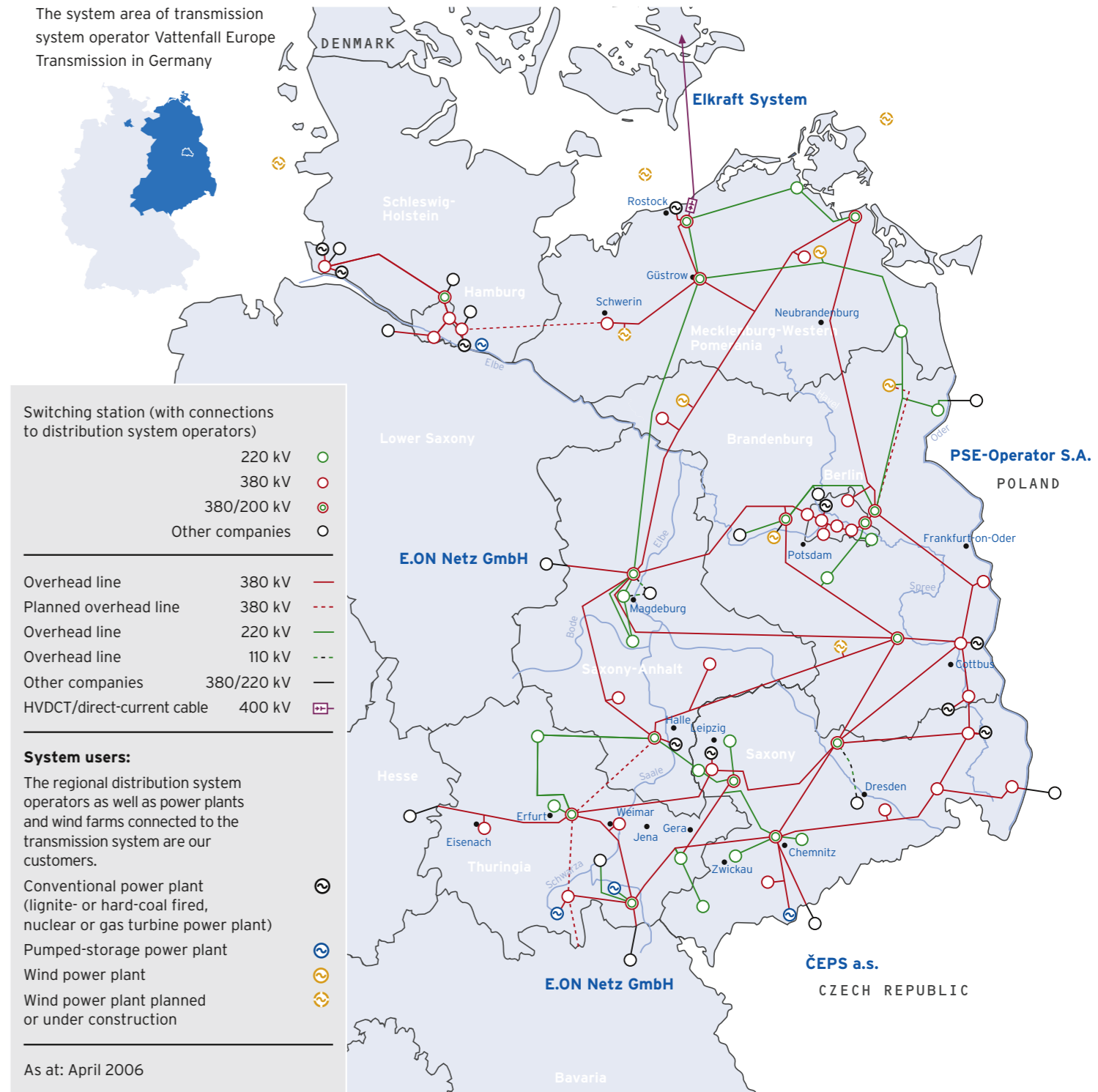


ANNUAL REPORT
2005

VATTENFALL EUROPE TRANSMISSION

THE EXTRA-HIGH VOLTAGE SYSTEM OF
VATTENFALL EUROPE TRANSMISSION

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



AT A GLANCE

2005

Sales revenues	€ m	2,283.2
Use-of-system charges	€ m	612.5
Renewable Energies Act/Income and expenses	€ m	1,526.6
Combined Heat and Power Act/Income and Expenses	€ m	307.7

Balance sheet total after deduction of the special loss account	€ m	1,268.5
Economic equity	€ m	242.1
Net profit for the year before transfer	€ m	9.6
Cash flow from operating activities	€ m	27.8

Fixed assets	€ m	807.3
Investments	€ m	64.3
Depreciation	€ m	63.5

Maximum network load	MW	15,176
Electric circuit length	km	9,520

Staff - annual average	Number	519
Staff at 31/12	Number	508
Personnel expenses	€ m	34.6

IMPRINT

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MEMBERS OF THE SUPERVISORY BOARD AND OF THE MANAGEMENT

Members of the Supervisory Board

Mats Fagerlund	Member of the Management Board of Vattenfall Europe AG, Berlin Member of the Management Board of Vattenfall AB, Stockholm – Chairman –
Hans-Jürgen Schmidt *	Regional District Head Northeast of the Industrial Trade Union IG BCE, (mining, chemical & energy industry) – Vice Chairman –
Alfred Geißler	Member of the Management Board of Vattenfall Europe AG, Berlin (since 01 January 2006)
Frank Hörnlein *	Electrical engineer
Dr. Martin Martiny	Member of the Management Board of Vattenfall Europe AG, Berlin (until 31 December 2005)
Dr. Lutz Pscherer *	Electrical engineer
Dr. Klaus Rauscher	Chairman of the Management Board of Vattenfall Europe AG, Berlin Member of the Management Board 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 2005

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 Managing Directors and provided assistance as well as advice.

The Supervisory Board received written and verbal reports from the Management about the Company's business situation, the most important business events, the envisaged business policies and the Company's strategy. The Company was supported by the Supervisory Board in meeting its legal obligations under the amendment to the Energy Industry Act (EnWG), especially with regard to non-discriminatory exercise of the network business and cooperation with the regulator Bundesnetzagentur (Federal Network Agency). The same applied to implementation of Unbundling in conformity with the law, of the non-discrimination programme and of the activities of a Vattenfall Europe non-discrimination officer and a VE Transmission non-discrimination expert.

Key aspects of the business and investment development were explained and thoroughly discussed in three ordinary Supervisory Board meetings. The Management additionally informed the Supervisory Board Chairman out of meetings with regard to important matters concerning the Company.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, has been mandated by the Supervisory Board to audit the 2005 annual financial statements pursuant to a decision taken by the Shareholders' Meeting. The annual financial statements prepared by the Company, including the accounting records, as well as the summary 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 statutory auditor's audit report was made available to all Supervisory Board members. The annual financial statements and the management report for 2005 as well as the audit report were discussed in detail in the presence of the statutory auditor in the Supervisory Board meeting on 13 March 2006.

