

ANNUAL REPORT 2007

Vattenfall Europe Transmission

AT A GLANCE

2007

Sales revenues	€ m	3 295.3
Use-of-system charges	€ m	593.0
Renewable Energies Act / Income and expenses	€ m	2 571.3
Combined Heat and Power Act / Income and expenses	€ m	244.5

Balance sheet total after deduction of the special loss account	€ m	1 867.8
Economic equity	€ m	682.8
Net loss for the year before transfer	€ m	-127.9
Cash flow from operating activities	€ m	47.5

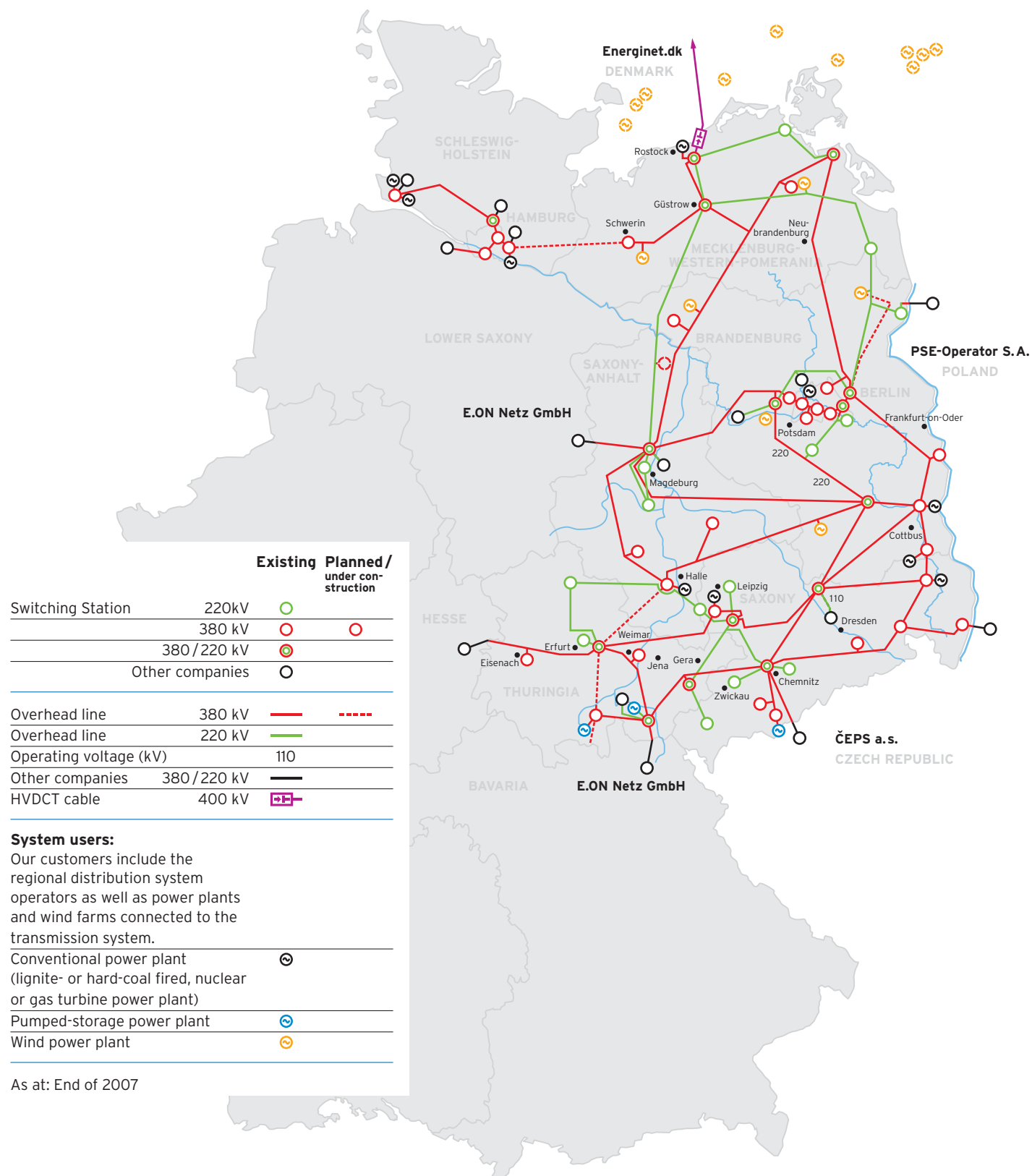
Fixed assets	€ m	1 175.5
Investments	€ m	55.6
Depreciation	€ m	90.0

Maximum network load	MW	14 714
Electric circuit length	km	9 540

Staff - annual average	Number	499
Staff at 31/12	Number	503
Personnel expenses	€ m	36.3



THE EXTRA-HIGH VOLTAGE SYSTEM OF VATTENFALL EUROPE TRANSMISSION GMBH



Existing Planned/ under construction

Switching Station	220kV		
	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	

CONTENTS

	Page
Supervisory board and management _____	2
Report of the Supervisory Board for 2007 _____	3
Focal themes of Supervisory Board's deliberations _____	3
Annual financial statements _____	3
Committee of the Supervisory Board, and staffing changes _____	4
Management report _____	5
1. Business operations and business environment _____	5
Legal framework of the energy industry _____	5
System provision _____	6
System control _____	6
System use/Regulatory matters _____	7
Cooperation between TSOs and cross-border electricity trading _____	8
Balancing group management _____	8
Management of the business under the EEG/CHP Acts _____	8
Human resources _____	9
2. Business situation _____	9
Earnings position _____	9
Net assets and financial position _____	10
Participations _____	10
3. Important events in the new financial year 2008 _____	11
4. Risk report _____	11
5. Looking ahead _____	12
Annual financial statements of Vattenfall Europe Transmission GmbH as at 31 December 2007 _____	14
Balance sheet _____	14
Profit and loss account _____	16
Cash flow statement _____	17
Movements in fixed assets _____	18
Notes _____	20
Audit Certificate _____	28

