VATTENFALL

Toward a more sustainable energy portfolio

Annual and sustainability report 2014

Forecasts and forward-looking statements
This document contains forward-looking statements that are based on Vattenfall's current expectations. Even if Vattenfall's management believes that these expectations are reasonable, no guarantee can be made that these expectations will prove to be correct. The forward-looking statements herein pertain to risks and uncertainties that could have a material impact on future earnings. The statements are based on certain assumptions, including such that pertain to financial conditions in general in the company's markets and the level of demand for the company's products. The outcome may vary significantly compared with what is presented in the forward-looking statements, depending on, among other things, changed conditions regarding the economy, markets and competition, legal requirements, and other political actions and variations in exchange rates, as well as other factors referred to in the administration report.

This English version of Vattenfall's Annual Report is a translation of the Swedish original, which is the binding version.

Rounding differences may occur in this document.

About the annual and sustainability report

Vattenfall is active in all parts of the energy value chain: from fuel supply, electricity and heat production, and electricity trading, to distribution, sales and energy services. The company has impacts on people, communities and the environment, and in many cases has deep roots in the communities in which its operations are conducted. Vattenfall's approximately 30,200 employees work every day to provide society with energy in a reliable and safe manner. At the same time, Vattenfall accepts its social and environmental responsibility. Being a more sustainable provider of energy is a central part of Vattenfall's long-term strategy. This is to be achieved while providing a market rate of return.

Vattenfall's 2014 annual and sustainability report reflects the Group's ambition to advocate for sustainable consumption of electricity, gas and heat, achieve more sustainable production, and generate sustainable financial performance. This report integrates financial, sustainability and corporate governance information for a broad target group in an effort to support Vattenfall in its dialogue with its stakeholders.

Reporting in accordance with GRI G4
Since 2003 Vattenfall has been reporting in accordance with the Global Reporting Initiative's (GRI) guidelines, a global standard for sustainability reporting. The latest version of these guidelines, G4, was launched in May 2013. The biggest change compared with previous versions is that companies are only required to report on such matters that are material for them in their work on achieving a long-term profitable and sustainable operation. For 2014 Vattenfall adheres to the G4 Guidelines, "Core" option.

Under GRI G4 reporting, sustainability issues are broken down into three categories: Environmental, Economic and Social. Social, in turn, is broken down into four sub-categories. Every category is built upon a number of predefined GRI aspects, which describe the various parts of each category. For example, "Biodiversity" is a GRI aspect that falls under the Environmental category. Each GRI aspect includes a number of indicators that describe the type of reporting that is required.

Vattenfall has defined a number of sustainability focus areas, and based on these, has identified the GRI aspects that are material for the company. These aspects have been selected to obtain measurable results within Vattenfall's sustainability focus areas and to be able to present information that is relevant, clear and possible to use in international comparisons. To meet the "Core" requirement for G4, Vattenfall must report at least one GRI indicator per chosen GRI aspect. The GRI Index on pages 154–158 provides an overview of the aspects, indicators and industry-specific supplementary information that is included in Vattenfall's sustainability reporting. Information on the reporting boundaries and omissions is also provided.

Review of report
The Board of Directors and President of Vattenfall AB (publ), corporate identity number 556036–2138, herewith submit the annual report and consolidated accounts for 2014, encompassing pages 5, 8–9, 45–46, 52–61, and 65–144, which have been translated from the Swedish original. The administration report, encompassing pages 5, 8–9, 45–46, 52–61, and 65–72, has been audited in the manner described in the Audit Report on page 143. The pages referred to in the GRI index have been reviewed as described in the Combined Assurance Report on page 144.

Further information about Vattenfall's operations and sustainability work can be found at www.vattenfall.com/Sustainability.

Vattenfall's integrated annual and sustainability report for 2014 has been structured to reflect the Group's strategy and focus areas. The reporting revolves around the three dimensions sustainable consumption, sustainable production and sustainable financial performance. The report's front half is structured into two overall sections:

- **Strategic direction** (pages 12–26) includes information about Vattenfall's markets, strategy, targets and target achievement. An overview is provided of the company's development in recent decades along with a description of Vattenfall's long-term direction and strategic focus areas. This section includes a presentation of Vattenfall's strategy, which is the foundation for the company's work on promoting sustainable consumption of electricity, gas and heat, shifting the portfolio towards more sustainable production, and delivering sustainable financial performance.

- **Developments during the year** (pages 27–51) describes Vattenfall's performance, development and results in 2014 in the Group's business activities, coupled to Vattenfall's sustainability focus areas. This presentation revolves around the three dimensions sustainable consumption, sustainable production and sustainable financial performance.

VATTENFALL'S TARGETS

- Return on capital employed: 9%[1]
- Funds from operations (FFO)/adjusted net debt: 22%–30%[1]
- Debt-equity ratio: 50%–90%[1]
- To pay a dividend equivalent over the long-term to 40%–60% of net profit for the year[1]
- Reduce CO_2 exposure to 65 million tonnes of absolute emissions by 2020[2]
- Achieve higher rate of growth in installed, renewable electricity generation than the market[3]
- Improve energy efficiency by 365 GWh in 2014[4]

Read more about Vattenfall's targets on pages 22–23.

Sustainable consumption	Sustainable production	Sustainable financial performance
STRATEGIC FOCUS AREAS		
Strong customer focus and new, customer-centric business models	A more sustainable energy portfolio	Increased business focus in all operations
SUSTAINABILITY FOCUS AREAS		
Customer solutions that enable sustainable use of energy	Transform the production portfolio towards lower CO_2-emitting sources and more renewables Increase focus on other emissions Protect nature and species and safeguard biodiversity Improve resource efficiency in Vattenfall's operations Take responsibility for Vattenfall's impacts on local communities	Our people Ensure a healthy and safe workplace Safeguard the company's integrity Ensure sustainability in the supply chain

Read more about Vattenfall's strategy on pages 18–21.

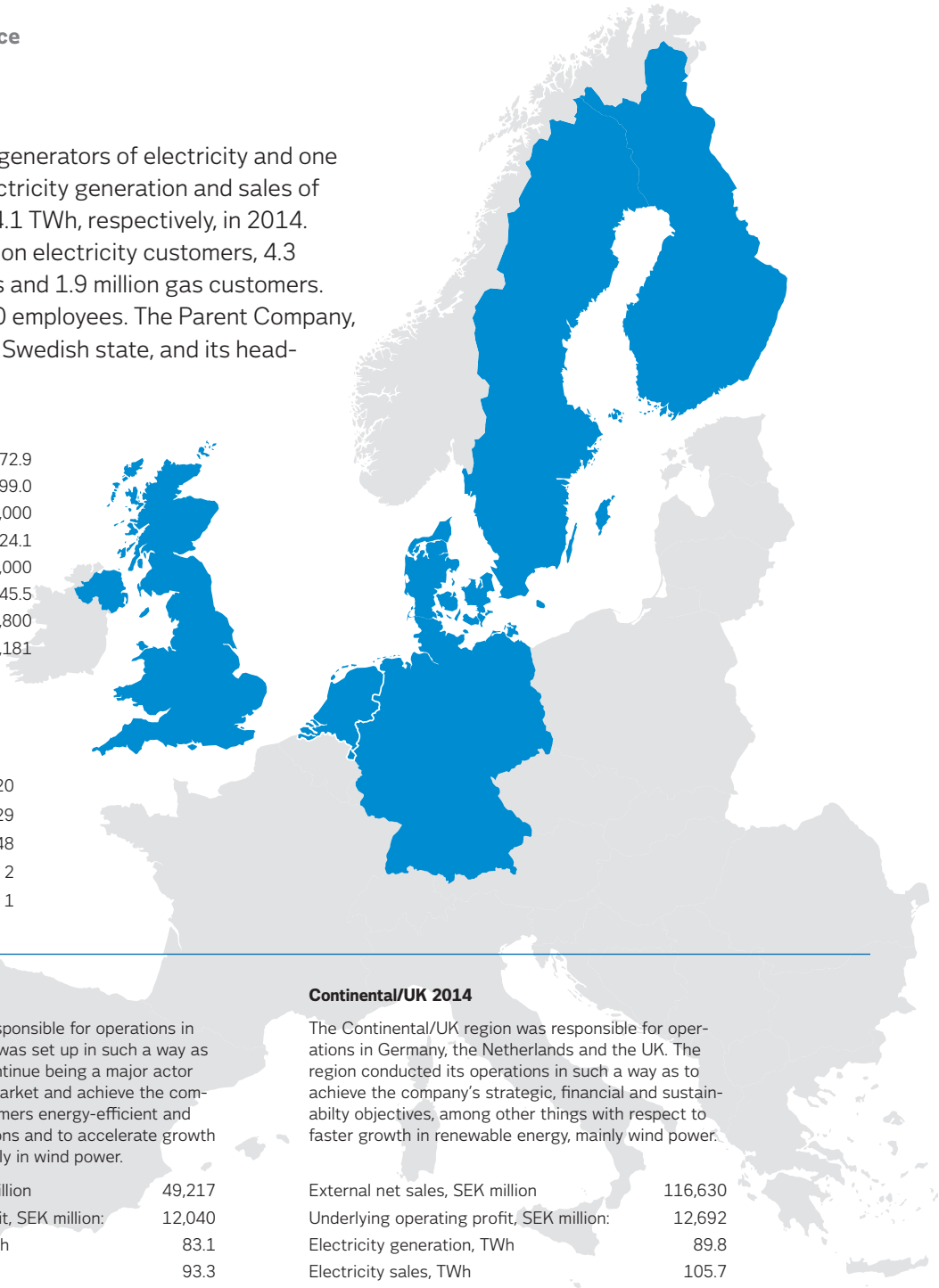
Read more about Vattenfall's sustainability focus areas on pages 27–51.

The illustration above shows Vattenfall's targets as well as the company's strategic focus areas and sustainability focus areas based on the three dimensions sustainable consumption, sustainable production and sustainable financial performance.

1) Adopted by the owner at an Extraordinary General Meeting in November 2012.
2) Adopted by the Board of Directors in 2010 and confirmed by the Board of Directors in October 2012.
3) Adopted by the Board of Directors in October 2012.
4) Adopted by the Board of Directors in February 2014.

Vattenfall at a glance

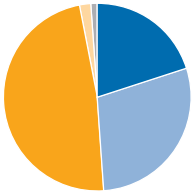
Vattenfall is one of Europe's largest generators of electricity and one of the largest producers of heat. Electricity generation and sales of heat amounted to 172.9 TWh and 24.1 TWh, respectively, in 2014. Vattenfall has approximately 6.2 million electricity customers, 4.3 million electricity network customers and 1.9 million gas customers. The Group has approximately 30,200 employees. The Parent Company, Vattenfall AB, is 100%-owned by the Swedish state, and its head-quarters are in Solna, Sweden.