The Supervisory Board endorses the audit result reached by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. No objections are to be raised against this report and the declarations of the Management contained therein.

The Supervisory Board examined the 2005 annual financial statements prepared by the Management as well as the management report. The annual financial statements at 31 December 2005 in conjunction with the management report are acknowledged and adopted.

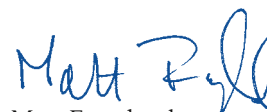
The Supervisory Board expresses its thanks and recognition to the Management, the Works Council members and all employees for their work and commitment in financial year 2005.

Dr. Martin Martiny resigned from his Supervisory Board position on December 31, 2005. The Supervisory Board thanks Dr. Martiny for his highly committed work on this Board.

On 01 January 2006, Mr. Alfred Geißler was appointed new Supervisory Board member. The Supervisory Board welcomes Mr. Alfred Geißler and wishes him great success in his work.

Berlin, March 2006

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. Customers include the distribution system operators (DSOs) of the regional electricity companies operating in the system service area of VE Transmission, 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), VE Transmission has responsibility for 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 between generation and consumption within the electricity system. In doing so, Vattenfall Europe Transmission guarantees non-discriminatory access to and 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. In accordance with legal requirements, the control component of the previous Control and Profit and Loss Transfer Agreement was terminated in 2005. 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, NORDEL and CENTREL.

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 “Second Act on New Regulation of the Energy Industry Act“ (EnWG 2005), the “Ordinance on Access to Electricity Supply Systems“ (StromNZV) and the “Ordinance on Charges for Access to Electricity Supply Systems“ (StromNEV) became effective in July 2005. The Federal Ministry of Economics is currently working on further ordinances and an amendment of the General Terms and Conditions for the Supply of Electricity (AVBELtV).

The transmission system operator VE Transmission regards the legal provisions concerning the following areas as central to EnWG 2005 and the two ordinances:

- Operational and legal unbundling rules (non-discrimination programme)
- New information and disclosure duties
- Activities of the regulator Bundesnetzagentur (BNetzA, Federal Network Agency) based on the fundamental objectives stipulated by the law
- Specific clauses describing the tasks of a TSO:
 - in ensuring safe and secure system operation (system responsibility),
 - in terms of system operation and extension according to the requirements,
 - in terms of non-discriminatory access to the network,
 - in rendering balancing and imbalance services (incl. system support services and covering of network losses) and
 - in supporting international electricity trading and the cooperation with neighbouring TSOs.

The distribution system operators and energy producers as well as the energy market watchdogs of the

Federal states in the VE Transmission control area are aware that the assumption of system responsibility is regarded by VE Transmission as a task of particular importance in the context of the amendment to the law.

The political debate about further details and developments of renewable energy law has continued throughout the year 2005. Especially the Verband der deutschen Elektrizitätswirtschaft e.V. (VDEW, German Electricity Association) has introduced new models for incentive schemes to this debate. The view held by VE Transmission in this regard is that – irrespective of how the financials of the incentive scheme are structured – immediate national-level physical burden sharing as laid down in the EEG must remain in place. This is the only way to ensure an approximately even distribution of the burdens across Germany.

Because of the fact that exorbitantly high wind energy feeding represents the greatest challenge to guaranteeing the system service security, VE Transmission has stepped up its efforts to integrate renewable-based power generation facilities into the power supply system. Besides hands-on collaboration with operators of wind farms hooked directly to the system, and roundtable discussions with representatives of the wind power industry and politicians (especially the energy watchdogs), this includes supporting innovative solutions in controlling power generation from renewable-based power producers, and active participation in German and European integration studies. In a joint effort with the industry's associations, politicians and companies of the renewable electricity industry, solutions are actively being sought for effective, security-oriented generation management.

System provision

In financial year 2005, 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 again kept to a minimum.

Maintenance of the net asset base of the network was ensured by investments and maintenance works in line with requirements. This strategy will be consistently carried forward into the future, reinforced by the newly initiated “Long-term quality assurance management“ project. The well-established, close collaboration with environmental authorities and associations, e.g. in the field of promoting action for the conservation of nature, soil and wildfowl, has been and will be continued in this context.

VE Transmission has received numerous inquiries for hooking up planned conventional power plants and wind farms (on- and offshore) to the transmission system. These are being processed according to a standard, non-discriminatory procedure.

The “dena I” study, a study on energy management planning for the integration of wind energy into the German network which was completed in February 2005, identified needs for network reinforcement and extensions, with a substantial part of these projects located in the VE Transmission control area. These have been taken into account in investment planning. Beyond these works, additional network reinforcement projects have been identified as necessary in further investigations, and also because the assumptions used in the study had partly been based on simplifications.

The aim of the “dena II” study – preparations for which are under way – is to formulate technical concepts for the integration of wind energy into the network between 2015 and 2020, and to answer questions left unresolved by the “dena I” study. Moreover, a European Wind Integration Study (EWIS) on wind energy integration into the European power grid was initiated, partly based on “dena I”, and partly triggered by active discussions at the level of the UCTE (Union for the Coordination of Transmission of Electricity) and ETSO (European Transmission System Operators). VE Transmission will again take an active role in both studies.

Against the backdrop of ever higher requirements being made on the transmission system with a view to long-distance transport of renewable energy (pursuant to the EEG) and unhindered Europe-wide electricity trading (according to EU requirements), investment activities in 2005 focussed on network reinforcement works and the preparation of ample network extension projects. On the whole, € 64.3 million was invested in tangible fixed assets and intangible assets.

In the south-western area of the network service territory, available transmission capacity that had so far only partly been usable was converted for full-scale use. The substations in Streumen, Preilack, Neuenhagen, Wolmirstedt and Förderstedt were switched over to remote control. Maintenance works included upgrades of approx. 100 km overhead lines with their towers converted to low-corrosion steel (KTS).

As far as the “Northern line“ investment project (a 380 kV overhead line between Schwerin and Hamburg) is concerned, the regional planning procedure has been completed. Preparations for the project approval procedure are in full swing. The project “South-west interconnector“ (a 380 kV overhead line between Halle and Schweinfurt) is continuously progressing in all three sections. The regional planning procedure has already been completed for one section, and is in its preparation phase for the remaining two.

VE Transmission looks to the proposed Infrastructure Planning Acceleration Act that is currently undergoing the legislative procedure to provide substantial impetus towards acceleration of the planned network extensions.