SUPERVISORY BOARD AND MANAGEMENT

Members of the Supervisory Board

Mats Fagerlund	Member of the Management Board of Vattenfall Europe AG, Berlin - Chairman -
Hans-Jürgen Schmidt*	Regional District Head Northeast of the Mining, Chemical and Energy Industrial Trade Union, Fichtenwalde - Vice Chairman - (until 31 July 2007)
Ulrich Freese*	Vice Chairman of the Mining, Chemical and Energy Industrial Trade Union, Spremberg - Vice Chairman - (since 27 August 2007)
Alfred Geißler	Member of the Management Board of Vattenfall Europe AG, Berlin
Frank Hörnlein*	Electrical engineer, Dessau (until 21 March 2007)
Florian Guddat*	Foreman for electrical energy equipment, Großschwabhausen (since 21 March 2007)
Dr. Lutz Pscherer*	Electrical engineer, Berlin
Prof. Dr. Klaus Rauscher	Former Chairman of the Management Board of Vattenfall Europe AG, Berlin, former member of the Executive Group Management of Vattenfall AB, Stockholm (until 30 July 2007)
Dr. Hans-Jürgen Meyer	Member of the Management Board of Vattenfall Europe AG, Berlin (since 27 August 2007)

*Employee representatives

Members of the Management

Stefan Dohler	Hamburg, Commercial Managing Director (since 01 July 2007)
Jürgen Grieger	Rosengarten, Managing Director Human Resources
Wolfgang Neldner	Berlin, Technical Managing Director

REPORT OF THE SUPERVISORY BOARD FOR 2007

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.

The Supervisory Board was provided by the Management with written and verbal reports about the Company's business situation, the most important business events as well as the Company's strategy and business plans on a timely basis, in detail and in compliance with legal requirements. In the run-up to meetings, the Supervisory Board received briefing papers in accordance with the agenda. In addition, detailed preliminary discussions were held with the employee representatives.

All management measures requiring Supervisory Board approval as well as other significant business transactions and processes were reviewed by the Supervisory Board and discussed in detail with the Management in one extraordinary and four regular meetings.

Through suggestions, critical questions and advice, the Supervisory Board had a monitoring influence on management of the business, and reviewed it with regard to the criteria of lawfulness, propriety and economic efficiency.

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.

Focal themes of Supervisory Board's deliberations

The topics discussed by the Supervisory Board in its regular deliberations included e.g. the economic and human resources development of the business. In ad-

dition, the Supervisory Board supported the Company in meeting its legal obligations, for example in ensuring connection of the emerging offshore wind farms to the system by establishing a subsidiary. The Supervisory Board also oversaw the non-discriminatory exercise of the network business and the implementation of Unbundling requirements, and supported the Management in its cooperation with the regulator Bundesnetzagentur (Federal Network Agency), especially in the procedure for approval of the use-of-system charges.

Further key topics of the deliberations included the projects for extension of the transmission system to allow for the transport of renewable energy-based electricity, support to the Management in the cooperation with other European system operators for further development of the single European energy market, and in collaborating with the relevant authorities and institutions.

Annual financial statements

Statutory auditors PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, had been mandated by the Supervisory Board to audit the 2007 annual financial statements pursuant to a decision taken at the Shareholders' Meeting. The annual financial statements prepared by the Company, including the bookkeeping 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 2007, 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 03 March 2008.

The annual financial statements and the management report for 2007 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.

Committee of the Supervisory Board, and staffing changes

At the constituent meeting of the Supervisory Board held in March, a Presiding Committee was established for the next term of office of the Supervisory Board which discussed matters concerning the Managing Directors in two meetings.

Changes in appointments to the Supervisory Board concerned, on the side of the employees, Mr Frank Hörnlein, who resigned at the end of the term of office on 21 March 2007. As of the constituent meeting, Mr Florian Guddat replaced him as a Supervisory Board member. Mr Hans-Jürgen Schmidt left the Supervisory Board on 31 July 2007. Mr Ulrich Freese was appointed his successor on 27 August 2007.

On the shareholders' bench, Dr Hans-Jürgen Meyer was, with effect from 27 August 2007, appointed successor to Prof Dr Klaus Rauscher who had resigned from the Supervisory Board on 30 July 2007. The Supervisory Board is grateful to Mr Hörnlein, Prof Dr Rauscher and Mr Hans-Jürgen Schmidt for their committed work and constructive contributions, and for many years of trustful cooperation.

The Supervisory Board expresses its thanks to the Company's Management, the Works Council members and all employees for their work and commitment in financial year 2007.

Berlin, March 2008
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 eastern 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 legal and political setting for the energy business in financial year 2007 saw numerous activities at the European and national levels which were geared to promoting competition.

The EU Commission has published a new energy package. This draft of a third internal energy market package has been designed to give further impetus to competition on electricity and gas markets. The core of the proposed legislative changes is the most far-reaching form of unbundling, the so-called ownership unbundling. Energy supply companies which have to date been vertically integrated would have to abandon control over their networks as a consequence. In addition, the legislative package envisages stricter rules for regulation of this sector. An agency for cooperation between national regulators is intended to be set up at EU level for this purpose. The energy package of the EU commission also comprises projects aimed to reinforce cross-border electricity trading (the so-called interconnector plan). According to this plan, the EU sees an urgent bias for action to accelerate extensions of existing electricity networks, especially at the border hubs.

Since the Infrastructure Planning Acceleration Act was enforced on 17 December 2006, the transmission system operators whose service territories border on the North and Baltic Seas have been made responsible for connecting planned German offshore wind farms at sea to the electricity system in good time, provided their construction starts before the end of 2011. The transmission system operators have to share the costs of offshore network connections, using a mechanism similar to the cost apportionment scheme operated under the CHP Act.

Furthermore, an ordinance on grid connection of electricity generation plants (Kraftwerksnetzanschlussverordnung – KraftNAV) has become effective. Its purpose is to ensure non-discriminatory connec-

tion of power plants to the system. The ordinance stipulates preferential treatment of all power plants that have to be newly connected over existing power plants, as well as far-reaching obligations for system operators to bear the costs of necessary network extensions. Furthermore, the procedure of how the power plants have to be connected to the grid is laid down in detail in this ordinance.