Group 2014

Electricity generation, TWh	172.9
Electricity sales, TWh	199.0
Electricity sales, number of retail customers	6,154,000
Sales of heat, TWh	24.1
Electricity network, number of customers	3,231,000
Sales of gas, TWh	45.5
Sales of gas, number of customers	1,941,800
Number of employees, FTE	30,181

Electricity generation, Vattenfall Group 2014, %



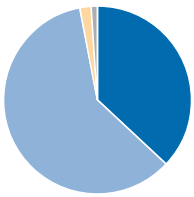
Hydro power	20
Nuclear power	29
Fossil-based power	48
Wind power	2
Biomass, waste	1

Nordic 2014

The Nordic region was responsible for operations in the Nordic countries and was set up in such a way as to enable Vattenfall to continue being a major actor in the Nordic electricity market and achieve the company's goal to offer customers energy-efficient and sustainable energy solutions and to accelerate growth in renewable energy, mainly in wind power.

External net sales, SEK million	49,217
Underlying operating profit, SEK million:	12,040
Electricity generation, TWh	83.1
Electricity sales, TWh	93.3
Electricity sales, number of retail customers	1,307,000
Sales of heat, TWh	3,7
Electricity network, number of customers	938,000
Sales of gas, TWh	—
Sales of gas, number of customers	—
Number of employees	8,508

Electricity generation, Nordic 2014, %



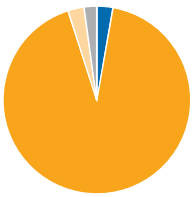
Hydro power	37
Nuclear power	60
Fossil-based power	—
Wind power	2
Biomass, waste	1

Continental/UK 2014

The Continental/UK region was responsible for operations in Germany, the Netherlands and the UK. The region conducted its operations in such a way as to achieve the company's strategic, financial and sustainabilty objectives, among other things with respect to faster growth in renewable energy, mainly wind power.

External net sales, SEK million	116,630
Underlying operating profit, SEK million:	12,692
Electricity generation, TWh	89.8
Electricity sales, TWh	105.7
Electricity sales, number of retail customers	4,847,000
Sales of heat, TWh	20,4
Electricity network, number of customers	2,293,000
Sales of gas, TWh	45,5
Sales of gas, number of customers	1,941,800
Number of employees	19,952

Electricity generation, Continental/UK 2014, %



Hydro power	3
Nuclear power	—
Fossil-based power	92
Wind power	3
Biomass, waste	2

Effective 1 April 2015 the regional structure will be replaced by six cross-border Business Areas. Read more about the new organisational structure on pages 18–19 and page 57.

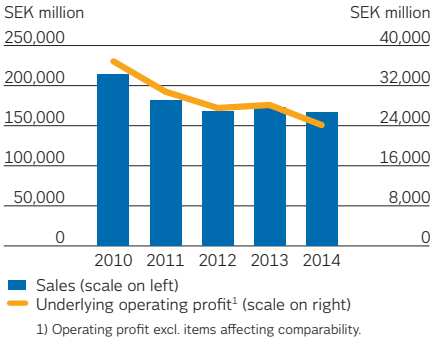
Results 2014

- Net sales amounted to SEK 165,945 million (172,253).
- The underlying operating profit[1] was SEK 24,133 million (28,135).
- Operating profit, totalling SEK -2,195 million (-6,218), was negatively affected by impairment losses of SEK 23,800 million.
- Profit for the year amounted to SEK -8,284 million (-13,543), and was charged with impairment losses of SEK 20,400 million, net after taxes.
- Electricity generation amounted to 172.9 TWh (181.7).

Key data	2014	2013[2]	Change, %	2014 (MEUR)[3]	2013 (MEUR)[3]
Net sales, SEK million	165,945	172,253	-3.7	17,667	18,338
Operating profit before depreciation, amortisation and impairment losses (EBITDA), SEK million	41,038	43,554	-5.8	4,369	4,637
Operating profit (EBIT), SEK million	-2,195	-6,218	—	-234	-662
Underlying operating profit[1], SEK million	24,133	28,135	-14.2	2,569	2,995
Profit for the year, SEK million	-8,284	-13,543	–	-882	-1,442
Funds from operations (FFO), SEK million	32,131	31,888	0.8	3,421	3,395
Net debt, SEK million	79,473	98,998	-19.7	8,461	10,540
Adjusted net debt, SEK million	158,291	162,590	-2.6	16,852	17,310
Return on capital employed, %	-0.7	-2.1	—		
Net debt/equity, %	61.9	75.7	—		
Funds from operations (FFO)/adjusted net debt, %	20.3	19.6	—		
Adjusted net debt/EBITDA, times	3.9	3.7	—		
Electricity generation, TWh	172.9	181.7	-4.8		
Sales of electricity, TWh	199.0	203.3	-2.1		
Sales of heat, TWh	24.1	30.3	-20.2		
Sales of gas, TWh	45.5	55.8	-18.5		
Number of employees, full-time equivalents	30,181	31,819	-5.1		
CO_2 emissions, Mtonnes	82.3	88.4	-6.9		

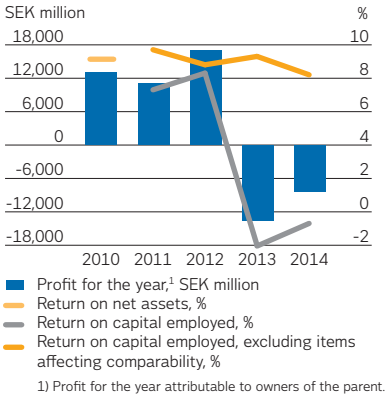
1) Underlying operating profit is defined as operating profit excluding items affecting comparability. For a specification of items affecting comparability, see page 75.
2) Amounts adjusted compared with the amounts presented in Vattenfall's 2013 Annual and sustainability report due to new accounting rules (IFRS 11) that took effect in 2014.
3) Exchange rate of SEK 9.3930/EUR 1. Values in EUR are shown only to facilitate comparisons between SEK and EUR.

Sales and underlying operating profit



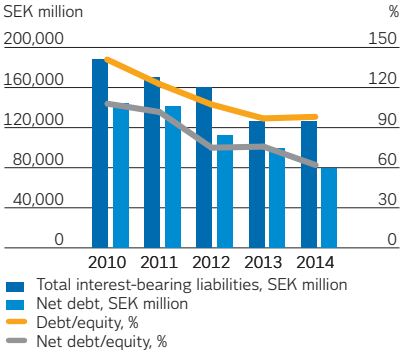
1) Operating profit excl. items affecting comparability.

Earnings and return

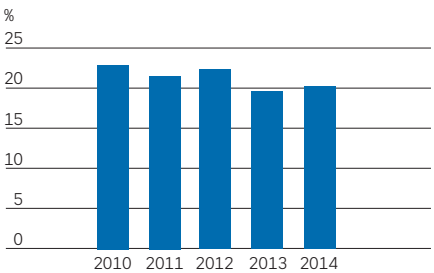


1) Profit for the year attributable to owners of the parent.

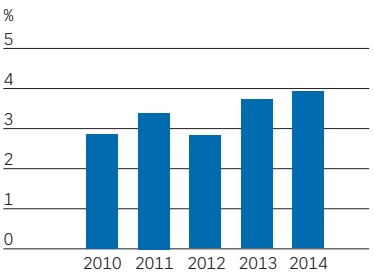
Debt



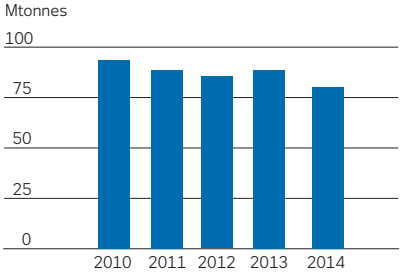
Funds from operations (FFO)/adjusted net debt



Adjusted net debt/EBITDA



CO_2 exposure



Certain values for 2013 have been recalculated compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014.

»Our customers will increasingly demand that we reduce CO_2 emissions from our production and that we increase our share of renewable production«

An industry in dramatic change

As the new CEO of Vattenfall I have been given a great privilege – to lead the Swedish people's energy company. It is an assignment that I have accepted with great pleasure, but also with a healthy measure of humbleness. In a market that is changing as much and as fast as the energy market has changed in recent years, what is needed is an ability both to draw the right conclusions and to adapt the operations accordingly. Vattenfall has made good progress, but a lot remains to be done.

During the year, Vattenfall successfully continued adapting its operations to the new market conditions. Annual operating costs have been reduced by SEK 13.7 billion, or 26%, since 2010 to meet falling revenue, and the investment plan has been continuously revised to enable a transformation towards investments in renewable production. Added to this, assets worth a combined total of SEK 11.6 billion, net – including fossil-based power plants – were divested in 2014.

The new market situation has once again compelled us to restate the value of some of the assets that were included with the acquisition of Nuon. In addition, certain investment projects that were launched in a different market situation now have a different level of anticipated profitability. This unfortunately required that we recognise substantial impairment losses during the third quarter. Together with the need for additional provisions for future costs for nuclear power decommissioning in Germany, for the year as a whole this led to a negative result for Vattenfall.

We thereby fell short of the profitability target set by our owner. Forecasts for the coming years indicate that electricity prices, and thus the preconditions for a large share of the company's profitability, will continue to be at historically low levels. The work on cutting costs must therefore continue.

Continued adaptation to the new market situation

For more than 100 years Vattenfall has played a decisive role in Sweden's raw material-refining and export-intensive economy. The supply of secure and competitively priced energy is a central precondition for both electricity-intensive industry and society in general. However, the market conditions for the energy sector have changed dramatically in recent years. Demand for electricity has fallen after the financial crisis, and the supply of generation capacity has risen sharply. On top of this, the price of coal has fallen, largely owing to the rise of shale gas production in North America. During my initial time at Vattenfall I have travelled around to our plants and talked with our employees. During my visits I witnessed a high level of commitment, pride and professionalism, but also uncertainty about where Vattenfall is headed. While Vattenfall is well equipped to meet the major challenges it faces, we need to more clearly describe our path forward and where we will positioning ourselves in the future energy landscape.