System control

System control in the balancing area was performed in line with all requirements and standards. The needs in terms of “classical” control power (i.e. in the scope of standard balancing operations) were covered via tendering. In addition, default power had to be kept available for consumption-oriented operation of the

EEG units, and the volume of EEG balancing transactions – which are carried out on the basis of market mechanisms – saw a renewed increase.

With the installed capacity of wind power generation having risen to around 7,160 megawatts (MW) in the control area during the reporting year, it was imperative to flexibly adjust control of the considerable fluctuations in wind power feeding so that the German and European system security was consistently guaranteed.

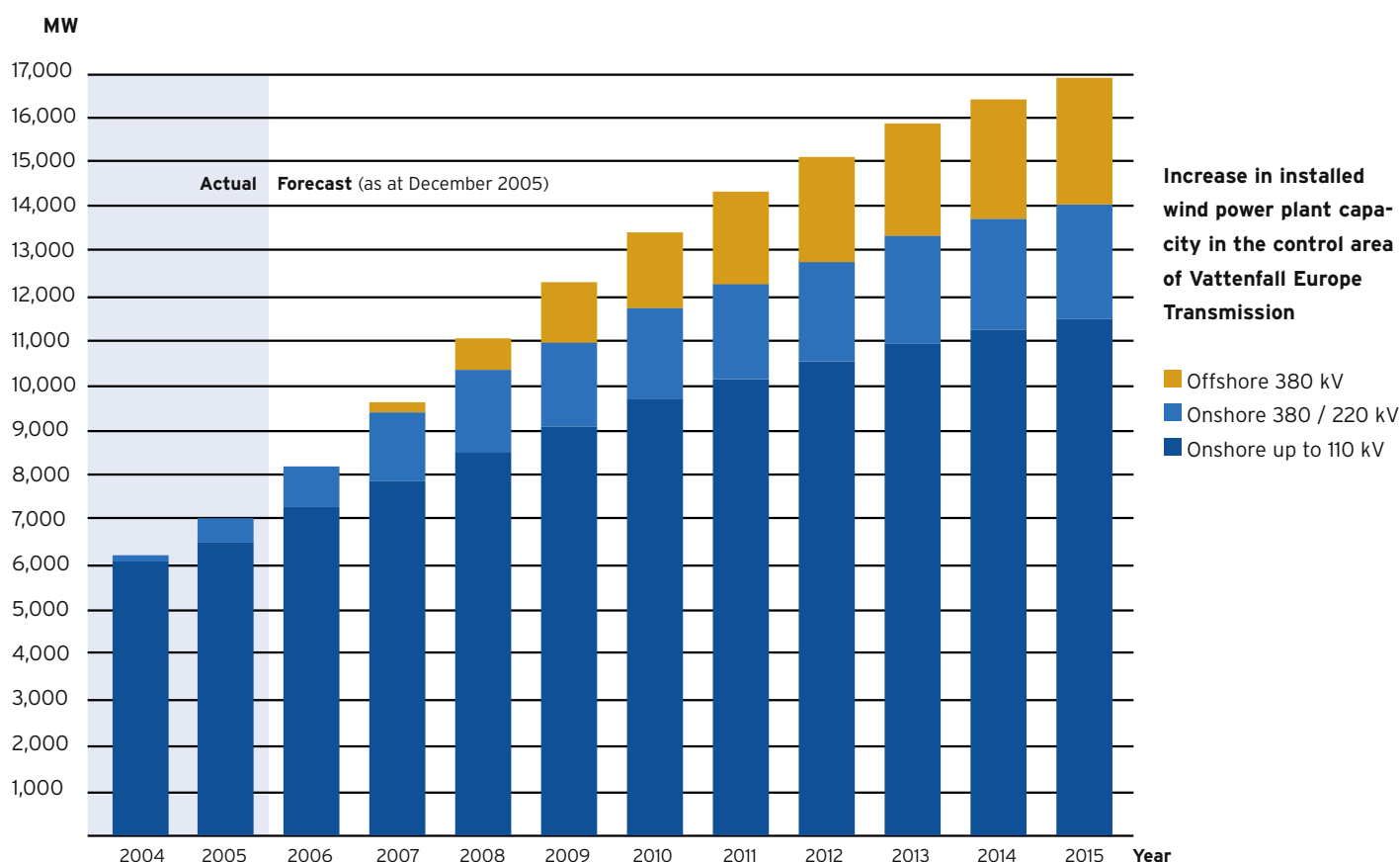
The maximum reached in terms of simultaneous feeding from wind power plants in the VE Transmission control area during the financial year was 5,813 MW on 15 December 2005. Only the closely coordinated interplay between system operators and users prevented adverse effects on the service security of the electricity supply system.

The load situations occurring in 2005 were analysed and discussed with a view to potential remedial action both with the neighbouring TSOs and the distribution system operators connected to the network, as well as with the respective national institutions and authorities.

VE Transmission, besides placing its focus on pushing the network extensions, has mainly committed itself to the following requirements being met:

- Statutory obligation to install generation management units to meet the needs of system security;
- Transmission of instantaneous capacity levels of current wind capacity;
- Preparations for contingent network- and market-related action to be taken in the event of emergencies, incl. the reduction of generation capacity (also for wind power plants) at all network levels.

In cooperation with the other German TSOs and companies of the German business sector, a basic protection concept for critical infrastructure in Germany was drawn up with the Federal Ministry of the Interior. Its key contents had already been part and parcel of the Vattenfall Group’s internal regulations.



System use

Close coordination with our customers was again a key concern for us in 2005. Based on the long-term contracts in place, specific issues concerning system use, the concrete details of system connections, joint system operation, operations under the EEG and CHP Acts, as well as balancing group management were discussed and agreed.

The amended EnWG and the pertaining ordinances on network access and the calculation of charges for network access contain very detailed provisions requiring adjustments to the existing sets of contracts with our customers.

The regulator BNetzA will in future approve applicable prices on an ex ante basis. The decision on approval has to be taken six months at the latest after receipt of the full set of application documents. A corresponding rate case for 2006 was filed by VE Transmission in due time at the end of October 2005.

The applied-for use-of-system charges are designed to maintain the previous price levels, while the previous billing practice of VE Transmission – i.e. charging for use of the system purely on the basis of the capacity rate and individual demand factors – will be replaced by billing on the basis of capacity and energy rates.

The preliminary review instigated by the Federal Cartel Office in 2004 following press reports about the then contemplated price increase was discontinued without any complaints being lodged after responsibility had passed to the regulator BNetzA.

At the initiative of the European Commission and the European regulators, a range of mini-fora were held on the subject of congestion management in 2005. Building on the excellent experience gathered with coordinated explicit auctions of transmission system capacity at the borders to the control areas of the Czech and Polish transmission system operators CEPS a.s. and PSE-Operator S.A., coordinated network con-

gestion management in this region will be enhanced in 2006 as E.ON Netz GmbH and the Slovak transmission system operator SEPS a.s. will also be involved.