Finally, an ordinance on issuance of, and amendments to, legal provisions in the field of energy regulation was enforced in conjunction with the Ordinance on Incentive Regulation (ARegV) which has brought sweeping changes to the regulatory regime. The aim of ARegV is to open up potential for efficiency increases by setting economic incentives. For this purpose, the conceded level of revenues is decoupled from the individual companies' costs.

System provision

The effects of hurricane Cyril caused limitations to the transmission capability and system security in five affected areas of four German Federal states between 18 January 2007 and 06 February 2007. Initially, makeshift repairs of the damaged equipment were carried out as the Company assumed its responsibility for availability of the system. The final repairs were completed by the middle of the financial year.

Repair works on the submarine cable of the Kon-tek d.c. connection between Energinet.dk and VE Transmission which had been damaged by third-party impact on 31 December of the preceding year were completed on 12 March 2007, restoring availability of this connection to the market.

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 and unhindered pan-European electricity trading, the focus of investment activities in 2007 was again on network reinforcement works and the preparation of ample network extension projects. At several substations, for example, extension

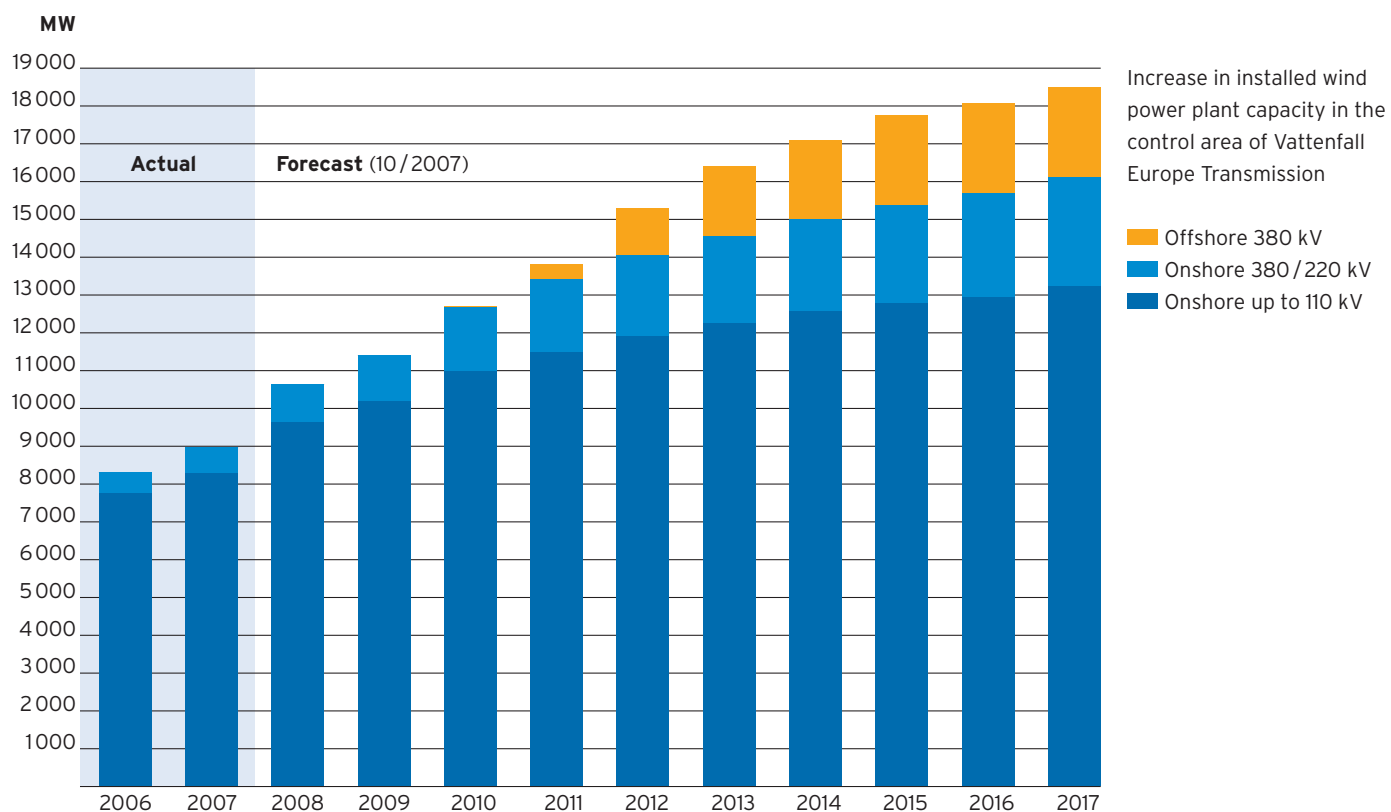
works have started to allow the connection of new overhead lines. First approvals of new overhead line sections have been received from the relevant authorities, and building works to implement these projects have started. Permits, for example, under the plan approval procedures for the first section of the so-called South West interconnector leading from the region around Halle to the Schweinfurt region were granted at the end of 2007, and works on the overhead line have begun. These absolutely necessary new overhead line connections meet with little acceptance by the general public, and mounting opposition to these projects has been put up. One approach the Company uses to manage this is to increasingly provide public explanations of the projects in community contexts. On the other hand, innovative technical solutions are being conceived in order to enhance acceptance. On the whole, however, this means neither delays nor cost increases can be ruled out any longer.

System control

The control power required for system control in the control area was procured via tender 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 transported on as required.

As far as the procurement of control power is concerned, several changes have resulted from the need to comply with new requirements enshrined in the EnWG and ordinances. For example, all four German TSOs developed a method for joint procurement of control energy within a short period of time and in close cooperation with the market partners, and obtained approval for it by regulator Bundesnetzagentur (BNetzA). Since 01 December 2007, tenders for primary and secondary control power are jointly invited on a monthly basis through a common Internet platform of the German TSOs. Daily tenders for minutes reserve have already been jointly invited through this platform since 01 December 2006.

As to the energy volumes required by VE Transmission to cover physically caused system losses, which



had so far been exclusively procured in the wholesale market, public tendering procedures were carried out.