Strong expansion of wind power

In the Vattenfall of the future, sustainability will be fully integrated in the business operations. Our customers – both retail and others – increasingly want to reduce their environmental footprint and need a partner that can help them do this. Vattenfall will be that partner. Our assignment from our owner includes being a leader in the current energy transformation. We will live up to this by investing more in renewable energy, but we will also offer our customers opportunities to participate in this transformation themselves. This can be done through products that increase energy efficiency or that give them opportunities to become producers themselves through small-scale wind or solar power installations. Customers will be given tools that will enable them to conveniently monitor and control their energy consumption. For example, having a convenient means of charging one's electric car will be a natural expectation in the future. Our customers

will increasingly demand that we reduce CO_2 emissions from our production and that we increase our share of renewable production. It is therefore gratifying to note that we have just finished construction of DanTysk, a large offshore wind farm in the North Sea, and that we have made the decision to invest in the construction of another major wind farm nearby, Sandbank. These two wind farms will each generate electricity equivalent to the annual consumption of some 400,000 households. In Sweden, too, several wind power projects are on track, and in the UK we are the second largest generator of offshore wind power. Our combined wind power production in 2014 was 4.1 TWh, which makes us the biggest Swedish wind power producer.

At our hydro power plants we can store water that generates electricity when the conditions for weather-dependent energy sources – wind and sun – are less favourable. Likewise, our nuclear power plants deliver base power to the grid with low CO_2 emissions. We also have extensive district heating operations, which play a key role in improving energy efficiency in society.

To focus on the transformation towards renewable energy production and at the same time significantly reduce our CO_2 exposure, in 2014 we made the strategic decision to look into the prospects of finding new owners for our lignite operations in Germany.

Sustainability targets steer investments

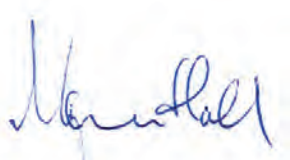
New investments and decisions that we made during the year in an effort to transform Vattenfall's energy portfolio are expected to have major significance also with respect to the environment and climate, and we are convinced that they will contribute to achievement of the Group's sustainability targets. In 2014 Vattenfall reduced its CO_2 emissions, mainly through the sale of a number of fossil-based power plants. We installed 52 MW of renewable capacity, not counting the DanTysk wind farm, which will be formally commissioned in 2015. Through a series of measures to reduce our energy need, we achieved the year's energy efficiency target of 365 GWh.

Vattenfall supports and adheres to a number of international sustainability guidelines and standards in its operations. For example, we support the UN's Global Compact principles, and thereby we take a clear stance on issues related to human rights, social responsibility, and the environment.

Outlook for 2015

For Vattenfall, 2015 will be characterised by the tough market conditions, continued cost-cutting and efficiency improvements. At the start of 2015 we unveiled a new organisational structure based on our business areas, which will replace the regional organisation. Our strategy will be developed in stages, and it will be an important task for the new Executive Group Management to implement it and adapt it to each business area. We will have clear development targets for where we want to be in the future, and these must be well known throughout the organisation.

Commitment grows out of common targets and a clear direction. One of my most important duties going forward is therefore to explain to our customers and other stakeholders where Vattenfall is headed. The energy issue is central to societal development and the climate. Vattenfall is a key energy player and will actively participate in the ongoing transformation of the energy sector.



Magnus Hall
President and CEO

Important events 2014

Q1 2014

Sale of Amagerværket CHP station
In January Vattenfall completed the sale of the Amagerværket CHP station to the Danish municipal-owned company HOFOR. The enterprise value was DKK 2 billion.

Sale of shareholding in Polish company Enea S.A.
In January Vattenfall sold its minority interest, corresponding to 18.67% of the shares, in the Polish energy company Enea S.A., for approximately SEK 2.2 billion.

Sale of electricity distribution operations in Hamburg
In February Vattenfall completed the sale of its majority interest of 74.9% in the electricity distribution company Stromnetz Hamburg GmbH to the City of Hamburg. The purchase price was preliminarily set at EUR 550 million for 100% of the company. An external appraisal company will determine the final value of the company, which will not be less than EUR 495 million. The sale resulted in a capital gain of approximately SEK 3 billion. In addition to the purchase price, the City of Hamburg repaid a loan of approximately SEK 2.1 billion to Vattenfall. The City of Hamburg has an option to buy Vattenfall's majority shareholding of 74.9% in the district heating company Vattenfall Wärme Hamburg GmbH in 2019.

Sale of Vattenfall Europe Power Consultant GmbH
In February Vattenfall completed the sale of its German engineering business Vattenfall Europe Power Consultant GmbH (VPC) to the investment company Palero Capital GmbH. The sales price has not been published.

Q2 2014

Sale of Kalix Värmeverk
In April Vattenfall sold its 94% shareholding in Kalix Värmeverk AB to Vasa Värmeverk AB. The heating plant has an annual heat production of 120 GWh. The sales price has not been published.

Higher provisions due to lower market interest rates
Vattenfall lowered the discount rate it uses to calculate provisions for future expenses for nuclear power and the mining operations in Germany. In addition, during the second and fourth quarters, Vattenfall lowered the discount rate its uses to calculate pension provisions in Sweden and Germany. Together these measures led to an increase in adjusted net debt by SEK 15 billion. Cash flow and underlying operating profit were not affected.

New wind farm inaugurated in Falkenberg
In May Vattenfall inaugurated Hjuleberg (36 MW), the company's largest onshore wind farm in southern Sweden. The wind farm comprises 12 wind turbines that can generate electricity equivalent to the consumption of more than 18,000 households. The total investment sum was SEK 500 million.

Start of construction of Lichterfelde CHP plant in Berlin
In May, construction was started on the new Berlin–Lichterfelde gas-fired CHP plant, which will replace an older facility. The plant will have capacity of 300 MW electricity and 230 MW heat, and is expected to be commissioned at the end of 2016.

Purchase of hydro power plant on the Lule River
In June Vattenfall acquired the Rimojokk power plant, a small run-of-river hydro power plant on the Lule River, from the company Picab. Vattenfall now owns all of the hydro power plants on the Lule River. The purchase price has not been published.

Q3 2014

Impairment losses
Vattenfall recognised impairment losses of SEK 23.1 billion as a result of continued deteriorating market conditions. Profit after tax was charged with SEK 19.9 billion. Vattenfall's cash flow and net debt were not affected by the impairment losses. Geographically, the impairment losses are broken down into SEK 13.8 billion in the Netherlands, SEK 6.9 billion in Germany, SEK 1.4 billion in the Nordic countries, and SEK 1.0 billion in the UK. For more detailed information about the impairment losses, see Note 14 to the consolidated accounts.

Sale of waste incineration plant in Germany
In September Vattenfall sold its 85.5% majority shareholding in the Müllverwertung Borsigstraße GmbH waste incineration plant in Hamburg to the city's waste management company. The sales price was EUR 67 million (slightly more than SEK 600 million).

Vattenfall makes continued investments in offshore wind power in Germany
In August Vattenfall decided to proceed with construction of the Sandbank offshore wind farm (288 MW) west of the existing DanTysk wind farm. Sandbank will comprise 72 wind turbines and is expected to be commissioned in 2017. Like DanTysk, Vattenfall owns 51% of Sandbank, with Stadtwerke München owning the remaining 49%. The combined investment sum is approximately SEK 11 billion.

Two new onshore wind farms in Sweden
In September Vattenfall decided to build an additional two onshore wind farms in Sweden: Juktan (29 MW), in northern Sweden, with nine turbines, and Höge Väg (38 MW), in southern Sweden, with 18 turbines. The combined investment sum is SEK 860 million. The wind farms are expected to be commissioned at the end of 2015/start of 2016.

Vattenfall establishes fast-charging network for electric vehicles
In September Vattenfall established three fast-charging stations for electric vehicles in Stockholm. The charging stations were the first in the company's fast-charging network, which was expanded in 2014 to seven stations in Stockholm and Uppsala. In Berlin, Vattenfall also installed two fast-charging stations as part of the "Schnell-Laden Berlin" project.

Q4 2014

Magnus Hall new President and CEO of Vattenfall
On 1 October Magnus Hall took office as Vattenfall's new President and CEO.

Sale of CHP operations in the Netherlands
In October Vattenfall signed an agreement to sell – via the subsidiary N.V. Nuon Energy – its CHP assets in Utrecht to the Dutch energy company Eneco. The sale was completed on 1 January 2015. The agreement covers Nuon's district heating network in Utrecht and the Lage Weide and Merwedekanaal CHP stations. The sales price has not been published.

Vattenfall studies alternatives to ownership of lignite operations
In October Vattenfall announced that the company has decided to look into various alternatives for a new ownership structure for the lignite operations in Germany. The target is to transform the production portfolio towards lower CO_2-emitting sources and more renewables. Vattenfall's commitment to continue running the Group's other operations in Germany, including district heating, distribution, sales, trading, wind power and other types of power generation, is unchanged.

Vattenfall to build more wind power outside Falkenberg
In November Vattenfall decided to build yet another wind farm, Högabjär-Kärsås (38 MW), east of Falkenberg. It will comprise 12 wind turbines and is expected to be commissioned at the end of 2015/start of 2016. The combined investment sum is approximately SEK 500 million.

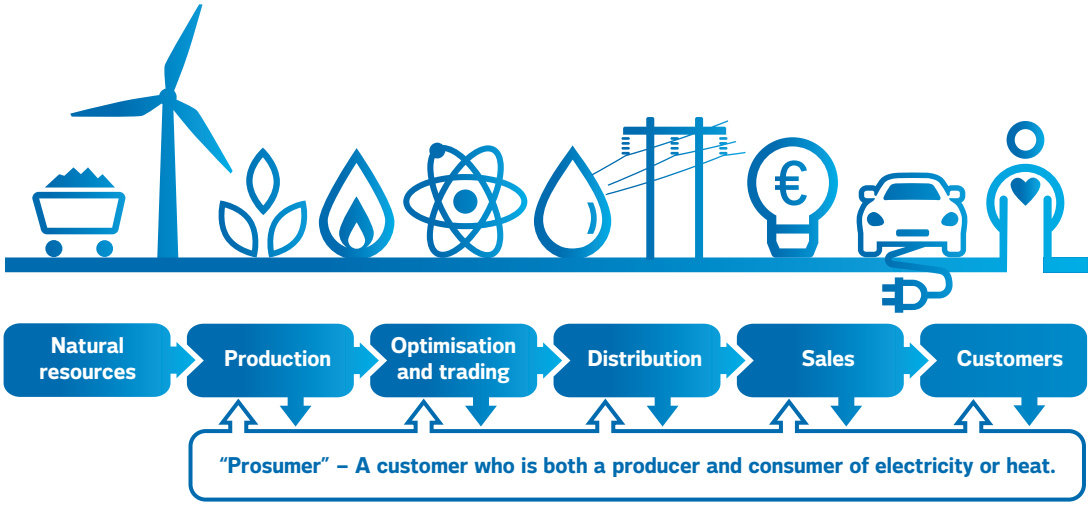
Sale of service business in Germany
Vattenfall decided in November to sell its facility services business in Germany to ISS Facility Services GmbH. In conjunction with this, Vattenfall signed a five-year agreement with the buyer for facility management services. The sale affects slightly more than 500 employees. The sales sum has not been published.