On the direct-current link to eastern Denmark, a test for the rollout of market coupling, a method practised in the Scandinavian market for awarding congestion capacity with the involvement of electricity exchanges, was launched in October 2005. The award of limited transmission capacity is performed simultaneously with auctions of power deliveries handled by the NordPool Spot electricity exchange that has set up a special pricing zone in the control area of VE Transmission for this purpose.

VE Transmission endeavours to foster further development of the European electricity market by supporting progressive congestion management methods.

Balancing group management

At the end of 2005, 218 balancing groups were maintained for the traders and electricity sales operators in the VE Transmission control area.

Substantial progress was made over the year in billing the balancing groups of the control area. Based on the existing contracts, the balancing groups were billed on a monthly basis for the years 2002 to 2004 and the first two months of the year 2005 with the help of a high-performance billing and data management system. The overwhelming majority of customers have recognised the calculated billing results. To the extent balancing group data corrected after billing have been received by VE Transmission, second bills may become necessary for certain periods in 2006.

Like the other German transmission system operators, VE Transmission has turned to BNetzA to file an application for granting an adequate transition period until the point in time when the billing period of two months as stipulated by the legislator can be respected. Besides the actual production of outstanding

bills, key contributors to achieving this include a further acceleration of the provision of data by the distribution system operators (DSOs) in conjunction with improved quality of the billing data during this period.

EEG/CHP Act

The difficulty to predict wind power generation was again a key feature of our work towards ensuring compliance with the obligations under the Renewable Energies Act, the EEG, in 2005. The observed, sometimes considerable variations over long-established averages of wind velocity led – in conjunction with the distinct increase in electricity market prices witnessed since April, and the rise in installed wind capacity – to a situation where another cost increase versus the preceding year had to be noted despite the cost-reducing effect from immediate horizontal burden sharing.

VE Transmission used a consultant in 2005 to record the processes required for EEG management, optimise them and document them in a manual. In this context, further action was taken to improve the forecast quality. For the first time, pumped-storage capacity that had been specifically contracted for balancing of the EEG balancing group was used.

Existing EEG contracts with numerous system operators and energy utility companies have been adjusted to match the new legal standards. Following intensive preparations, the renewable-based electricity fed into the network according to EEG will be forwarded to utility companies on the basis of monthly (previously quarterly) forecasts from 2006 on. This is to enable earlier balancing of variations between feeding and deliveries.

In 2005, altogether 16.6 TWh EEG electricity was fed into the network in the control area and bought from other TSOs (previous year: 13.3 TWh). The annualised settlement for 2004 was performed in due time as per 31 October 2005; the relevant statement was con-

firmed with an auditor's certificate and published on the Internet. The resulting claims for payment were asserted in time.

The subsidising of cogeneration plants pursuant to the CHP Act of 19 March 2002 ("CHP Modernisation Act") is performed on the basis of corresponding contractual arrangements with power plant and network operators.

The previously applicable Interim CHP Act continues to generate after-effects. Leading decisions have been passed by the Federal Supreme Court on application of this law, in most cases in favour of the plant operators. As a result, the discontinuance of further proceedings of a similar nature was obtained. For some of the respective claims, nation-wide burden sharing was performed in 2005. Some more will follow suit in 2006. A target date by when all claims are to be sorted out has not yet been identified.

Regulatory management

The newly established Regulatory Management function was in charge of processing and answering the Sector Inquiry put forward by the Competition Directorate of the EU Commission. This function also handles data inquiries from regulator BNetzA in the context of the national-level benchmarking procedure, in preparation of incentive-based regulation, and other queries. For example, BNetzA had directed inquiries to the TSOs in the context of the provisions of the European Regulation on Conditions for Access to the Network (EU Regulation 1228/2003), concerning the subjects of congestion management and pan-European electricity trading. Further key points in the contacts to BNetzA concern matters of balancing group management, joint tendering of control energy by the TSOs, support in network extension projects and in EEG generation management, contract drafting, special forms of system use and service quality. The broadness of this range of subjects emphasises the special role TSOs play in the electricity supply system, and the necessity of a holistic regulatory practice.

Human resources

On 31 December 2005, VE Transmission had 508 employees and 20 apprentices, with the average age being 44.3 years, and the share of female employees 20 per cent. The percentage of employees on part-time contracts was four per cent, and eight per cent of our employees worked in shifts. The Company employed 18 severely handicapped employees and employees with a similar status at year-end, which is equivalent to a share of around four per cent.

In comparison with the previous year (31/12/2004: 530 employees and 16 apprentices), the headcount reduced by 18 persons. This net headcount development is the aggregate result of 44 leavers and 26 joiners. Slightly over two thirds of the leavers in 2005 departed on the basis of company early retirement schemes (31 persons).

The outcome of the "My Opinion 2005" employee survey has revealed a high level of employee satisfaction (86 per cent). On the other hand, however, the work load on employees turned out to be very high. Only 28 per cent of staff regard their work-life balance as well-balanced. A positive impact on the survey results was felt from the annual employee interviews introduced last year.

The responsible and safety-conscious behaviour of the Vattenfall Europe Transmission employees improved further in 2005. The accident rate dropped from 12.4‰ in 2004 to 7.6‰ in 2005.

The other activities geared to human resources development, e.g. trainee programmes and contacts to university-level schools (projects, practicals and mentorships for diploma candidates) were continued in their well-proven form.

2 BUSINESS SITUATION

Sales volumes and revenues

In financial year 2005, VE Transmission transported approx. 85 billion kilowatt-hours (kWh) electricity

(previous year: 82 billion kWh). The maximum network load was reached on 12 December 2005 at 15,176 MW (previous year: 15,231 MW).

VE Transmission's sales revenues amounted to € 2,283.2 million in financial year 2005 (previous year: € 1,874.9 million). Of this amount, € 1,526.6 million (previous year: € 1,231.4 million) is accounted for by the electricity sold under the EEG, and € 612.5 million (previous year: € 500.2 million) by network revenues. The € 408.3 million (22 per cent) increase in sales revenues is 75 per cent due to rising renewable-based electricity deliveries. Vertical network revenues rose € 87.8 million, predominantly due to price factors, and horizontal revenues moved up € 25.0 million.

Other operating income amounted to € 430.2 million (previous year: € 404.0 million), with € 302.1 million (previous year: € 323.3 million) relating to income from burden sharing under the CHP Act which is matched by corresponding expenses.