The installed capacity of wind power generation in the VE Transmission control area reached 8,970 MW at year-end 2007 (which is equivalent to over 40 per cent of all capacity installed in Germany). The installed wind power therefore rose by over 660 MW versus the end of 2006. Against this backdrop, the key challenge was to control the considerable fluctuations in wind power feeding such 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 7,511 MW on 09 November 2007.

To guarantee secure system operation in the control area of VE Transmission, measures and adjustments according to section 13 EnWG have to be ever more frequently resorted to because of the growing discrepancy between high wind power input and low electricity consumption on the one hand, and the failure of network extension projects to keep pace with this on the other hand. Measures to safeguard system security as provided for by section 13, subsection 1 EnWG had to be taken on 155 days of the year 2007.

System use/Regulatory matters

System use in 2007 was invoiced on the basis of the price sheet approved by regulator BNetzA on 20 December 2006 which was effective for the period 01 January to 31 December 2007.

To incorporate the necessary adjustments resulting from the EnWG and related ordinances in customer contracts, further agreements on amendments to use-of-system contracts with distribution system operators were signed.

In the complaints procedure concerning the use-of-system charge for 2006, the Düsseldorf Higher Regional Court pronounced its judgment in May 2007. It confirmed the outcome of the expedited proceedings conducted before the Higher Regional Court, that is, the approval of the use-of-system charge for 2006 has no retroactive effect 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 Düsseldorf Higher Regional Court. In this respect, an appeal on a point of law was lodged with the Federal Supreme Court.

A procedure has been introduced for requests from power plants to be connected to the system since the enforcement of KraftNAV.

Cooperation between TSOs and 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 on the basis of years, months and days was continued, with the adjacent TSOs being involved. In close coordination with these TSOs and the regulators of the region, investigations into a future, load-flow based auctioning method were continued to further improve the harmonisation of electricity trading activities and system security. The congestion management activities of the region's eight TSOs are to be handled by CAO Central Allocation Office GmbH, a private limited company that is due to be established with its registered office in Freising near Munich, as of late 2008. To prepare intraday cross-border trading, VE Transmission and the Czech TSO ČEPS held a test run with the market players.

In the Northern European region, a test of the so-called market coupling procedure – a method for allocation of the limited transmission capacity of the Kontek d.c. link between VE Transmission and Energinet.dk – which had begun in October 2005 was continued. On this basis, Energinet.dk, E.ON Netz, EEX, NordPool Spot and VE Transmission are preparing the rollout of the so-called open market coupling method, an allocation principle for transmission capacity between Denmark and Germany, for mid-2008. This will include the proposed incorporation of a joint venture company called EMCC European Market Coupling GmbH with its registered office in Hamburg.

VE Transmission has also started to participate in the activities of the Central Western European region by signing the Memorandum of Understanding with the Pentilateral Forum. Our focus is here on ensuring

system security and structuring the framework for network extension planning. VE Transmission is here contributing its experience from other regions, forming a bridge from west to east.

VE Transmission was closely involved in analysing and deriving conclusions from the UCTE system failure on 04 November 2006. In the scope of the coordination between the German TSOs, the points raised by regulator BNetzA were resolved, and new measures to support system control were developed in the CEE region.

Balancing group management

At the end of 2007, approx. 350 balancing groups were maintained and billed by VE Transmission for the traders and electricity sales organisations operating in its control area. The two-month period envisaged by StromNZV for balancing-group billing has been respected.

VE Transmission supports the implementation of standardised balancing-group contracts and billing processes as pursued by BNetzA for nationwide application. VE Transmission participated in preparing proposals to BNetzA for this purpose, and in coordinating 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 21.7 TWh in 2007 (previous year: 15.4 TWh). After taking into account the EEG electricity purchased from other TSOs (4.6 TWh) and delivered to them (13.3 TWh), a total 13.0 TWh EEG electricity had to be delivered to traders and electricity sales organisations operating in the control area. The remaining surplus of only 33 GWh will be horizontally and vertically compensated in the context of the annualised bill for 2007 which will be issued in 2009.

VE Transmission is currently leading a discussion with many partners about integration into the system of all energies covered by the EEG, which will in future include biomassbased energy and offshore

wind energy. The principle of economic reasonableness and the requirements of system security must be taken into account here.

At the time being, an amendment to the EEG is being prepared. Its enforcement has been scheduled for 01 January 2009. VE Transmission is actively involved in the respective discussions, both directly and via BDEW Bundesverband der Energie- und Wasserwirtschaft (BDEW – national association of the energy and water sector).

VE Transmission is participating in important international, national and regional studies dealing with the integration of renewable energies into the transmission system and its implications for the latter. In particular, the European wind integration study (EWIS), the dena II study started in 2007 as well as regional studies commissioned by the governments of the German Federal states of Brandenburg, Saxony-Anhalt and Mecklenburg-West Pomerania should be mentioned here. The project “The Harz mountains – A showcase for renewable energy use“ was launched in cooperation with renewable energy generators and other partners. This project investigates the potential for interplay between renewable energies and the traditional pumped-storage technology.

Human resources

On 31 December 2007, VE Transmission had 503 employees and 22 apprentices, with the average age being 43.3 years, and the share of female employees 21 per cent. The percentage of employees on parttime contracts was 2.8 per cent. The Company employed 22 severely handicapped employees and employees with a similar status at year-end, which is equivalent to a share of around 4.2 per cent.

In comparison with the previous year (494 employees and 22 apprentices), the headcount increased by a net nine persons. This headcount development is the aggregate result of 32 leavers and 41 joiners.

The Company’s HR development programme gave two young people the opportunity to start a traineeship in 2007.

The 22 apprentices are trained in both technical and commercial occupations. Five out of six apprenticeship graduates of the year 2007 were taken over into full employment on contracts limited to a term of one year.

Financial year 2007 saw the creation of separate organisation units for energy management, system security and system provision. The related organisational changes and individual personnel measures had been finalised by middle of the year. The vast majority of procedures for staffing additional positions was completed before the end of 2007.

2. BUSINESS SITUATION

Earnings position

In financial year 2007, VE Transmission transported approx. 75 billion kilowatt-hours (kWh) electricity (previous year: 83 billion kWh). The maximum network load was reached on 25 January 2007 at 14,714 MW (previous year: 15,027 MW).