DanTysk wind farm operational
In early December the DanTysk offshore wind farm (288 MW) in Germany began generating electricity. The wind farm comprises 80 wind turbines and can generate 1.3 TWh of electricity per year.

Vattenfall and Skandia invest in wind power
In partnership with the insurance and banking company Skandia, Vattenfall is investing nearly SEK 2 billion in four wind farms in Sweden. The plants will be run by a jointly owned company and will have combined capacity of 141 MW. This marks the first time that a Swedish financial investor is directly financing the construction of new wind power. The joint investment will enable faster expansion of wind power for Vattenfall.

Sale of Fynsværket CHP station in Denmark
In December Vattenfall announced that the Danish district heating company Fjernverme Fyn is acquiring the Fynsværket CHP station in Denmark as well as a waste incineration plant. The enterprise value was DKK 1.1 billion (approx. SEK 1.4 billion). The combined sales sum was DKK 600 million in cash consideration, corresponding to SEK 760 million. The sale is expected to be completed during the first quarter of 2015.

Vattenfall's value chain



Vattenfall works in all parts of the energy value chain, from extraction of natural resources and production of electricity and heat, via electricity trading and distribution, to sales both to resellers and end customers. In its operations Vattenfall creates economic value for its customers, employees and society at large.

Vattenfall produces electricity and heat from six types of energy: hydro power, nuclear power, coal, natural gas, wind power and biomass, including waste. This energy mix reflects the conditions in the countries in which Vattenfall has its production. In Sweden Vattenfall's electricity generation is dominated by hydro and nuclear power; in Germany and the Netherlands it is dominated by fossil-based power; and in the UK it is dominated by wind power. Vattenfall is working to reduce its CO_2 emissions and is striving to be among the leaders in the development towards environmentally sustainable energy production. The majority of growth investments are in wind power. One of the company's sustainability targets is to grow faster than the market in renewable energy capacity. Read more about Vattenfall's sustainability targets on page 23. Vattenfall strives to operate its production plants as efficiently and responsibly as possible.

In addition to production of electricity and heat, Vattenfall conducts energy trading and sells electricity via electricity exchanges to resellers and to other energy companies. Through sales in the forward and futures markets, Vattenfall hedges future electricity production. In a corresponding way, Vattenfall also hedges future purchases of fuel and CO_2 emission allowances. The company also conducts proprietary trading within strictly defined risk mandates.

To ensure stable supply of energy to customers, a well working distribution network is needed. In contrast to production, energy trading and sales to end customers, which are operations exposed to competition, electricity distribution is a price-regulated monopoly business. It is monitored by national regulators and has a slightly different value chain. Distribution of district heating is not a price-regulated business, but bears certain similarities to electricity distribution. Vattenfall conducts electricity and heat distribution activities in Sweden and Germany, and heat distribution in the Netherlands.

In sales, Vattenfall provides electricity, heat, gas and cooling to end customers in the Nordic region and Western Europe – both business customers and private customers. In addition, Vattenfall offers energy services such as charging solutions for electric vehicles, sales and installation of solar panels, and energy advisory services. Vattenfall can also offer access to marketplaces for customers that have the ability to be so-called "prosumers", i.e., customers who are both producers and consumers of electricity or heat. Competitive and stable energy supply is a key prerequisite for successful industrial activity, and thus also for sustainable economic development of society. Vattenfall has a strong heritage of maintaining constructive, long-term business relationships with electricity-intensive industries.

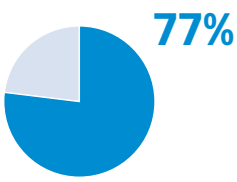
In all parts of its operations Vattenfall strives to ensure that any negative impacts on the surroundings will be as limited as possible. Vattenfall aspires to act responsibly and also wants the company's business partners do the same, through compliance with Vattenfall's Code of Conduct for Suppliers. Read more about Vattenfall's supply chain on page 51.

Vattenfall creates value for its customers, its employees and the communities in which the company works. The company does this by producing and distributing electricity and heat to customers and by providing jobs for employees and suppliers. Vattenfall is a significant taxpayer and also supports economic growth indirectly, such as through close cooperation with industry. For more information about the economic value that Vattenfall creates according to the GRI indicator GRI-EC1, see page 44.

Production

Vattenfall's production of electricity and heat is based on six types of energy: hydro power, nuclear power, coal, natural gas, wind power and biomass, including waste.

Share of the Group's underlying operating profit[2]



Strategies/activities

Reduce CO_2 exposure by:

- Divesting lignite operations
- Divesting or closing other plants that are not part of the core business
- Continued growth in renewable energy
- Making further improvements in plant availability, operating safety and efficiency
- Improving the use of resources throughout Vattenfall's production operations (read more on page 39)

Key drivers and challenges

- Electricity price development
- Price development of fuels and CO_2 emission allowances
- Production costs
- Plant capacity, availability and efficiency
- Energy and environmental policies
- Flexible control of production of base power to ensure balance in electricity networks in connection with fluctuations in renewable electricity generation

Optimisation and Trading

Optimisation and trading includes Vattenfall's dispatch of electricity generation, hedging of future production, purchases of fuel, and purchases and sales in the wholesale market. Within strict risk mandates, Vattenfall also conducts proprietary trading.

Share of the Group's underlying operating profit

Most earnings from these operations are included in Production.

Strategies/activities

- Further improve dispatch of all the Group's power plants
- Hedge future electricity generation
- Ensure sustainability in the supply chain

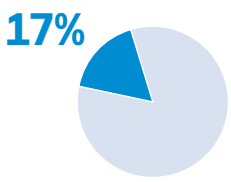
Key drivers and challenges

- Uncertainty about development of electricity prices
- Price hedging strategy for uncertain price development
- Price development of fuel and CO_2 emission allowances
- Cost efficiency

Distribution[1]

Vattenfall distributes electricity and district heating to business customers as well as households. Electricity distribution is a price-regulated monopoly business that is monitored by national regulators. Operations are conducted both through regional and local networks.

Share of the Group's underlying operating profit



Strategies/activities

- Continued focus on cost efficiency
- Further improve reliability in the electricity and heating networks
- Modernise and expand existing networks
- Meet customers' and authorities' needs for smart and sustainable energy solutions, e.g., smart grids
- Work for the expansion of interconnectors from the Nordic countries to the European Continent and the UK

Key drivers and challenges

- Price regulation of electricity distribution operations
- Losses caused by load variations in electricity networks
- Balancing of many small production plants among customers
- Security of supply

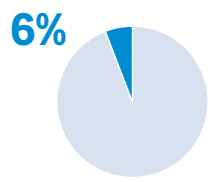
Sales

To end customers Vattenfall sells:

- Electricity
- Gas
- Heat and cooling

Vattenfall also offers energy services such as; electric vehicle charging stations, sales and installation of solar panels, solutions for energy efficiency improvement and energy advisory services.

Share of the Group's underlying operating profit



Strategies/activities

- Continued focus on cost efficiency
- Increase customer satisfaction
- Develop and offer smart and sustainable energy solutions

Key drivers and challenges

- Profit margin
- Cost efficiency
- Customer satisfaction
- Security of supply
- Add-on services
- Meet demand for new types of services and products for customers that become "prosumers"
- Find new, profitable business models in the new energy landscape

1) The electricity distribution operations are legally and functionally unbundled from the operations that are subject to competition.
2) Including dispatch and hedging.

Market and business environment

The transformation of Europe's energy markets continued in 2014. Owing to weak demand and low electricity prices, large scale conventional power plants are increasingly losing in competitiveness to subsidised renewable energy sources, such as wind power. The pace of change varies from country to country depending on the energy policies pursued and the strategies chosen by the countries in their efforts to meet the EU's climate targets for 2020 and 2030. While this transformation is presenting major challenges to the established utilities, new business opportunities are emerging in renewable energy and in the end customer market.

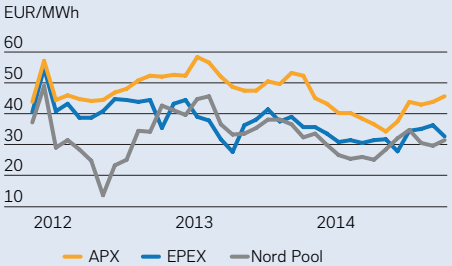
During the year the energy markets continued their dramatic transformation that began following the financial crisis in 2008/2009. Stagnating demand and a surplus of electricity combined with falling coal prices and low prices for CO_2 emission allowances have led to very low electricity prices. It does not appear that demand for electricity will recover until some time after 2020.

Large volumes of renewable production capacity have emerged and are increasingly taking priority over large-scale conventional power generation. Production of shale gas in the USA has increased, and as the supply of this cheap source of gas in the US market has risen, a surplus of coal has been created, which is instead being exported to Europe and other markets. Together these factors have led to a situation in which many natural gas-based production plants – despite relatively low CO_2 emissions and low prices for CO_2 emission allowances – can no longer cover their fuel costs and have therefore been forced to close or have been mothballed. The margins for coal-fired power plants have also deteriorated despite lower prices for hard coal, while newer coal-fired power plants with a high level of efficiency can as a rule be operated at a profit. Lignite-fired power plants can still operate at relatively favourable production margins on account of their low fuel costs and low prices for CO_2 emission allowances.

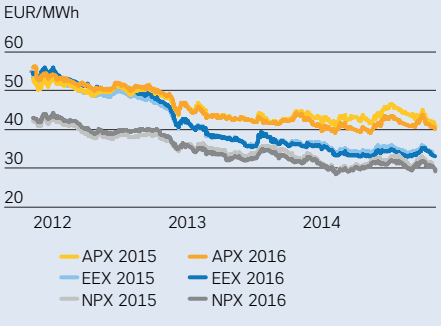
Price trend 2014

Average Nordic electricity spot prices were 22% lower in 2014 than in 2013, mainly due to lower demand and lower commodity prices. In Germany, average spot prices were 13% lower than in 2013, mainly due to lower coal prices. In the Netherlands, average spot prices were 15% lower than in 2013, mainly due to lower gas prices.

