dr. Klaus Heubeck. Other long-term provisions are discounted at a rate of 5.5 % p.a.

Liabilities are reported at their repayment value.

Construction cost subsidies received are reported as Deferred income and released over the tentative period of use, though over no longer than 20 years, on a straight-line basis.

Profit & loss account

The profit and loss account is structured on the basis of the cost summary method.

Currency translation

Transactions in foreign currency are valued at the exchange rate applicable at the time the book entry is made. The carrying value takes into account lower exchange rates for accounts receivable and higher rates for accounts payable on accounting date.

NOTES TO THE BALANCE SHEET

(1) Fixed assets

The breakdown of fixed asset items summarised in the balance sheet, and their development in the financial year, are disclosed separately.

€ 0.3 million of the fixed assets is encumbered by charges on property.

Shareholdings

VE Transmission holds a 100 per cent interest in VE Netcom. The company has € 1.5 million equity and does not report any result due to a profit & loss transfer agreement with VE Transmission. VE Netcom's annual financial statements are included in the exempting consolidated annual financial statements of Vattenfall Europe.

(2) Inventories (in € million)

	31/12.2006	31/12/2005
Raw materials and supplies	1.1	1.3
Work in progress	0.4	0.9
	1.5	2.2

(3) Receivables and other assets (in € million)

	31/12/2006	31/12/2005
Trade accounts receivable	419.4	301.4
Accounts receivable from related companies	56.4	66.3
of which from shareholder	(-)	(-)
Other assets	69.8	79.4
	545.7	447.1

Accounts receivable from related companies concern claims from trade accounts receivable.

Under Other assets, € 51.3 million (previous year: € 58.1 million) receivables under the CHP Act are reported. A partial amount of € 33.7 million (previous year: € 30.0 million) has not yet been incurred in strictly legal terms as it is disputed according to the Interim CHP Act of 12 May 2000.

Residual maturities of over one year apply to € 10.1 million Other assets (previous year: € 8.4 million).

(4) Special loss account from formation of provisions

The Special loss account is a tool that stems from the DM Opening Balance Sheet (DMEB). The purpose of the Special loss account is to produce tax-relevant expenses as the DMEB provisions formed at that time for the clean-up of ecological contaminations had not yet had an effect on expenses at that time. As opposed to provisions under HGB, expenses are therefore still incurred when DMEB provisions are used, with these expenses resulting from depreciation of the Special loss account.

The Special loss account which is balanced by Other provisions developed as follows in the reporting year:

Special loss account (in € million)

	01/01/2006	Use	31/12/2006
Special loss account	4.8	-0.3	4.5

The depreciation of the Special loss account is, in the amount of use, included in the respective expense types of the profit and loss account.

(5) Shareholder's equity

The Company's share capital increased € 50.0 million, i.e. from € 150 million to € 200.0 million, by a contribution in kind made in the financial year. It is fully held by Vattenfall Europe AG, Berlin. The capital reserve was raised € 386.1 million by a contribution in kind made in the financial year.

The Other revenue reserves were formed with no effect on income, based on the assignment of title for landed property according to Sec. 36 DMBiG.

(6) Special items (in € million)

	31/12/2006	31/12/2005
Special item with share of reserves		
Value adjustments of fixed assets acc. to Sec. 4 Development Area Act and Sec. 6b Income Tax Act (EStG)	32.4	33.4
Special item for investment grants	10.9	7.2
	43.3	40.6

(7) Provisions (in € million)

	31/12/2006	31/12/2005
Provisions for pensions and similar obligations	13.6	11.9
Tax provisions	-	0.5
Other provisions		
Outstanding accounts EEG and CHP Act	320.2	202.9
Easements for rights in lines	72.1	73.6
Personnel obligations	11.2	14.1
Other provisions	29.7	17.9
	446.8	320.9

Other provisions includes amounts for contingent losses from pending procurement transactions, for contamination clean-ups, for deferred maintenance that will be subsequently performed in the first three months of the ensuing financial year, and other contingent liabilities.

(8) Shareholder's equity and liabilities (in € million)

	Maturity up to 1 yr	Maturity > 5 yrs	Total 31/12/2006	Total 31/12/2005
Liabilities to banks	-	-	-	0.0
Advance payments from customers	1.6	-	1.6	16.2
Trade accounts payable	50.9	0.0	51.2	60.0
Liabilities to related companies	140.2	-	460.2	496.9
of which to shareholder	(16.2)	(-)	(336.2)	(435.6)
Other liabilities	22.5	0.0	22.8	39.8
for taxes	(0.4)	(-)	(0.4)	(0.4)
for social security	(0.2)	(0.0)	(0.2)	(0.7)
	215.2	0.0	535.8	612.9

Of the liabilities to related companies, € 74.6 million concerns trade accounts, and the remainder consists in Other liabilities. Of the liabilities to the shareholder (before netting with accounts receivable), € 320.0 million (previous year: € 395.0 million) is accounted for by loans, and € 57.3 million (previous year: € 20.3 million) by the overdraft facility with Vattenfall Europe.