Expenses and income

The € 2,683.7 million (previous year: € 2,265.1 million) operating expenses are nearly 75 per cent (€ 1,888.4 million, previous year: € 1,620.7 million)

defined by the expenditure under the EEG (€ 1,526.6 million) and the CHP Act (€ 361.8 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 € 148.8 million (previous year: € 138.9 million) which – after netting with the corresponding € 35.3 million revenues from sales of imbalance energy (previous year: € 45.4 million) – aggregate to a net expenditure item of € 113.5 million (previous year: € 93.5 million).

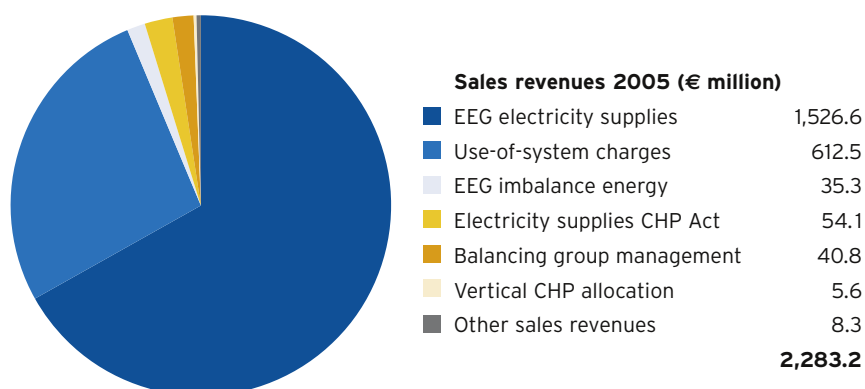
Expenses for purchasing system support services rose € 30.1 million to € 175.8 million due to price in the financial year. The expenses for balancing of network losses also rose, experiencing a considerable, mainly price-related € 37.8 million increase to € 83.5 million. A total € 45.9 million was spent on maintenance of the TSO assets (previous year: € 35.1 million).

Personnel expenses (€ 34.6 million) and depreciation (€ 63.5 million) have remained nearly unchanged over the previous year (€ 31.7 million and € 64.6 million, respectively). After rolling them in, income before interest and taxes amounts to € 31.9 million (previous year: € 13.9 million). After factoring in the net interest result of € -10.7 million (previous year: € -24.9 million) and € 11.6 million taxes, the resulting net profit amounts to € 9.6 million (previous year: € 11.1 million loss) which was transferred to the shareholder.

The EBIT (earnings before interest and taxes), a variable used for control of the Company and calculated on the basis of IFRS, was € 45.3 million (previous year: € 16.9 million).

Net assets and financial position

VE Transmission boasts a stable net asset position. The balance sheet total is € 56.2 million up on the previous year, reaching € 1,273.3 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 (DMBiG), there-



fore saw a marginal decrease to 19 per cent. Tangible fixed assets (€ 807.3 million) accounted for two thirds of the Company's assets on accounting date, and continue to be covered at a rate of approx. 30 per cent by economic equity.

Accounts receivable increased € 50.9 million in comparison with the previous year, while accounts payable also rose by € 44.1 million, mainly reflecting the continued increase in the business volume from transactions under the EEG and the CHP Act. Cash flows from operating activities amounted to € 27.8 million in the financial year (previous year: € 23.0 million) while € 56.9 million cash (previous year: € 45.0 million) was used for investments.

VE Transmission raised € 100.0 million mid-term shareholder loans in the financial year. The overdraft facility valued at € 81.6 million at the beginning of the financial year was partly repaid, reducing to € 20.3 million.

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 an income before income tax of € 2.7 million (previous year: € 1.5 million) on sales revenues that increased to € 17.5 million (previous year: € 13.8 million) in the financial year. Based on an agreement on profit & loss transfer, the net income incl. an income tax allocation was transferred in full to VE Transmission. VE Netcom had an average 92 employees (previous year: 105) in the financial year.

3 IMPORTANT EVENTS IN THE NEW FINANCIAL YEAR 2006

No events of essential importance for VE Transmission occurred between the close of financial year 2005 and the time the management report was signed.

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.

A permanent economic risk resides in the year-by-year increase in the cost of balancing the fluctuating input of renewable energies. As BNetzA has not yet defined the requirements made on the carrying values for firm target costs according to StromNEV in the calculation of network prices, a cost calculation on the basis of prior-year costs involves the risk of a recurring discount on the return on capital employed which is due to the shareholder according to the ordinance.

The network revenues for 2006 are exposed to risks with a view to the pending application for use-of-system charges made to BNetzA should the latter refuse to fully accept the costs stated in the cost calculation. The network revenues in the ensuing years will hinge on what level of return on equity will be permissible in future, and to what extent the special features of a TSO are taken into account in the proposed implementation of incentive-based regulation.

The market-oriented procurement of control power, balancing energy and energy for network losses involves volume and price risks. Some of the energy needed in 2006 to make up for network losses has already been hedged to reduce the price risks. Against the background of the price peaks occurring in the course of the year, e.g. in the market for minute spinning

reserve, the practical conclusions drawn include short-term monitoring of these market risks and further talks with BNetzA on price hedging. Any overrun over the target costs would – with network revenues being fixed on the basis of the approved tariffs – entail reductions of the planned result. In addition, there is a volume risk resulting from a potential underrun of the vertical maximum load for the year, and of the energy taken off, as both factors are elements of the calculated network price.

Insufficient returns on capital employed resulting from the above-stated risks represent a considerable business risk with a view to past and future investments in ensuring service security.

A new ministerial draft for amendment of the General Terms and Conditions for the Supply of Electricity is expected to be tabled in 2006. It will have particular relevance for the networks business. Potential stipulations might e.g. include unlimited liability in the event of irregularities or temporary failures of electricity supply. In a concrete case, this might well cause considerable additional charges to system operators, which would consequently lead to a cost increase triggering repercussions on the use-of-system charges.

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

A special aspect – as mentioned above several times – concerns the recently codified 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 for availability, integrity, data protection and their non-discriminatory nature in 2005.

The aim for 2006 is to further develop the risk early warning system, especially for the electricity-price related risks. The adequacy and effectiveness of the risk management system will be regularly audited by the Internal Audit department, including for compliance with legal requirements.

5 LOOKING AHEAD

The following statements relative to the Company's future and its economic and political development represent assessments made on the basis of information available at the time being. Should the assumptions used not materialise, the actual results may well differ from the forecast ones.

In order to ensure the level of service security required by the EnWG, VE Transmission plans a range of activities, one of them being an increase in investments. Implementing these projects will improve the physical potential for channelling the superproportionately high amount of EEG electricity fed into the network in the VE Transmission control area to regions with lower EEG input. We will thereby also comply with the UCTE's requirements for safe and secure European system operation, and the requirements of the German legal framework for safe and secure operation of the control area. In addition, further network reinforcement works and extensions will become necessary in the mid-term as we have received numerous inquiries concerning connections to the system of conventional power plants and offshore wind farms.