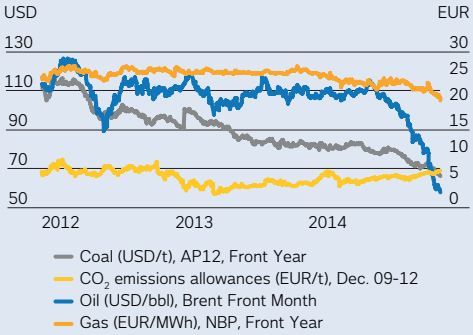
Electricity spot prices



Electricity futures prices



Commodity prices



Electricity futures prices were 9%–11% lower in the Nordic countries and Germany in 2014 compared with 2013. This is mainly attributable to continued expectations for lower commodity prices. In the Netherlands prices decreased by between 1% and 5%.

Oil prices (Brent crude) were an average of 9% lower in 2014 compared with 2013, mainly owing to higher supply, weak demand and a stronger US dollar. Coal prices also dropped for the same reasons and were an average of 12% lower than in 2013. Gas prices were 8% lower in 2014 than in 2013, while the price of CO_2 emission allowances rose by 33%.

As a result of the low coal prices and low prices of CO_2 emission allowances, CO_2 emissions decreased only marginally in 2014 in many countries, despite an extensive expansion of renewable production. There is currently a lack of economic incentive to switch over from coal-fired base power to gas-fired production with lower CO_2 emissions.

Adapting to new market conditions

The transformation of Europe's energy markets has presented the established energy companies with great challenges. Profitability has come under strong pressure – in some cases leading to operating losses – resulting from low electricity prices, overcapacity and the addition of renewable production, mainly wind power. Power plants have been forced offline prematurely or mothballed, impairing the value of companies' assets.

Through technological development of production and installation, the cost of generating electricity from renewable sources of energy has fallen significantly – for wind power by approximately 30% in recent years. The cost for solar energy has also fallen sharply. With today's low electricity prices, it is not profitable to build any type of new generation capacity without subsidies or support systems.

The challenge for Europe's energy companies lies in adapting to the new market conditions, with renewable energy in focus. Most companies have carried out significant cost-cutting programmes and divested noncore assets and operations. Some have sold off conventional power generation to free up capital for increased investment in renewable generation. New financing solutions, in which partnerships are being established with other investors such as cities and institutional investors, are further examples of strategies to enable faster expansion of renewable production.

Secure electricity supply a key issue

The challenge is to increase the share of renewable energy without jeopardising security of supply and the stability of electricity networks. Weather-dependent electricity generation primarily from solar and wind power must be supported by storage solutions, flexible consumption and balancing power from energy sources that are available on demand. In several European countries the intention has been that gas would replace coal as base and balancing power. However, this development is currently being held back by the low prices both of coal and CO_2 emission allowances, and by the relatively high gas prices.

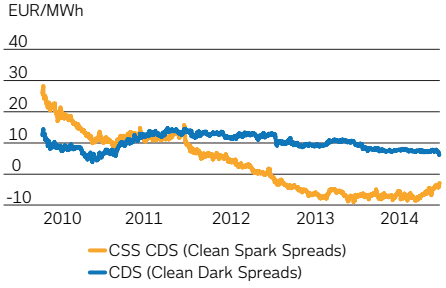
To ensure security of supply during times of high demand and low generation from weather-dependent generation sources, discussions are currently being held in several European countries, including Germany, on the need to introduce capacity markets in which the network regulator guarantees certain electricity generators and power plants compensation for keeping reserve capacity on hand. Capacity mechanisms can be designed in various ways and exist or are being planned in Sweden, Spain, Portugal, France and the UK, among other countries. The EU is planning an Energy Union which is intended, among other things, to solve local and national capacity problems by strengthening transmission links in Europe and thereby create an integrated internal European energy market.

Electricity grids need to be expanded

As electricity generation from wind power increases – not least offshore wind power in the North Sea – the need is growing for transmission capacity over long distances. In particular, the high voltage grids need to be strengthened in many countries in order to be able to transmit electricity from the areas in which wind power is generated to places where electricity-intensive industries are located. Thus in Germany, plans are being drawn for three large "electric highways" from the country's northern parts, where a large share of future wind power expansion will take place, to the southern parts, where many electricity-intensive industrial companies are located.

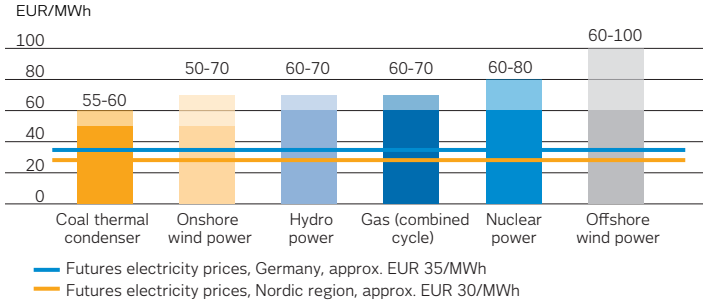
Transmission capacity between countries in Europe also needs to be expanded. The growing share of renewable electricity generation, which is one of the EU's climate targets for 2020 and 2030, also entails that the capacity to transmit large volumes of electricity between countries needs to be expanded. In the Nordic market, where a large share of electricity generation is based on hydro and nuclear power

Trend in operating margin for coal- and gas-based electricity generation



The operating margin for gas-based electricity generation has decreased considerably during the last five years. Clean Spark Spreads (the margin on electricity generation based on gas, including the cost of CO_2 emission allowances) have been negative since mid-2012, at the same time that the margin for hard coal–based electricity generation (Clean Dark Spreads) has been relatively stable.

Total cost for new electricity generation (including CO_2 emission allowances)



The figures above are based on data from recently published international reports. The costs may vary due to local conditions and national regulations. At current wholesale prices, price signals are lacking for investments in new generation capacity.

with low CO_2 emissions, a surplus of electricity generation is expected to continue during the coming decade. By improving transmission capacity between the Nordic region, Continental Europe, and the UK, renewable electricity from the Nordic countries could help balance the intermittent generation in northern Europe.

Apart from the need for grid expansion, there is currently a trend of remunicipalising municipal energy networks in Germany following a long period of deregulation and divestment of municipal infrastructure. In Germany as a rule, concessions for distribution networks for electricity, district heating and gas are granted for 20 years. Many German cities that previously sold their energy networks to private companies are now choosing to buy these back. This is a development that is contributing to further change in the market situation and energy landscape. In Hamburg, Vattenfall has sold its electricity distribution operations to the city of Hamburg following a referendum on ownership.

A new energy landscape

More decentralised and geographically spread electricity generation will lead to a new and more complex energy landscape. This will give rise to challenges as well as opportunities for traditional utilities and market players. Parallel with this, there is a willingness among companies, property owners and private households to become less dependent on electricity and heat suppliers. Small scale power plants, heat pumps and solar panels are making it possible for consumers to become so-called "prosumers", i.e., customers who are both producers and consumers of electricity or heat. In such an energy landscape, it is a competitive advantage to have the ability to provide solutions for smart, flexible electricity networks and smart homes that give customers opportunities to make efficiency improvements and optimise their production and consumption.

New opportunities in the end customer market

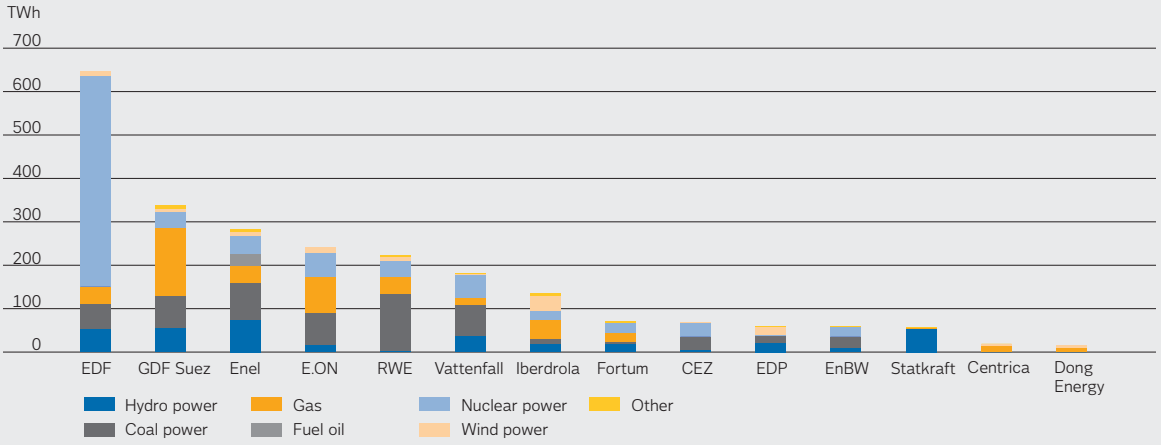
A new energy landscape with more active consumers who are also increasingly seeking to be electricity producers, is opening a new market for customer-centric services. This trend is progressing at varying speeds from country to country, where economic support systems and rules for own-produced electricity from wind power and solar panels is playing a major role.

A new type of supplier of customer-centric energy services is expected to emerge, which is opening opportunities for players from other industries, such as telecom and home alarm companies. These are often IT-oriented, and instead of buying and selling electricity, heat or gas, these may, for example, offer delivery of a certain, guaranteed indoor temperature or measures for energy efficiency improvement, and accept part of the cost savings as payment.

Europe's largest producers of electricity

A large number of energy companies operate in the European energy markets. The largest of these in terms of sales are EDF and GDF Suez (France), Enel (Italy), and E.ON and REW (Germany). These are all utilities with operations in most parts of the value chain in Europe and also have substantial operations outside of Europe. Apart from these large companies are a number of regional players, including Centrica (UK), CEZ (Czech Republic), Dong Energy (Denmark), EDP (Portugal), EnBW (Germany), Fortum (Finland), Iberdrola (Spain), Statkraft (Norway), and Vattenfall. The market also has a large number of electricity supply companies, most of which are municipal-owned. In Sweden there are more than 100 such companies, while there are around 900 in Germany (often part of city utilities, or "Stadtwerke") and about 80 in the Netherlands. In addition to these are a number of transmission and distribution companies, which are run as price-regulated monopolies.

Europe's largest producers of electricity (electricity generation and energy mix[1])



1) Generation volumes and energy mix for the largest European electricity producers in 2013. There are large differences in the companies' energy mix, i.e., the energy sources that are used for electricity generation.

Source: Company annual reports for 2013.

Frameworks and regulations

Vattenfall's operations are governed to a high degree by political regulations and frameworks. The EU's climate and energy policies today are largely based on the EU's so-called 20–20–20 targets. These entail that by 2020, renewable energy shall account for 20% of Europe's energy production, CO_2 emissions shall be reduced by 20% from 1990 levels, and energy use shall be reduced by 20% compared with 1990 through efficiency improvements.