Other financial commitments, Contingencies

Other financial commitments as per 31 December 2006 amounted to € 76.1 million (previous year: € 44.0 million) resulting from the order commitment for investments with a residual maturity of up to one year.

For electricity purchases used for market-based balancing of network losses, VE Transmission entered into € 79.8 million purchasing commitments for 2007 (previous year: € 38.5 million with a residual maturity of up to one year) and € 16.1 million for 2008.

Moreover, the Company is jointly and severally liable together with Vattenfall Europe, Vattenfall Europe Generation AG & Co. KG (VE Generation) and Vattenfall Europe Sales GmbH (VE Sales) for € 457.1 million liabilities of Kraftwerk Schwarze Pumpe GmbH vis-à-vis the European Investment Bank.

The Company has, according to Sec. 133 Reorganisation Act, and together with Vattenfall Europe, VE Generation and VE Sales, furthermore assumed joint and several liability for liabilities and commitments entered into by the former VEAG Vereinigte Energiewerke AG prior to the Company's spin-off from the latter.

NOTES TO THE PROFIT AND LOSS ACCOUNT

(9) Sales revenues (in € million)

	2006	2005
EEG electricity supplies*)	1,842.1	1,526.6
Use-of-system charges	614.3	612.5
Balancing group management	85.4	40.8
Electricity supplies according to the CHP Act*)	62.9	54.1
EEG imbalance energy	56.3	35.3
Sales revenues from system support services to other TSOs*)	5.5	-
Other sales revenues	16.0	13.9
	2,682.5	2,283.2

*Revenues are balanced by expenses in the same amount

EEG electricity supplies relates to deliveries of electricity generated from renewable resources to regional energy supply companies and traders supplying final customers in the VE Transmission control area, and supplies to other TSOs in the scope of the burden sharing scheme operated between TSOs to set off the charges resulting from the EEG.

(10) Other operating income (in € million)

	2006	2005
Allocations under the CHP Act*)	287.5	302.1
Income from release of provisions	6.2	10.3
Other out-of-period income	4.3	4.0
Income from release of special items with share of reserves according to Sec. 4 FGG and Sec. 6b EStG	2.2	2.8
Income from release of special items for investment grants & subsidies	0.9	0.7
Other income	58.6	110.3
	359.7	430.2

*Revenues are balanced by expenses in the same amount

Other income primarily contains charges passed on to other group companies which square with corresponding Other operating expenses.

(11) Cost of materials (in € million)

	2006	2005
Expenses for raw materials and supplies and for purchased goods	2,237.7	1,842.0
Expenses for purchased services	229.9	226.5
	2,467.6	2,068.5

The expenses for raw materials and supplies and for purchased goods contain € 1,842.1 million (previous year: € 1,526.6 million) renewable energy buying and € 62.9 million (previous year: € 54.1 million) CHP electricity buying.

(12) Personnel expenses (in € million)

	2006	2005
Wages and salaries	27.4	25.2
Social security	5.0	4.8
Pension costs and similar benefits	2.4	4.5
	0.1	0.1
	34.9	34.6

Average number of employees during the year

	2006	2005
Salaried staff	332	328
Wage-earning staff	156	174
	488	502
Apprentices	19	17
Employees	507	519

(13) Depreciation

In the financial year, non-scheduled depreciation of € 0.0 million (previous year: € 0.7 million) on disused operating assets was performed.

(14) Other operating expenses (in € million)

	2006	2005
CHP burden sharing	287.5	307.7
Out-of-period expenses	1.0	4.0
Allocations to the special item with share of reserves according to Sec. 6b EStG	0.0	0.4
Other operating expenses	108.1	205.0
	396.6	517.1

Other expenses mainly includes charges passed on to other group companies, expenditure for dismantling works and ecological clean-ups, as well as business and administrative expenses.

(15) Financial result (in € million)

	2006	2005
Income from profit and loss transfer	3.8	2.7
Income from loans	0.0	0.0
Other interest and similar income of which from related companies	11.0	8.0
	(1.9)	(0.4)
Other interest and similar expenses of which to related companies	-21.1	-21.4
	(-16.0)	(-12.9)
	-6.3	-10.7

NOTES TO THE CASH FLOW STATEMENT SUPPLEMENTARY INFORMATION

The Cash Flow Statement has been prepared in conformity with GAS 2 of the German Accounting Standards Board.

(16) Cash flows from operating activities

Under Cash flows from operating activities, € 7.6 million (previous year: € 1.8 million) is due to proceeds from interest. Interest payments amounted to € 16.2 million (previous year: € 12.4 million).

(17) Cash funds

Cash funds includes cheques in the amount of € 0.1 million.

EEG and balancing area accounting

In preparing the annual financial statements, expenses and income - and hence accounts receivable and payable - from management of the EEG business process, and from settlement of the balancing groups, were determined on the basis of provisional data provided by third parties, and partly on the basis of forecasts.