VE Transmission’s sales revenues amounted to € 3,295.3 million (previous year: € 2,682.5 million) in financial year 2007. Of this amount, about four fifths was accounted for by electricity sold under the EEG and CHP Acts, and by system support services provided to other TSOs (on aggregate € 2,639.3 million, previous year: € 1,910.5 million). This revenue is matched by identical expense items reported under Cost of materials.

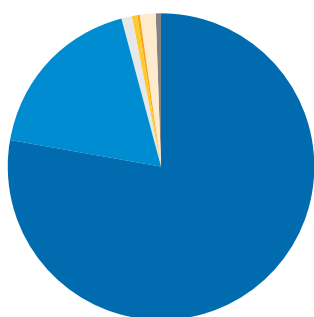
Sales revenues from the classic network business dropped by around 15 per cent (€ 656.0 million in total, previous year: € 772.0 million). Besides revenues from the sale of EEG imbalance energy and from balancing group management, these revenues mainly include network revenues. Vertical network revenues were € 73.4m up on the previous year due to prices. The revenues from EEG imbalance energy, in contrast, reduced € 21.8 million. Revenues from balancing group management at € 11.8 million (previous year: € 85.4 million) dropped € 73.6 million which was, among other factors, due to improved forecasting methods.

The income from auction revenues resulting from the reporting year and previous years is shown as deferred income for € 122.3 million congestion-reducing investments. In the previous year, the corresponding income had been reported under revenues.

A total € 58.0 million was spent on maintenance of the TSO assets (previous year: € 45.4 million). Most of the increase is attributable to the repairs necessitated by hurricane Cyril.

Personnel expenses (€ 36.3 million) and depreciation (€ 90.0 million) have remained nearly unchanged versus the previous year (€ 34.9 million and € 90.7 million, respectively).

As expenses for EEG energy feeding were high in the first months of 2007 while income was not collected in parallel because of the vertical income transfer process, the current account facility was drawn on throughout the year. This resulted in higher interest expenses in comparison with the previous year.



Sales Revenues 2007 (€ million)

■ EEG electricity supplies	2 571.3
■ Use-of-system charges	593.0
■ EEG imbalance energy	34.5
■ Electricity supplies CHP Act	16.9
■ Balancing group management	11.8
■ System support services to other TSO	51.1
■ Other sales revenues	16.7
	3 295.3

The net loss before interest and taxes amounts to € 106.7 million (previous year: € 53.4 million net income). The loss transferred to shareholder is € 127.9 million (previous year: € 47.0 million profit transfer). The decrease in profits in this financial year versus the preceding year is mainly due to changed accounting for income from auction revenues, higher maintenance expenses and increased interest charges.

Net assets and financial position

Economic equity has remained unchanged versus last year. 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) reduced to 36.6 per cent (previous year: 38.7 per cent). Tangible fixed assets at € 1 175.5 million still accounts for about two thirds of the Company's assets.

Accounts receivable increased € 137.9 million in comparison with the previous year, caused mainly by the management of the EEG business and receivables from shareholder due to the loss transfer. The balance sheet total increased 5.9 per cent versus last year.

Most of the € 77.6 million reduction in cash flows from operating activities results from the decreases in period profits and provisions.

Investing activities caused an outflow of funds of € 55.2 million (previous year outflow: € 40.0 million).

The majority of funds provided by financing activities results from transfer of the loss to 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 € 3.6 million (previous year: € 3.8 million) on sales revenues that increased to € 20.1 million (previous year: € 17.9 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 85 (previous year: 88) employees in the financial year. Vattenfall Europe Baltic Offshore Grid GmbH has been a wholly owned subsidiary of VE Transmission since 29 June 2007. The object of this company is to erect, acquire, maintain, operate and operationally manage electricity lines and accessory plant and equipment needed to connect offshore generation units, primarily to be built in the Baltic Sea, to a power transmission or distribution system.

3. IMPORTANT EVENTS IN THE NEW FINANCIAL YEAR 2008

The rate order from regulator BNetzA stating the use-of-system charges for 2008 was served on 14 January 2008. The total capacity rate is € 56 per kWa, that is 3.5 per cent higher than the rate approved for the past financial year. It was the first time for BNetzA to work from the assumption that pump electricity used by the pumped-storage power plants (PSP) was subject to use-of-system charges, arguing this represented a kind of final use of electricity. VE Transmission had already objected to this point of view in the run-up to the approval because PSP as a means of energy storage plays a very important part in ensuring system stability. It also has to be anticipated that the storage capacity of PSP – which is urgently required, in particular in light of the fluctuations in wind energy feeding – could be reduced, and the development of new storage technologies might be at risk as other energy storage technologies, too, initially would have to take up energy for the purpose of storage.

Measures to safeguard the system security as provided for by section 13 EnWG had so far to be taken on every day in 2008.

4. RISK REPORT

In application of the Risk Instruction in place at 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.

As a result of a project concerning the TSO's positioning which was carried out in spring 2007, a central unit for managing the energy business was formed in our Company. It handles both risk control and risk monitoring.

A range of findings, some of them ascertained, was derived from the ongoing discussions with regulator BNetzA on the use-of-system charges for 2008, and taken into account in the risk assessment for 2008. Profits may well deteriorate further in 2008 as the network revenues to be generated will not be sufficient to fully compensate the projected cost increase.

The switch in the regulator's practice from an annual cost review to approval of a revenue cap for a regulatory period of initially five years beginning in 2009 (as stipulated in ARegV, the incentive regulation ordinance enforced in 2007) means that the revenues will continue to be impacted. As soon as incentive regulation becomes effective, the network revenues will largely depend on what will in future be regarded as permissible return on equity. Insufficient returns on capital employed may put future investments at risk which are necessary to ensure service security.

The major risks in the energy business result from rising costs of balancing the fluctuating renewables-based energy feeding, and from the procurement of control power and energy volumes needed to cover network losses. Such cost increases may, on the one hand, result from volume effects – like wind power feeding in excess of the forecasted volumes – and/or unforeseen increases in market prices.