New EU targets for 2030

In October 2014 the European Heads of States decided on a new energy and climate framework with new targets for 2030, namely:

- a binding EU target of a minimum 40% reduction in greenhouse gas emissions by 2030 compared with 1990 and a reform of the existing EU Emissions Trading System (ETS),
- a binding EU target that at least 27% of energy consumed in the EU shall come from renewable energy sources by 2030, and
- a non-binding EU target for improving energy efficiency by a minimum of 27% by 2030.

The new Climate and Energy Framework for 2030 will be translated into concrete legislative proposals, which can be expected to have a considerable impact on Vattenfall's future operations. These may include the following:

- Reform of the EU ETS and introduction of a Market Stability Reserve – aimed at reducing emissions of greenhouse gases in the EU
- A revision of the EU's Renewable Energy Directive – aimed at increasing the share of renewable energy production
- An overhaul of the legislative framework for energy efficiency

In addition to these are other EU initiatives:

- The ongoing implementation of the EU's Water Framework Directive, aimed at safeguarding water quality in Europe's lakes and watercourses, will affect Vattenfall's hydro power generation. Changes in the Swedish Environmental Code that have been proposed by the so-called hydro power study could result in a new review of all permits to conduct hydro power operations.
- The Best Available Techniques Reference Document (BREF) for Large Combustion Plants, which sets the emission levels for various pollutants and serves as the foundation for the Industrial Emissions Directive (IED).
- Legislative action in the areas of biodiversity, circular economy and air pollution.
- Rules governing the European electricity market and the establishment of a European regulatory framework for efficient use of the current transmission grid, load and generation (network codes).
- A transformation of the EU Energy Retail Market that was kicked off by the European Commission in early 2015.

Work under way at the national level

In all of Vattenfall's markets, various national rules and regulations are being updated in an effort to enhance the transition to future energy systems, such as "Energiewende" in Germany, the Dutch Energy Deal in the Netherlands, and the Electricity Market Reform (EMR) in the UK. Discussions are focused above all on future levels of support for various energy sources, on how to foster security of supply and efficiency, on achieving climate targets and on conceivable new ways of organising the energy market. In Sweden, a broad-based energy commission will be studying the conditions for a long-term sustainable energy policy.

Vattenfall's development since 1990

The European energy markets have undergone major changes during the last 25 years. As a result of deregulation that began in the early 1990s, many energy companies built up operations and acquired energy companies outside their national home markets. Acquisition-driven growth was the theme of the day. Risk diversification, economies of scale and synergies were key drivers. Large, diversified production capacity was considered to be an essential competitive advantage. This period ended as the financial crisis took hold in 2007 and 2008, when many European countries turned their focus inwards and began adopting more nationally focused energy policies, at the expense of European integration. The pace of integration work stagnated, and demand for electricity fell as a result of the ensuing recession. The energy companies shifted their focus to strengthening their financial positions through cost-cutting, scaled-back investments and divestments. The traditional value chain began to be complemented by a more customer-based perspective.

During this entire period, the climate issue has gained in importance, an in recent time all sustainability aspects have gained a great impact – initially as something that could affect business in the future, to something that today permeates the entire business planning process. To some extent Vattenfall's journey was characterised by the logic and the conditions that prevailed in the market during the period, but is also a result of the company's history and strategic choices.

Operating environment 1990–1994

Deregulation of European energy markets begins

Starting in the UK, Europe's electricity markets begin to successively deregulate. The Swedish electricity market is deregulated in 1996, and new, foreign players begin to establish operations in Sweden. The German and Dutch electricity markets are deregulated in 1998. Deregulation results in the opening of electricity generation, trading and sales to competition, while electricity distribution remains a price-regulated monopoly. One of the aims of deregulation is to give consumers more choices and to create conditions for greater competition for electricity supply. It is believed that this would lead to a more efficient electricity market, with lower prices for consumers.

Operating environment 1995–2006

Structural transformation of the electricity market

An increasingly integrated and open electricity market emerges in Europe. Large international energy groups are formed through mergers and acquisitions. In the German market, four large integrated companies are created: RWE, E.ON, Vattenfall and EnBW. All are active throughout the electricity value chain and each own a share of the German high voltage grid. Electricity exchanges are formed, and pricing in the market becomes more transparent. Trading in CO_2 emission allowances within the EU begins in 2005, which drives up electricity prices.

Deregulation and European integration 1990–2009

1990 1991 1992 1993 1994 | 1995 1996 1997 1998 1999 2000 2001 2002 2003

Vattenfall 1990–1994

The modern Vattenfall takes shape

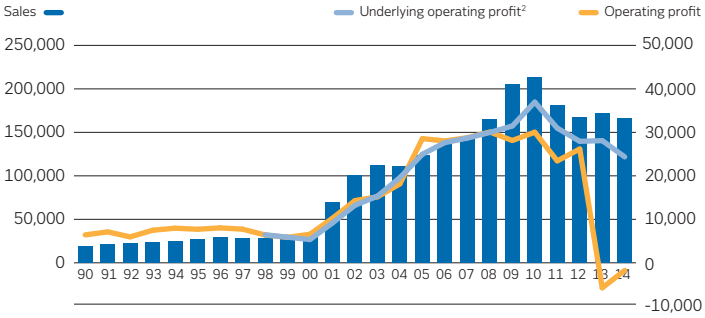
The public utility Statens Vattenfallsverk is transformed in 1992 into a state-owned limited liability company, Vattenfall AB. In parallel, the Swedish high voltage grid is detached from Vattenfall and is transferred to a newly formed public utility called Svenska Kraftnät. Vattenfall strengthens its position in electricity distribution and in the end customer market by acquiring a number of local, Swedish networks. Smaller acquisitions are made in Norway, Denmark and the Baltic countries. Through its subsidiaries SwedPower and Nordic Power Invest, Vattenfall also establishes a number of power projects in Southeast Asia and South America.

Vattenfall 1995–2006

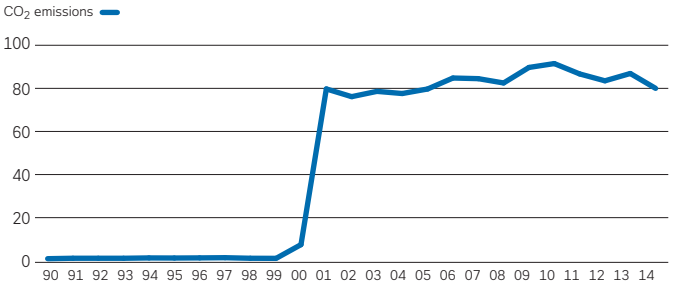
International growth

Vattenfall's board of directors decides in 1995 on an international growth strategy. In Finland, Vattenfall acquires the company Häämen Sähkö in 1995 along with a number of other energy companies. In Germany Vattenfall acquires the companies HEW, Bewag, VEAG and Laubag in the early 2000s, and thereby becomes Germany's third-largest generator of electricity and the largest producer of heat. In Poland the combined heat and power (CHP) producer EW and the distribution company GZE are acquired. Vattenfall's international establishment is concentrated to northern Europe, and projects in Asia and South America are divested. Focus turns to integrating the newly acquired companies. Starting in 2006, all operations in Germany and Poland are conducted under the Vattenfall brand. In 2006 several CHP and wind power assets are acquired in Denmark.

Sales and operating profit, SEK million, 1990–2014[1]



CO_2 emissions, Mtonnes, 1990–2014



1) Starting in 2004, Vattenfall reports in accordance with IFRS. Prior to this, reporting was conducted in accordance with Swedish GAAP.
2) Underlying operating profit is defined as operating profit excluding items affecting comparability.

Operating environment 2007–2009

Climate targets and financial crisis

Awareness about the risks posed by climate change increases around the world. In response to this, the EU adopts a set of climate and environmental goals for 2020 – the so-called 20–20–20 targets. Electricity prices rise sharply as a result of the new EU Emissions Trading System (ETS) for CO_2 emission allowances. A shift is begun towards more gas-based power generation. New technologies, such as carbon capture and storage (CCS), are developed in an effort to reduce CO_2 emissions from coal power. The European energy map continues to be redrawn through continued international acquisitions and divestments. A global financial crisis unfolds in 2007 and 2008, triggered by the collapse of the US home mortgage market. The crisis is regarded as the worst since the Great Depression in the 1930s and threatens the euro cooperation. Initially, Europe's electric utilities are affected considerably less than companies in other sectors.

Operating environment 2010–2014

A new energy landscape

The European energy sector now faces substantial challenges. The economic recession leads to a sharp drop in demand for energy, which strikes a hard blow to the earnings capacity of electric utilities. At the same time, new production capacity is added above all in renewable forms of energy, which puts further pressure on electricity prices. Large scale production of shale gas gains momentum in the USA, which leads to exports of cheap hard coal to Europe. This and low prices of CO_2 emission allowances in the EU ETS system leads to a fundamental change in the profitability ratio between coal- and gas-fired power generation.

A new era dawns as many companies begin to divest assets to lower their debt at the same time that integration of the European energy markets stagnates. As a result of the nuclear power accident in Fukushima in 2011, the German government reconsiders its nuclear power strategy and decides that all nuclear power in Germany is to be shut down by 2022 at the latest. In Sweden, the law is changed to make it possible to replace ageing nuclear power reactors with new ones.

Paradigm shift 2010–

2004 2005 2006 | 2007 2008 2009 | 2010 2011 2012 2013 2014

Vattenfall 2007–2009

Climate focus and acquisitions

Vattenfall formulates its climate vision, calling for operations to be climate-neutral by 2050 at the latest. This goal is also adopted by the European electricity industry through the organisation Eurelectric. In 2008 Vattenfall inaugurates the world's first pilot plant for separating carbon dioxide in connection with coal combustion (CCS) using oxyfuel technology at the Schwarze Pumpe power plant in eastern Germany. However, a lack of political support and acceptance by the general public in Germany prompts Vattenfall to abandon its CCS-projects in 2011. Vattenfall completes construction of wind farms and acquires several wind power projects in the UK. In 2009 Vattenfall acquires the Dutch energy company N.V. Nuon Energy in an effort to diversify Vattenfall's operations and geographical market position. Among other objectives, Vattenfall wants access to Nuon's assets and expertise in gas power and trading. This acquisition and high electricity prices lead to a sharp rise in Vattenfall's sales, reaching SEK 205 billion in 2009.