With effect from 01 January 2006, it is envisaged to spin off the previously leased extra-high-voltage lines and assets of Vattenfall Europe Berlin and Vattenfall

Europe Hamburg (formerly Bewag and HEW) to VE Transmission. Key prerequisites to this move include the tax exemption of such a transaction, a facilitating factor laid down in the new EnWG. This spin-off will lead to an increase in the Company's fixed assets and equity. As this will raise the capital employed, the net income is expected to rise, too.

Both the revenues and costs of VE Transmission are largely determined by legal imperatives. With a view to the EEG, VE Transmission expects an increase in renewable-based generation capacity of approx. 7,300 MW (including 6,300 MW from wind turbines) by 2010. This would be markedly higher than the capacities forecasted by the "dena I" study. As the continually growing feeding of wind energy has to be balanced, rising costs for imbalance energy have to be expected even if electricity prices remain the same. In addition, the share of default power to be held available will rise superproportionately in comparison with imbalance energy that has to be procured in the electricity market in line with demand, in order to be able to guarantee system security even in critical situations.

While the costs of actual network operation are unlikely to show large variations in 2006 versus 2005, the costs of system support services, energy for network losses and EEG balancing are highly exposed to movements in electricity prices, and are therefore difficult to forecast. The same applies to the revenues

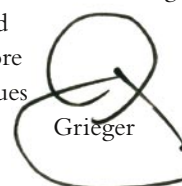
from congestion management which hinge, inter alia, on how the electricity price differences between the eastern European neighbours and Germany will develop, and in what way the methods for award of congestion capacity will be advanced. Across the board, it can be said that the systematically rising costs of EEG balancing are likely to trigger further increases in network tariffs.

With a view to the ensuing years, VE Transmission endeavours to achieve returns on capital employed which are deemed adequate under StromNEV. This had not always been possible in the past, with one of the causes being the time lag between the time costs were incurred and the time these costs were integrated into the calculation of network tariffs.

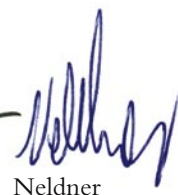
VE Transmission will remain committed to meeting its statutory responsibilities for high-quality electricity transmission in its control area, and thereby contribute to the availability of a safe and secure electricity supply system.

Berlin, 16 February 2006

The Management



Grieger



Neldner

FINANCIAL STATEMENTS

Balance sheet as at 31 December 2005

ASSETS	Notes	31/12/2005 € million	31/12/2004 € million
Fixed assets	(1)		
Intangible assets		36.5	31.6
Tangible assets		768.8	767.5
Financial assets		2.0	2.1
		807.3	801.2
Current assets			
Inventories	(2)	2.2	1.5
Accounts receivable and other assets	(3)	447.1	396.2
		449.3	397.7
Prepaid expenses		11.9	12.2
Special loss account from formation of provisions	(4)	4.8	6.0
		1,273.3	1,217.1

SHAREHOLDER'S EQUITY AND LIABILITIES	Notes	31/12/2005 € million	31/12/2004 € million
Shareholder's equity	(5)		
Share capital		150.0	150.0
Capital reserve		69.7	68.9
Revenue reserves		0.0	0.0
		219.7	218.9
Special items	(6)	40.6	43.7
Provisions	(7)	320.9	309.5
Liabilities	(8)	612.9	568.8
Deferred income		79.2	76.2
		1,273.3	1,217.1

Profit and loss account

	Notes	2005 € million	2004 € million
Sales revenues	(9)	2,283.2	1,874.9
Change in inventories		0.7	-0.8
Other internally produced and capitalised assets		1.5	0.9
Other operating income	(10)	430.2	404.0
Cost of materials	(11)	-2,068.5	-1,667.4
Personnel expenses	(12)	-34.6	-31.7
Depreciation	(13)	-63.5	-64.6
Other operating expenses	(14)	-517.1	-501.4
Financial result	(15)	-10.7	-24.9
Result of ordinary activities		21.2	-11.0
Taxes	(16)	-11.6	-0.1
Profit transferred / loss reimbursed according to the Profit and Loss Transfer Agreement	(5)	-9.6	11.1
Net profit for the year		-	-

Cash flow statement

	Notes	2005 € million	2004 € million
Result of the period before profit transfer		9.6	-11.1
Depreciation of fixed assets		63.5	64.6
Increase in provisions		11.4	37.1
Loss from disposal of fixed assets		0.4	0.2
Income from disposal of fixed assets		-0.9	-0.2
Other expenses and income not affecting cash		5.1	2.9
Increase in inventories, trade accounts receivable and other assets		-63.4	-187.9
Increase in trade accounts payable and other liabilities		2.1	117.4
Cash flow from operating activities	(17)	27.8	23.0
Proceeds from disposal of intangible and tangible assets		2.2	0.5
Payments for investments in intangible and tangible assets		-63.2	-47.0
Proceeds from construction cost subsidies		4.0	1.4
Proceeds from disposal of financial assets		0.1	0.1
Payments for investments in financial assets		-	-0.0
Cash flows from investing activities		-56.9	-45.0
Proceeds from financial loans raised		100.0	376.6
Repayments of financial loans		-61.3	-408.5
Payments for profit transfer to shareholder (previous year: Proceeds from loss absorption)		-9.6	11.1
Cash flows from financing activities		29.1	-20.8
Net changes in cash funds		-	-42.8
Cash funds as at 01 January		-	42.8
Cash funds as at 31 December	(18)	-	-

Movements in fixed assets (€ million)

	Acquisition and/or production costs					31/12/2005
	01/01/2005	Change in reporting	Additions	Transfers	Disposals	
Intangible assets						
Software, licences, other asset rights	4.1	-	0.5	-	0.0	4.6
Advance payments	31.3	-	4.6	-	-	35.9
	35.4	-	5.1	-	0.0	40.5
Tangible assets						
Land, rights equivalent to land and buildings incl. buildings on third-party land	74.2	-	1.5	0.2	4.3	71.6
Plant and machinery	1,613.6	6.6	30.4	19.6	8.9	1,661.3
Office equipment and fixtures	50.5	0.2	1.4	4.9	4.7	52.3
Advance payments and assets under construction	27.7	-	26.7	-24.7	-	29.7
	1,766.0	6.8	60.0	-	17.9	1,814.9
Financial assets						
Shares in subsidiaries	1.5	-	-	-	-	1.5
Other loans	0.6	-	-	-	0.1	0.5
	2.1	-	-	-	0.1	2.0
Fixed assets	1,803.5	6.8	65.1	-	18.0	1,857.4