In order to reduce the dependency on short-term price swings, the prices of EEG energy volumes

from 2006 to be subsequently supplied in 2008 have been hedged. In addition, a considerable share of the energy expected to be required in 2008 to recover network losses has been procured through long-term public tendering procedures. Further methods of long-term hedging and control of market risks are being developed. However, not all procurement operations can be hedged on a long-term basis because of a lack of predictability, or because certain procurement procedures are mandatory.

As price hikes had been noted in 2006, especially in the market for minute reserve, short-term monitoring of all electricity-price related risks was reinforced in 2007. For 2008, the aim is to largely automate the already advanced risk early warning system.

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 fluctuating wind power feeding, the focus is here on consistently ensuring the system's balance between generation and consumption.

The risks emanating from the lack of acceptance for extensions of our extra high-voltage network are countered by early and focused public relations work as well as frank discussions with authorities, nature conservation organisations and the local population living in areas close to overhead line runs.

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 the subject of additional checks for availability, integrity, data protection and their non-discriminatory nature in 2007.

The adequacy and effectiveness of the risk management system is regularly audited by the Internal Auditing Department, 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 costs of network operation as such – including maintenance, human resources, administration and operation – are expected to remain stable. Only costs of materials have been projected to rise in the next few years as the Infrastructure Planning Acceleration Act will be implemented. This applies in particular to the costs to be passed on to the four transmission system operators by the VE Transmission and E.ON Netz GmbH subsidiaries operating the offshore system. The costs of system support services, energy for network losses and EEG balancing continue to be 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 and the obligations resulting from the

Infrastructure Planning Acceleration Act are likely to trigger further increases in network tariffs.

Based on the most recent price approval for use-of-system charges by BNetzA, the prices for 2009 and 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. Incentive regulation will be key to the future cost/revenue ratio of the Company and the desired market-based returns on capital employed.

Based on the assumption that the above-described legal and regulatory setting remains in place, the results for the next two financial years are expected to remain negative.

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, 08 February 2008

The Management


Dohler


Grieger


Neldner

ANNUAL FINANCIAL STATEMENTS OF VATTENFALL EUROPE TRANSMISSION GMBH

Balance sheet as at 31 December 2007 (€ million)

Assets

	Notes	31/12/2007	31/12/2006
Fixed assets	(1)		
Intangible assets		35.1	36.7
Tangible assets		1 137.6	1 172.7
Financial assets		2.8	1.9
		1 175.5	1 211.3
Current assets			
Inventories	(2)	4.6	1.5
Accounts receivable and other assets	(3)	683.6	545.7
Liquid funds		-	0.1
		688.2	547.3
Prepaid expenses		4.1	4.1
Special loss account from formation of provisions	(4)	4.3	4.5
		1 872.1	1 767.2

Shareholder's equity and liabilities

	Notes	31/12/2007	31/12/2006
Shareholder's equity	(5)		
Share capital		200.0	200.0
Capital reserve		455.8	455.8
Revenue reserves		0.0	0.0
		655.8	655.8
Special items	(6)	40.4	43.3
Provisions	(7)	387.0	446.8
Liabilities	(8)	589.3	535.8
Deferred income		199.6	85.5
		1872.1	1767.2

Profit and Loss Account (€ million)

	Notes	2007	2006
Sales revenues	(9)	3 295.3	2 682.5
Change in inventories		3.1	-0.5
Other internally produced and capitalised assets		1.0	1.5
Other operating income	(10)	277.4	359.7
Cost of materials	(11)	-3 168.8	-2 467.6
Personnel expenses	(12)	-36.3	-34.9
Depreciation	(13)	-90.0	-90.7
Other operating expenses	(14)	-388.4	-396.6
Financial result	(15)	-20.9	-6.3
Result of ordinary activities		-127.6	47.1
Other taxes		-0.3	-0.1
Profit/loss transferred according to the Profit and Loss Transfer Agreement		+127.9	-47.0
Net profit for the year		-	-

Cash Flow Statement (€ million)

	Notes	2007	2006
Result of the period before profit transfer		-127.9	47.0
Depreciation of fixed assets		90.0	90.7
Increase in provisions		-59.8	125.2
Loss from disposal of fixed assets		0.1	0.9
Income from disposal of fixed assets		-0.2	-0.1
Other expenses and income not affecting cash		85.3	6.2
Increase in inventories, trade accounts receivable and other assets		-78.1	-102.8
Increase in trade accounts payable and other liabilities		138.1	-42.0
Cash flow from operating activities		47.5	125.1
Proceeds from disposal of intangible and tangible assets		0.3	0.1
Payments for investments in intangible and tangible assets		-54.6	-53.5
Proceeds from construction cost subsidies		0.1	13.3
Proceeds from disposal of financial assets		0.0	0.1
Payments for investments in financial assets		-1.0	0.0
Cash flow from investing activities		-55.2	-40.0
Proceeds from financial loans raised		0.0	257.0
Repayments of financial loans		-57.3	-295.0
Proceeds from loss transfer to shareholder		127.9	0.0
Payments for profit transfer to shareholder		0.0	-47.0
Cash flow from financing activities		70.6	-85.0
Net changes in cash funds		62.9	0.1
Cash funds as at 01 January		0.1	-
Cash funds as at 31 December		63.0	0.1

Movements in fixed assets (€ million)

	Acquisition and/or production costs					31/12/2007
	01/01/2007	Additions	Transfer	Book transfers	Disposals	
Intangible assets						
Software, licences, other asset rights	40.0	0.5	-	-	-	40,5
	40.0	0.5	-	-	-	40,5
Tangible assets						
Land, rights equivalent to land and buildings incl. buildings on third-partyland	105.2	0.9	-	0.1	1.4	104.8
Plant and machinery	2 319.0	8.5	-	10.3	4.4	2 333.4
Office equipment and fixtures	52.7	1.6	0.9	0.2	1.2	53.3
Advance payments and assets under construction	33.4	43.1	-	-10.6	-	65.9
	2 510.3	54.1	0.9	-	7.0	2 557.4
Financial assets						
Shares in subsidiaries	1.5	1.0	-	-	-	2.5
Other loans	0.4	-	-	-	0.1	0.3
	1.9	1.0	-	-	0.1	2.8
Fixed assets	2 552.2	55.6	0.9	-	7.1	2 600.7