Vattenfall 2010–2014

New strategic direction

As a result of lower demand, falling electricity prices and increased debt following the acquisition of N.V. Nuon Energy, Vattenfall reconsiders its growth strategy and begins divesting non-core assets. The Germany high voltage grid is sold, as are operations in Finland, Belgium and Poland. Extensive efficiency improvement programmes are launched to reduce the company's costs.

In 2010 Vattenfall sets the goal to reduce its annual CO_2 emissions to 65 million tonnes by 2020 at the latest. Achieving this goal requires the sale of parts of the Group's fossil-based production. In autumn 2014 Vattenfall decides to look into the possibility of selling the lignite operations in Germany. The focus on wind power continues, and to accelerate the pace of expansion in this area, partnerships are established with municipality-owned energy companies and institutional investors, among others.

Strategy

Vattenfall's overarching strategy is focused on strengthening the company's customer focus and on transforming to a more sustainable energy portfolio. Parallel with this, Vattenfall must be able to generate a market rate of return to the owner and be a long-term financially stable company.

Vattenfall – like other major European power utilities – continues to face a number of major challenges and must adapt to the changed market conditions. Its large-scale electricity generation must be adapted to a market situation characterised by weak demand and considerably lower electricity prices than previously. The production portfolio must be restructured towards more renewable forms of energy and greater business focus along the entire value chain. New financing solutions must be pursued to enable investments in renewable energy, mainly wind power. Rising demands by customers and society for new, sustainable products and services must be met.

Vattenfall's overarching strategy for the years ahead is focused on the following three strategic focus areas:

- Strong customer focus and new customer-centric business models
- A more sustainable energy portfolio
- Increased business focus in all operations

New organisation effective 1 April 2015

On 1 April 2015 the regional structure that was adopted on 1 January 2014 will be replaced by six cross-border Business Areas in order to be able to better support the Group's new overall strategy. For further information about the company structure, see the corporate governance report on page 57.

- **Heat** – All heating operations including all thermal operations, except for the lignite operations, which will form a separate unit, Mining & Generation
- **Wind** – All wind power operations
- **Customers & Solutions** – Sales to end customers
- **Generation** – All hydro and nuclear power operations
- **Markets** – Corresponds to the current Business Division Asset Optimisation and Trading
- **Distribution**[1] – Electricity istribution operations in Sweden and Germany

1) The electricity distribution operations are regulated by the Swedish Electricity Act and the German Energy Industry Act (Energiewirtschaftsgesetz), and are unbundled from Vattenfall's other operations.

Successful consolidation

Following a number of years of strong growth resulting from a series of acquisitions, a shift in strategy was made in 2010 towards consolidating the company and strengthening its financial position. While this strategy has been successful, it has fallen short of fully compensating for the increasingly challenging market conditions. Annual costs have been cut by more than SEK 13.7 billion, or 26% compared with the cost base in 2010.

The investment plan has been scaled back from SEK 201 billion for the period 2010–2014 to SEK 105 billion for the period 2014–2018, in order to be more closely aligned with the company's anticipated cash flow. Effective from 2015, Vattenfall has limited its investment plan to cover only the next two years. Debt has been reduced through the divestment of a number of operations, such as the heat and electricity network businesses in Poland and Finland, the electricity distribution operation in Hamburg, the operations in Belgium, and several other operations that are considered to be non-corebusinesses. Availability of Vattenfall's nuclear power generation has improved, from 74% in 2010 to 82.8% in 2014. Since 2010, CO_2 emissions have decreased from 93.7 million tonnes to 82.3 million tonnes in 2014.

New organisation with six Business Areas

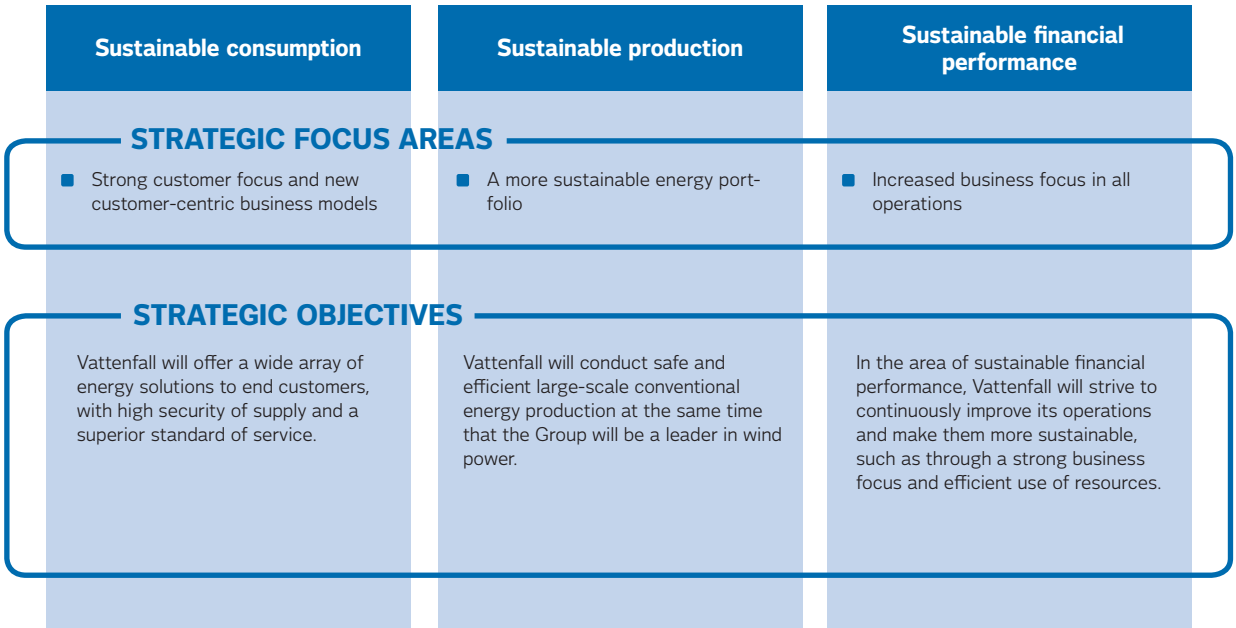
On 1 January 2014 Vattenfall was reorganised into two geographical regions, Nordic and Continental/UK. This was done to be able to better deal with the various, national market conditions within the respective regions. The division was also designed to enable a broader ownership structure for operations outside of the Nordic countries over time.

During the autumn of 2014 Vattenfall's portfolio strategy was reviewed, and the decision was made to study the possibility of selling the lignite operations in Germany. On the other hand, the other operations in the Continental/UK region – such as combined heat and power production, district heating, electricity distribution and wind power – will be retained and will continue to make up key parts of Vattenfall's core business.

To facilitate the shift towards more renewable and sustainable energy production, effective 1 April 2015 Vattenfall will be organised in six Business Areas. The aim is to increase the Group's business and performance focus, and to capitalise on cross-border synergies. This new, business-driven cross-border organisation signifies that Vattenfall will continue to be a North West European energy company under Swedish ownership.

Vattenfall's strategy effective from 2015

Vattenfall's overarching strategy summarises how Vattenfall plans to meet the challenges and take advantage of business opportunities in the new energy landscape. The strategy covers each of the three dimensions Sustainable consumption, Sustainable production and Sustainable financial performance. Within each of these dimensions Vattenfall is working with a number of strategic objectives.



Vattenfall's investment plan

In recent years Vattenfall has gradually scaled back its investment plans, especially with respect to growth in electricity generation. This is a result of a market situation characterised by a surplus of production capacity, weak demand and low electricity prices. Today the majority of growth investments are being made in renewable energy, mainly wind power. The investments that are still planned in fossil-based production relate to the completion of projects that were decided on several years ago, when the market conditions looked entirely different.

Vattenfall's investment plan for the five-year period 2014–2018, which was decided on in 2013, total SEK 105 billion. Compared with the preceding five-year period, 2013–2017, this meant a decrease of SEK 18 billion. Due to the difficult market situation, which is characterised by a surplus of production capacity and low prices – which are putting pressure on profitability and cash flow – Vattenfall has limited its most recent investment plan to cover only the next two years, 2015–2016, compared to rolling five-year plans as previously.

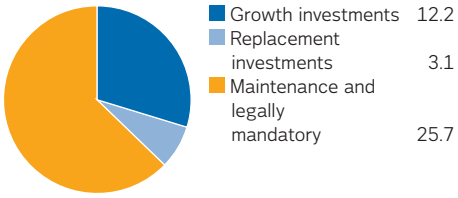
For the two-year period 2015–2016 Vattenfall plans to invest a total of SEK 41 billion, of which SEK 30.8 billion, or 75%, relates to investments in electricity and heat production. The company plans to invest the remainder, SEK 10.2 billion, primarily in electricity and heat networks, for SEK 7.3 billion and SEK 1.8 billion, respectively.

Of the investments in electricity and heat production, SEK 11.1 billion, or 36%, relates to growth, i.e., expansion of production capacity. The largest share, SEK 9.1 billion, or 82%, is planned for renewable energy production – mainly wind power. Vattenfall's goal is to have a faster rate of growth in renewable production capacity than the market average (see also page 23). The growth investments that continue to be made in fossil-based production are to complete projects that were decided on and started several years ago, when the market situation and outlook were entirely different than they are today. An example is the hard coal-fired Moorburg plant in Hamburg, which was decided on back in 2006 and will be in commercial operation in 2015.

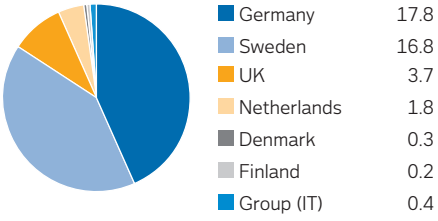
A large share of the total investment plan is earmarked for maintenance of existing plants. A significant portion also pertains to legally mandatory investments due to various regulatory decisions, such as in nuclear power. Of total investments, SEK 25.7 billion relates to maintenance and legally mandatory investments, and SEK 3.1 billion relates to replacement of plants that will be phased out due to their age.