	01/01/2005	Change in reporting	Depreciation			31/12/2005	Book values	
			Additions	Transfers	Disposals		31/12/2005	31/12/2004
	3.8	-	0.2	-	0.0	4.0	0.6	0.3
	-	-	-	-	-	0.0	35.9	31.3
	3.8	-	0.2	-	0.0	4.0	36.5	31.6
	22.8	-	2.1	-	3.0	21.9	49.7	51.4
	930.8	0.5	58.7	-3.3	8.7	978.0	683.3	682.8
	44.9	0.1	2.5	3.3	4.6	46.2	6.1	5.6
	-	-	-	-	-	-	29.7	27.7
	998.5	0.6	63.3	-	16.3	1,046.1	768.8	767.5
	-	-	-	-	-	-	1.5	1.5
	-	-	-	-	-	-	0.5	0.6
	-	-	-	-	-	-	2.0	2.1
	1,002.3	0.6	63.5	-	16.3	1,050.1	807.3	801.2

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 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 Vattenfall Europe Netcom GmbH, Berlin. The consolidated annual financial statements of Vattenfall AB covering the largest group of consolidated companies are available at Patent och Registreringsverket in Stockholm. The company is there entered under register no. 556036-2138.

A Control and Profit & Loss Transfer Agreement was in place between VE Transmission and Vattenfall Europe AG. The control component of this Agreement was terminated as per 22 December 2005, while the Profit & Loss Transfer Agreement has been maintained. The Company is in fiscal unity with Vattenfall Europe AG 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. 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 provisions are deducted from the Special loss account 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 2005 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.

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.

A € 0.8 million correction of the fixed assets taken over upon the spin-off of operations from the legal predecessor on 01 January 2002 was performed in the financial year (of which € 0.1 million concerns Land, and € 0.7 million concerns Plant and machinery). These fixed assets are reported under additions.

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

Construction cost subsidies received were depreciated and reported on the asset side in 2003 and 2004. In this financial year, the reporting practice has been changed, and they are now exclusively shown on the liabilities side. A detailed breakdown is contained in the Movement of fixed assets schedule.

Shareholdings

VE Transmission holds a 100 per cent interest in Vattenfall Europe Netcom GmbH, Berlin. 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 AG, Berlin.

(2) Inventories

	31/12/2005	31/12/2004
	€ million	€ million
Raw materials and supplies	1.3	1.3
Work in progress	0.9	0.2
	2.2	1.5

(3) Accounts receivable and other assets

	31/12/2005	31/12/2004
	€ million	€ million
Trade accounts receivable	301.4	291.7
Accounts receivable from related companies	66.3	27.4
of which from shareholder	(-)	(-)
Other assets	79.4	77.1
	447.1	396.2

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

Under Other assets, € 58.1 million (previous year: € 68.5 million) receivables under the CHP Act are reported. A partial amount of € 30.0 million (previous year: € 32.8 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 € 8.4 million Other assets (previous year: € 6.4 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:

	01/01/2005	Use	Release	31/12/2005
	€ million	€ million	€ million	€ million
Special loss account	6.0	0.5	0.7	4.8

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 amounts to € 150 million and is fully held by Vattenfall Europe AG, Berlin.

The capital reserve was increased by € 0.8 million by way of a correction of the fixed assets taken over as of 01 January 2002 from the transferring legal predecessor VEAG Vereinigte Energiewerke AG, Berlin (today: Vattenfall Europe AG, Berlin) (see explanations under (1)).

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. The net profit for the reporting year was transferred to the shareholder on the basis of the Profit & Loss Transfer Agreement in place.

(6) Special items

	31/12/2005	31/12/2004
	€ million	€ million
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)	33.4	35.8
Special item for investment grants	7.2	7.9
	40.6	43.7

The share of borrowings in special items depends on future tax burdens. The Special item for investment grants is fully attributable to Shareholder's equity as the collection of yields is tax-free. The equity share of the Special item with share of reserves amounts to approx. 60 per cent. Future release of the Special item will improve income.

(7) Provisions

	31/12/2005	31/12/2004
	€ million	€ million
Provisions for pensions and similar obligations	11.9	7.3
Tax provisions	0.5	0.8
Other provisions		
Outstanding accounts StrEG*, EEG and CHP Act	202.9	189.0
Rights in lines according to Land Record Correction Act (GBBerG)	73.6	72.0
Personnel obligations	14.1	17.4
Other provisions	17.9	23.0
	320.9	309.5

*Act on Compensation for Wrongful Prosecution

Other provisions mainly includes amounts for penalty interest, contamination clean-ups and other contingent liabilities.

(8) Shareholder's equity and liabilities

	Maturity up to 1 yr	Maturity > 5 yrs	Total 31/12/2005	Total 31/12/2004
	€ million	€ million	€ million	€ million
Liabilities to banks	0.0	-	0.0	0.0
Advance payments from customers	16.2	-	16.2	5.6
Trade accounts payable	59.8	0.2	60.0	75.1
Liabilities to related companies	101.9	-	496.9	450.3
of which to shareholder	(40.6)	(-)	(435.6)	(379.9)
Other liabilities	39.7	-	39.8	37.8
for taxes	(0.4)	(-)	(0.4)	(0.5)
for social security	(0.7)	(-)	(0.7)	(0.7)
	217.6	0.2	612.9	568.8

Of the Trade accounts payable, € 0.7 million (previous year: € 2.0 million) is secured by charges on property.

Of the Liabilities to related companies, € 66.6 million concerns trade accounts, and the remainder consists in Other liabilities. Of the Liabilities to the shareholder (before netting with accounts receivable), € 395.0 million (previous year: € 295.0 million) is accounted for by loans, and € 20.3 million (previous year: € 81.6 million) by the overdraft facility with Vattenfall Europe AG.

Other financial commitments, Contingencies

Other financial commitments as per 31 December 2005 amounted to € 44.0 million (previous year: € 36.9 million) resulting from the order commitment for investments, € 7.4 million of which (previous year: € 13.5 million) has residual maturities between one and five years.

For electricity purchases used for market-based balancing of network losses, VE Transmission entered into € 38.5 million purchasing commitments with related companies for 2006.