A final statement on the level of actually incurred expenses and income from the EEG business cannot be made until the auditor's certificates on the amounts of electricity fed in from renewable energy units have been submitted. With respect to the settlement of balancing groups, VE Transmission depends on having a complete set of data from all balancing groups. These data were not fully available at the time the annual financial statements were prepared, i.e. there are some uncertainties in respect of the amounts of expenses and income in these areas. The corresponding items in the annual financial statements were ascertained on the basis of available data and estimates, and are based on the information available at the time the annual financial statements were prepared.

Impact of valuation measures under tax law

The movements in the Special item with share of reserves have improved the HGB result for the year (before profit transfer) by € 2.2 million. The release of the special item spreads over up to 25 years due to the fixed period of release.

Information according to Sec. 10 Energy Industry Act (EnWG)

The annual financial statements of VE Transmission have to be assigned to the activity of electricity transmission.

Members of the Supervisory Board

Mats Fagerlund	Member of the Management Board of Vattenfall Europe AG, Berlin, Member of the Group Management of Vattenfall AB, Stockholm, - Chairman -
Hans-Jürgen Schmidt *	Regional District Head Northeast of the Industrial Trade Union IGBCE (mining, chemical & energy industry) - Vice Chairman -
Alfred Geißler	Member of the Management Board of Vattenfall Europe AG, Berlin
Frank Hörnlein *	Electrical engineer
Dr. Lutz Pscherer *	Electrical engineer
Dr. Klaus Rauscher	Chairman of the Management Board of Vattenfall Europe AG, Berlin, Member of the Group Management of Vattenfall AB, Stockholm

* Employee representative

Members of the Management

Jürgen Grieger	Rosengarten, Commercial Managing Director
Wolfgang Neldner	Berlin, Technical Managing Director

Expenses for Board members

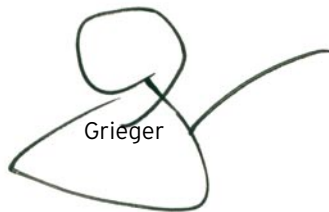
The drawings of the Management in financial year 2006 amounted to € 746 thousand (previous year: € 609 thousand). Expenses for the Supervisory Board were € 24 thousand (previous year: € 24 thousand).

Loans granted to Board members

Loans granted to Supervisory Board members amounted to € 21 thousand as at 31 December 2006. The loans are subject to a 5.0 per cent p.a. interest and extend over terms of ten years. A total two thousand euros was repaid in the reporting year.

Berlin, 15 February 2007

The Management



Grieger



Neldner

AUDIT CERTIFICATE

We have audited the annual financial statements - comprising the balance sheet, the profit and loss account, the notes to the financial statements and the cash flow statement - together with the bookkeeping system and the management report of Vattenfall Europe Transmission GmbH, Berlin, for the financial year from 01 January to 31 December 2006. According to section 10, subsection 4 Energy Industry Act (EnWG), the audit also covered performance of the duties of Unbundling of the internal accounts according to section 10, subsection 3 EnWG. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law as well as performance of the duties according to section 10, subsection 3 EnWG are the responsibility of the Company's managing directors. Our responsibility is to express an opinion on the annual financial statements together with the bookkeeping system, on the management report and on internal accounting according to section 10, subsection 3 EnWG, on the basis of our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB (German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany - IDW).

Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance, and that it can be judged with reasonable assurance whether the duties according to section 10, subsection 3 EnWG have been performed in all material aspects. Knowledge of the business activities and the economic and legal environment of the Company, and expectations as to possible misstatements, are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report as well as in internal accounts according to section 10, subsection 3 EnWG are examined primarily on the basis of random sampling within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the managing directors, evaluating the overall presentation of the annual financial statements and management report, as well as expressing an opinion on whether the carrying values and allocation of accounts in internal accounting according to section 10, subsection 3 EnWG are proper and comprehensible, and

whether the principle of consistency has been observed. We believe that our audit provides a reasonable basis for our opinion.

Our audit of the annual financial statements together with the bookkeeping system and the management report has not led to any reservations. In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements, and as a whole provides a correct view of the Company's position; it also correctly presents the opportunities and risks of future development.

The audit of performance of the duties of Unbundling of internal accounts according to section 10, subsection 3 EnWG has not led to any reservations.

Berlin, 15 February 2007

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Herrmann	ppa. Pinkert
German Public Auditor	German Public Auditor

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Vattenfall Europe Transmission GmbH

Chausseestrasse 23
10115 Berlin

Tel +49 30-51 50-66

Fax +49 30-51 50-40 50

www.vattenfall.de/transmission
transmission@vattenfall.de

MANAGEMENT

Jürgen Grieger
Commercial Managing Director

Tel +49 30-51 50-45 81

Wolfgang Neldner
Technical Managing Director

Tel +49 30-51 50-21 62

EDITED BY

Mareike Donat
Public Relations & Communications Officer

Tel +49 30-51 50-32 94

Fax +49 30-51 50-35 96

The annual report is also available in German.
When in doubt, the German version is authoritative.

Vattenfall Europe Transmission GmbH
Chausseestrasse 23
10115 Berlin