	Depreciation					Book values		
	01/01/2007	Additions	Transfer	Book transfers	Disposals	31/12/2007	31/12/2007	31/12/2006
	3.3	2,1	-	-	-	5.4	35.1	36.7
	3.3	2,1	-	-	-	5.4	35.1	36.7
	31.1	2.9	-	-	0.3	33.7	71.1	74.1
	1259.5	82.9	-	-	4.3	1338.1	995.3	1059.5
	47.0	2.1	0.9	-	1.1	48.0	5.3	5.7
	-	-	-	-	-	-	65.9	33.4
	1337.6	87.9	0.9	-	5.7	1419.8	1137.6	1172.7
	-	-	-	-	-	-	2.5	1.5
	-	-	-	-	-	-	0.3	0.4
	-	-	-	-	-	-	2.8	1.9
	1340.9	90.0	0.9	-	5.7	1425.2	1175.5	1211.3

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 financial statements prepared by Vattenfall Europe AG cover the smallest group of consolidated companies, and are available in the electronic Federal Gazette (www.ebundesanzeiger.de). The company is entered in the Commercial Register of the Berlin-Charlottenburg Local Court under register no. HRB 86854. According to Sec. 291 of the German Commercial Code (HGB), these annual financial statements exempt VE Transmission from preparing consolidated annual financial statements. 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.

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.

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.

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) and Sec. 6 b Income Tax Act (EStG) 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) in connection with Sec. 17 Deutschmark Balance Sheet Act (DMBiG) 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 according to Sec. 6b EStG 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 are based on the charts 2005 G published by Prof. Dr. Klaus Heubeck.

Other provisions adequately and sufficiently reflect all identifiable risks and contingent liabilities. Obligations arising from semiretirement, early retirement and long-service award 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., provided the respective liabilities contain an interest element.

Liabilities are reported at their repayment value.

Construction cost subsidies received are reported as Deferred income. In 2007, this item for the first time includes amounts VE Transmission collected from cross-border congestion management. Such revenues have to be allocated to specific purposes according to EC Regulation 1228/2003 on Cross-Border Exchanges in Electricity. In compliance with the BNetzA rate order of 10 January 2008, a total € 122.3 million (incl. € 28.6 million from 2007) has been eliminated from the previous cost-reducing netting calculation that forms the basis for calculation of use-of-system charges after a two-year time lag. Instead, this amount will be used for investments in maintenance or extension of connection capacity pursuant to Article 6, Paragraph 6, lit. b) of the EC Regulation. This means VE Transmission has to render performance in return for the collected revenues, and reports them on the liabilities side similar to construction cost subsidies.

The construction cost subsidies received are released over the tentative period of use, though over no longer than 20 years, on a straight-line basis. The accrued horizontal network revenues are collected over a period of 30 years as decided by BNetzA with regard to accounting treatment in the context of calculating the use-of-system charges.

Profit and 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.

(2) Inventories (€ million)

	31/12/2007	31/12/2006
Raw materials and supplies	1.1	1.1
Work in progress	3.5	0.4
	4.6	1.5

(3) Receivables and other assets (€ million)

	31/12/2007	31/12/2006
Trade accounts receivable	425.2	419.4
Accounts receivable from related companies	201.5	56.4
of which from shareholder	(66.4)	(-)
Other assets	56.9	69.8
	683.6	545.7

Accounts receivable from related companies concern € 108.4 million trade accounts receivable. The accounts receivable from shareholder contain cash deposits made in the scope of short-term cash management.

Under Other assets, € 40.7 million (previous year: € 51.3 million) receivables under the CHP Act are reported.

All accounts receivable have residual maturities of less than one year. Residual maturities of over one year apply to € 11.2 million Other assets (previous year: € 10.1 million).

(4) Special loss account from formation of provisions (€ million)

	01/01/2007	Use	31/12/2007
Special loss account	4.5	-0.2	4.3

(5) Shareholder's equity

The Company's € 200 million share capital is fully held by Vattenfall Europe AG, Berlin.

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

(6) Special items (€ million)

	31/12/2007	31/12/2006
Special item with share of reserves		
Value adjustments of fixed assets acc. to Sec. 4 FGG and Sec. 6b EStG	30.3	32.4
Special item for investment grants	10.1	10.9
	40.4	43.3

(7) Provisions (€ million)

	31/12/2007	31/12/2006
Provisions for pensions and similar obligations	14.8	13.6
Tax provisions		
Outstanding accounts EEG and CHP Act	271.0	320.2
Easements for rights in lines	71.4	72.1
Personnel obligations	13.9	15.3
Other provisions	15.9	25.6
	387.0	446.8

Other provisions mainly includes amounts for contamination clean-ups and liabilities for damages.

(8) Liabilities (€ million)

	Maturity up to 1 yr	Maturity 1-5 yrs	Total 31/12/2007	Total 31/12/2006	Prev yr maturity up to 1 yr
Advance payments from customers	2.3	-	2.3	1.6	1.6
Trade accounts payable	57.9	0.5	58.4	51.2	50.9
Liabilities to related companies	187.0	320.0	507.0	460.2	140.2
davon gegenüber Gesellschafter	(32.2)	(320.0)	(352.2)	(336.2)	(16.2)
Other liabilities	21.5	0.1	21.6	22.8	22.5
for taxes	(0.5)	-	(0.5)	(0.4)	(0.4)
for social security	(0.0)	-	(0.0)	(0.2)	(0.2)
	268.7	320.6	589.3	535.8	215.2

Of the liabilities to related companies, € 144.9 million concerns trade accounts (previous year: € 74.6 million), and the remainder consists in Other liabilities. Of the liabilities to the shareholder, € 320.0 million (previous year: € 320.0 million) is accounted for by a loan.

The underlying interest rate of the loans was hedged on a long-term basis by a swap with the shareholder.