Moreover, the Company has assumed joint and several liability together with Vattenfall Europe AG, Vattenfall Europe Generation AG & Co. KG and Vattenfall Europe Sales GmbH for € 504.2 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 AG, Vattenfall Europe Generation AG & Co. KG and Vattenfall Europe Sales GmbH, 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

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

(9) Sales revenues

	2005	2004
	€ million	€ million
EEG electricity supplies*)	1,526.6	1,231.4
Use-of-system charges	612.5	500.2
Electricity supplies according to the CHP Act*)	54.1	43.6
Balancing group management	40.8	24.5
EEG imbalance energy	35.3	45.4
Vertical CHP allocation*)	5.6	22.4
Other sales revenues	8.3	7.4
	2,283.2	1,874.9

*Revenues are balanced by expenses in the same amount

EEG electricity supplies relates to deliveries of electricity generated from renewable resources to electricity distributors 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

	2005	2004
	€ million	€ million
Allocations under the CHP Act*)	302.1	323.3
Income from release of provisions	10.3	6.4
Other out-of-period income	4.0	8.5
Income from release of special items with share of reserves according to Sec. 4 FGG and Sec. 6b EStG	2.8	2.3
Income from release of special items for investment grants	0.7	0.7
Other income	110.3	62.8
	430.2	404.0

*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

	2005	2004
	€ million	€ million
Expenses for raw materials and supplies and for purchased goods	1,842.0	1,481.0
Expenses for purchased services	226.5	186.4
	2,068.5	1,667.4

The expenses for raw materials and supplies and for purchased goods contain € 1,526.6 million (previous year: € 1,231.4 million) renewable energy buying and € 54.1 million (previous year: € 43.6 million) CHP electricity buying.

(12) Personnel expenses

	2005	2004
	€ million	€ million
Wages and salaries	25.2	24.9
Social security	4.8	4.9
Pension costs and similar benefits	4.5	1.7
	0.1	0.2
	34.6	31.7

Average number of employees during the year

	2005	2004
Salaried staff	328	350
Wage-earning staff	174	180
	502	530
Apprentices	17	13
Employees	519	543

The adjustment of the HGB accounting practice for pension commitments with congruent counterinsurance to the size of the counterinsurance claim has led to € 2.8 million additional expenses in the financial year.

(13) Depreciation

In the financial year, non-scheduled depreciation of € 0.7 million (previous year: € 1.7 million) on disused operating assets was performed.

(14) Other operating expenses

	2005	2004
	€ million	€ million
CHP burden sharing	307.7	345.7
Allocations to the special item with share of reserves according to Sec. 6b EStG	0.4	0.0
Out-of-period expenses	4.0	5.2
Sundry other operating expenses	205.0	150.5
	517.1	501.4

Sundry expenses mainly includes rents, 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

	2005	2004
	€ million	€ million
Income from profit and loss transfer	2.7	1.5
Income from loans	0.0	0.0
Other interest and similar income	8.0	0.3
of which from related companies	(0.4)	(0.3)
Other interest and similar expenses	-21.4	-26.7
of which to related companies	(-12.9)	(-14.0)
	-10.7	-24.9

(16) Taxes

	2005	2004
	€ million	€ million
Taxes on income	11.4	-0.1
Other taxes	0.2	0.2
	11.6	0.1

Taxes on income comprises tax allocations from the fiscal unity parent.

NOTES TO THE CASH FLOW STATEMENT

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

(17) Cash flows from operating activities

Under Cash flows from operating activities, € 1.8 million (previous year: € 0.3 million) is due to proceeds from interest. Interest payments amounted to € 12.4 million (previous year: € 10.8 million).

(18) Cash funds

There are no cash funds as the Company uses an overdraft facility with the shareholder.

SUPPLEMENTARY INFORMATION

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 € 2.4 million. The release of the special item spreads over up to 25 years due to the fixed period of release.

Information according to Sec. 9, Subsec. 4 of the 1998 Energy Industry Act (EnWG)

As an operator of electricity systems for general supply according to Sec. 9, Subsec. 4 of the 1998 Energy Industry Act (EnWG), the Company is obliged to separately disclose, in the Notes to the annual financial statements, major transactions performed with related or associated companies in the reporting year.

Major transactions with related companies

Around one third of the revenues from vertical use of the system concerns Vattenfall Europe Berlin AG & Co. KG (formerly Bewag AG & Co. KG), Vattenfall Europe Hamburg AG (formerly Hamburgische Electricitäts-Werke AG) and WEMAG AG. The majority of revenues from balancing group management is generated with Vattenfall Europe Sales GmbH, Vattenfall Europe Generation AG & Co. KG, Vattenfall Europe Berlin AG & Co. KG and Vattenfall Europe Hamburg AG. Accounting for these transactions is based on contracts signed with VE Transmission.

Furthermore, the annual financial statements show Other operating income, Costs of materials and Other operating expenses resulting from implementation of the EEG and the CHP Act which concern these companies and Vattenfall Europe Generation AG & Co. KG. Expenses for raw materials and supplies, and for purchased services, include electricity purchases for control energy, network loss balancing and EEG imbalance energy from Vattenfall Trading Services GmbH, as well as CHP electricity and system support service purchases from Vattenfall Europe Generation AG & Co. KG and Vattenfall Europe Berlin AG & Co. KG. The purchases were performed on the basis of tenders and/or market-based agreements. Furthermore, contractually stipulated expenses for maintenance services rendered by Vattenfall Europe Berlin AG & Co. KG and Vattenfall Europe Hamburg AG as well as rents for the two companies' transmission systems are reported under Other operating expenses.

Group cash pooling with Vattenfall Europe AG and Vattenfall Europe Netcom GmbH occasions interest income and expenses. Shareholder's loans granted to VE Transmission have resulted in corresponding interest payments to Vattenfall Europe AG.

Major transactions with companies in which the same shareholders hold participating interests

Some of the revenues from vertical use of the system result from settlements with ENSO Strom AG (formerly ESAG Energieversorgung Sachsen Ost AG).

EXPENSES FOR BOARD MEMBERS

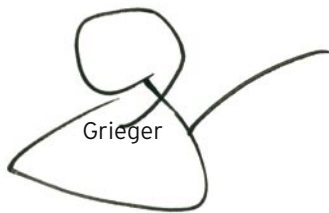
The drawings of the Management in financial year 2005 amounted to € 609 thousand (previous year: € 499 thousand). Expenses for the Supervisory Board were € 24 thousand (previous year: € 37 thousand).

Loans granted to Board members

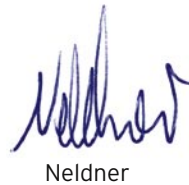
Loans granted to Supervisory Board members amounted to € 23 thousand as at 31 December 2005. The loans are subject to a 5.0 per cent p. a. interest and extend over terms of ten years. A total two thousand euros was repaid in the reporting year.

Berlin, 16 February 2005

The Management



Grieger



Neldner

AUDIT CERTIFICATE

We have audited the annual financial statements, comprising the balance sheet, the profit and loss account and the notes to the financial statements, together with the bookkeeping system, and the management report of Vattenfall Europe Transmission GmbH for the financial year from 01 January to 31 December 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB (German Commercial Code) and 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.

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 are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit 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 suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Berlin, 28 February 2006

PwC Deutsche Revision Aktiengesellschaft
Auditing Company

Herrmann	ppa. Pinkert
German Public Auditor	German Public Auditor