Other financial commitments, Contingencies

Other financial commitments as per 31 December 2007 amounted to € 117.9 million (previous year: € 76.1 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 € 80.3 million purchasing commitments for 2008.

The Company is jointly and severally liable together with Vattenfall Europe AG, Vattenfall Europe Generation AG & Co. KG and Vattenfall Europe Sales GmbH for € 410.5 million liabilities of Kraftwerk Schwarze Pumpe GmbH vis-à-vis the European Investment Bank.

NOTES TO THE PROFIT AND LOSS ACCOUNT

(9) Sales revenues (€ million)

	2007	2006
EEG electricity supplies	2 571.3	1 842.1
Sales revenues from system support services to other TSOs	51.1	5.5
Electricity supplies according to the CHP Act	16.9	62.9
Revenues balanced by expenses in the same amount	2 639.3	1 910.5
Use-of-system charges	593.0	614.3
EEG imbalance energy	34.5	56.3
Balancing group management	11.8	85.4
Other sales revenues	16.7	16.0
Sales revenues - network business	656.0	772.0
	3 295.3	2 682.5

EEG electricity supplies relates to deliveries of electricity generated from renewable resources to sales organisations and traders supplying final customers in the 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. The revenues from use-of-system charges reported for financial year 2007 are net of € 28.6 million horizontal network revenues attributable to the financial year under review

(10) Other operating income (€ million)

	2007	2006
Allocations under the CHP Act *)	244.5	287.5
Income from release of provisions	7.7	6.2
Income from release of special items with share of reserves according to Sec. 4 FGG and Sec. 6b EStG	2.2	2.2
Income from release of special items for investment grants & subsidies	0.8	0.9
Other income	22.2	62.9
	277.4	359.7

* Income is balanced by expenses in the same amount

Other operating income includes € 9.5 million out-of-period income.

(11) Cost of materials (€ million)

	2007	2006
Expenses for raw materials and supplies and for purchased goods	2 873.7	2 237.7
Expenses for purchased services	295.1	229.9
	3 168.8	2 467.6

Cost of materials is broken down as follows in order to highlight the neutral character of some of the items.

(€ million)	2007	2006
EEG electricity purchasing	2 571.3	1 842.1
System support services to other TSOs	51.1	5.5
Electricity purchasing according to the CHP Act	16.9	62.9
Expenses balanced by revenues in the same amount	2 639.3	1 910.5
Expenses - network business	529.5	557.1
	3 168.8	2 467.6

(12) Personnel expenses (€ million)

	2007	2006
Wages and salaries	29.7	27.4
Social security	4.7	5.0
Pension costs	1.8	2.4
Similar benefits	0.1	0.1
	36.3	34.9

Average number of employees during the year

	2007	2006
Salaried staff	345	332
Wage-earning staff	154	156
	499	488
Apprentices	20	19
Employees	519	507

(13) Depreciation

In the financial year, non-scheduled depreciation of € 2.0 million (previous year: € 0.0 million) was performed.

(14) Other operating expenses (€ million)

	2007	2006
CHP allocation*)	244.5	287.5
Other expenses	143.9	109.1
	388.4	396.6

* Expenses are balanced by income in the same amount

Other expenses mainly includes the out-of-period expenses for use of the € 93.7 million horizontal network revenues.

(15) Financial result (€ million)

	2007	2006
Income from profit and loss transfer	3.6	3.8
Other interest and similar income	2.3	11.0
of which from related companies	(0.2)	(1.9)
Other interest and similar expenses	-26.8	-21.1
of which to related companies	(-21.7)	(-16.0)
	-20.9	-6.3

NOTES TO THE CASH FLOW STATEMENT

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

Of the Cash flows from operating activities, € 2.3 million (previous year: € 7.6 million) is due to proceeds from interest. Interest payments amounted to € 23.2 million (previous year: € 16.2 million).

SUPPLEMENTARY INFORMATION

Shareholdings

VE Transmission holds a 100 per cent interest in Vattenfall Europe Netcom GmbH. The company has € 1.5 million equity and does not report any result due to a profit & loss transfer agreement with VE Transmission. Since 29 June 2007, Vattenfall Europe Baltic Offshore Grid GmbH has been a wholly-owned subsidiary of VE Transmission with an equity position of € 1.0 million. Its net profit amounts to € 19.8 thousand.

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 are not fully available at the time the annual financial statements are 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 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 - Chairman -
Hans-Jürgen Schmidt*	Regional District Head Northeast of the Mining, Chemical and Energy Industrial Trade Union, Fichtenwalde - Vice Chairman - (until 31 July 2007)
Ulrich Freese*	Vice Chairman of the Mining, Chemical and Energy Industrial Trade Union, Spremberg - Vice Chairman - (since 27 August 2007)
Alfred Geißler	Member of the Management Board of Vattenfall Europe AG, Berlin
Frank Hörnlein*	Electrical engineer, Dessau (until 21 March 2007)
Florian Guddat*	Foreman for electrical energy equipment, Großschwabhausen (since 21 March 2007)
Dr. Lutz Pscherer*	Electrical engineer, Berlin
Prof. Dr. Klaus Rauscher	Former Chairman of the Management Board of Vattenfall Europe AG, Berlin, former member of the Executive Group Management of Vattenfall AB, Stockholm (until 30 July 2007)
Dr. Hans-Jürgen Meyer	Member of the Management Board of Vattenfall Europe AG, Berlin (since 27 August 2007)

*Employee representatives

Members of the Management

Stefan Dohler	Hamburg, Commercial Managing Director (since 01 July 2007)
Jürgen Grieger	Rosengarten, Managing Director Human Resources
Wolfgang Neldner	Berlin, Technical Managing Director

Expenses for Board members

The drawings of the Management in financial year 2007 amounted to € 751 thousand (previous year: € 746 thousand). One member of the Management is not employed by VE Transmission. Expenses for the Supervisory Board were € 27 thousand (previous year: € 24 thousand).

Loans granted to Board members

Loans granted to Supervisory Board members amounted to € 19 thousand as at 31 December 2007. 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, 08 February 2008
The Management



Dohler



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 2007. 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 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 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, 08 February 2008

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

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