Investment plan 2015–2016

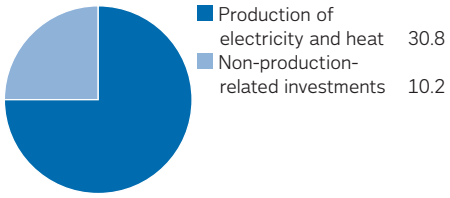
Total investments, SEK 41 billion



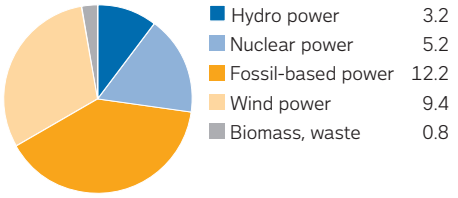
Geographical breakdown of investments, SEK 41 billion



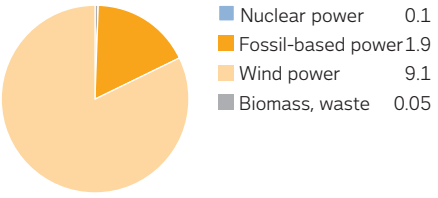
Total investments, SEK 41 billion



Total investments in electricity and heat production, SEK 30.8 billion



Growth investments in electricity and heat production, SEK 11.1 billion



Major investment projects that have been decided on and are in progress

Project	Country	Type	Capacity	Vattenfall's interest, %	Completion	Total project investment
Clashindarroch	UK	Wind, onshore	36.9 MW	100%	2015	~SEK 750 million (GBP 62 million[4])
Kentish Flats[1]	UK	Wind, offshore	50 MW (expansion)	100%	2015	~SEK 2,000 million (GBP 166 million[4])
Höge Väg	Sweden	Wind, onshore	38 MW	50%[2]	2015	~SEK 500 million
Högabjär-Kärsås	Sweden	Wind, onshore	38.4 MW	50%[2]	2015	~SEK 500 million
Juktan	Sweden	Wind, onshore	29 MW	50%[2]	2015	~SEK 400 million
Moorburg	Germany	Electricity generation, hard coal	1,654 MW	100%	2015	~SEK 29,000 million (EUR 3,087 million[4])
Akkats	Sweden	Hydro power	150 MW (rebuild)	100%	2016	~SEK 1,200 million
Klim	Denmark	Wind, onshore	67 MW (repowering)	100%	2016	~SEK 800 million
Lichterfelde	Germany	CHP, gas	300 MW electricity 230 MW heat	100%	2016	~SEK 3,200 million (EUR 341 million[4])
Pen y Cymoedd	UK	Wind, onshore	228 MW	100%	2017	~SEK 4,500 million (GBP 373 million[4])
Sandbank[1]	Germany	Wind, offshore	288 MW	51%[3]	2017	~SEK 12,000 million (EUR 1.3 billion[4])

1) As a rule, offshore wind farms have approximately 20%–30% higher annual generation than onshore wind farms with the same capacity.
2) Investment together with the insurance and banking company Skandia.
3) Investment together with Stadtwerke München.
4) Year-end exchange rate as per 31 December 2014.

The refurbishment and expansion of the Akkats hydro power plant near Jokkmokk, Sweden, is Vattenfall's largest hydro power project in 20 years. The power plant, which was built on the Lule River between 1969 and 1973 with a 150 MW turbine, is now being retrofitted with two turbines each with 75 MW of installed capacity. With two turbines, sensitivity to operational disruptions will be decreased, and annual electricity generation is expected to increase by approximately 26 GWh to approximately 590 GWh. The project is scheduled for completion in 2016. The investment sum is estimated at approximately SEK 1.2 billion.

Vattenfall and Stadtwerke München (SWM) are together building Sandbank, a new offshore wind farm in the German North Sea. The plant will comprise 72 wind turbines with total installed capacity of 288 MW, which is equal to the adjacent DanTysk wind farm (above). The total investment sum is approximately EUR 1.3 billion, of which Vattenfall's share is 51% and SWM's share is 49%. Estimated annual electricity generation is 1.4 TWh, which corresponds to the annual electricity consumption of approximately 400,000 German households.

The Moorburg hard coal-fired power plant in Hamburg is planned to be fully commissioned for commercial operation during the first half of 2015. The plant comprises two 827 MW units and can generate electricity corresponding to roughly 85% of the consumption by the city of Hamburg. Moorburg is one of the most modern hard coal-fired power plants in Europe. With an efficiency rating of just over 46%, the plant's CO_2 emissions are approximately 25% lower per generated kWh than the average for Germany's other hard coal-fired plants (38%). The investment sum is slightly more than EUR 3 billion.

Vattenfall is currently building a new gas-fired combined heat and power plant with gas and steam turbines that will replace an older power plant in Lichterfelde in southern Berlin. With an electricity generation capacity of approximately 300 MW and heat capacity of 230 MW, more than 85% of the fuel's energy will be used. The investment is an important part of a climate agreement with the City of Berlin to halve the city's CO_2 emissions by 2020 compared with 1990 levels. The CHP plant is expected to cost approximately EUR 341 million and will be commissioned in 2016.

Targets and target achievement

Vattenfall's assignment is to generate a market rate of return by operating an energy business in such a way that the company is among the leaders in developing environmentally sustainable energy production. Stable financial performance, that provides scope for long-term investments enables environmentally sustainable energy production as well as new product solutions for sustainable consumption of electricity, gas and heat.

Vattenfall's owner and board of directors have set four financial targets for the Group, and the Board has set three sustainability targets.

Financial targets

The financial targets relate to profitability, capital structure and the dividend policy, and were set by the owner in November 2012. These targets are intended to ensure that Vattenfall creates value and generates a market rate of return, that the capital structure is efficient, and that financial risk is kept at a reasonable level. The targets are to be evaluated over a business cycle. In 2014 Vattenfall achieved its target for the debt/equity ratio, but not the target for FFO in relation to adjusted net debt. Due to impairment losses, nor did Vattenfall meet the targets for profitability and the dividend. The return on capital employed was negative in 2014, however, based on the underlying operating profit, it was 8.2%. On account of the negative result after tax, the Board of Directors has proposed that no dividend be paid for 2014. Read more about Vattenfall's financial performance during the year on pages 45–46.

Sustainability targets

In October 2012 Vattenfall's board of directors decided to adopt three sustainability targets. The first target, which was set already in 2010, entails reducing the Group's CO_2 exposure to 65 million tonnes by 2020, in order to make Vattenfall's production portfolio more sustainable. The second target is for Vattenfall to grow faster than the market in renewable capacity by 2020 and aims to accelerate the shift to a more sustainable energy system. The third sustainability target, to improve energy efficiency, has been set as a short-term goal for 2014 to reduce energy consumption, through internal and external measures, by an average of 1 GWh of primary energy per day, or a total of 365 GWh for 2014. A corresponding target for 2015 has been set at 440 GWh. Vattenfall's sustainability targets are in the same areas as the EU's 20–20–20 targets. For further information about the progress of Vattenfall's sustainability work during the year, see pages 27–51.

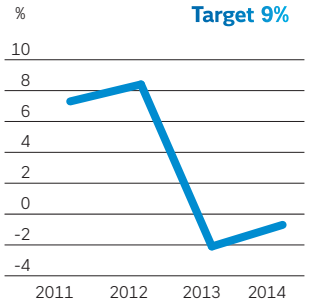
Financial targets

Profitability	Outcome 2014	Comments
Return on capital employed: 9%	-0.7%	The outcome for 2014 was -0.7%, mainly as a result of impairment losses on asset values totalling SEK 23.8 billion. Excluding the impairment losses and items affecting comparability, the return on capital employed was 8.2%.

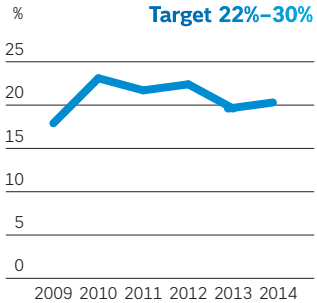
Capital structure	Outcome 2014	Comments
FFO/adjusted net debt: 22%–30%	20.3%	The outcome for 2014 improved compared with 2013 (19.6%), but was still below the target interval. Funds from operations increased slightly, and adjusted net debt decreased compared with 2013.
Debt/equity ratio: 50%–90%	61.9%	The outcome for 2014 was 61.9% (75.7%). The improvement is mainly attributable to a lower level of net debt, largely as a result of sales proceeds from divested assets.

Dividend policy	Outcome 2014	Comments
The dividend should amount to 40%–60% of the year's profit after tax	0%	Due to the negative result after tax, the Board proposes – in accordance with Vattenfall's dividend policy – that no dividend be paid for 2014.

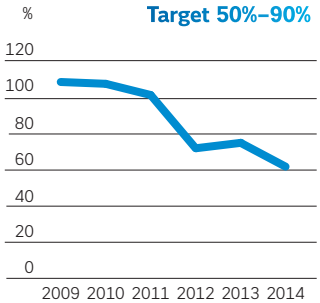
Return on capital employed



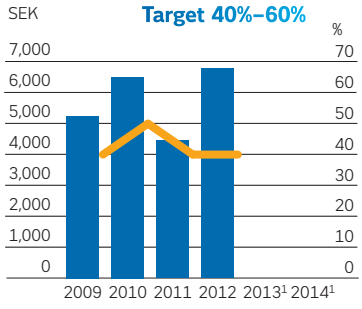
FFO/adjusted net debt



Debt/equity ratio



Dividend



1) No dividend is being paid out for 2013 or 2014.

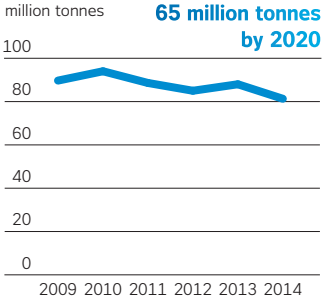
Sustainability targets

Lower CO_2 exposure	**Outcome 2014**	**Comments**
Vattenfall will reduce its CO_2 exposure to 65 million tonnes of absolute emissions by 2020.	CO_2 emissions amounted to 82.3 million tonnes in 2014.	Vattenfall's CO_2 emissions decreased in 2014 from 88.4 million tonnes in 2013, mainly due to the divestment of several fossil-based power plants during the year and lower production at heat plants on account of warmer weather. Measures to reduce CO_2 emissions to 65 million tonnes are described on pages 35–36.

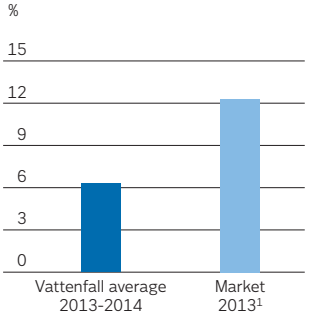
Growth in renewable electricity generation	**Outcome 2014**	**Comments**
Vattenfall's growth rate of installed renewable capacity will be higher than the average growth rate for ten defined countries in northern and central Europe.[1]	Vattenfall's annual growth rate has been 6.3% since 2012. Data for 2014 for the comparison markets were not available at the time of publication of this annual report; however, the growth rate for 2013 was 12.3%.[2]	Vattenfall installed 52 MW of new capacity in 2014 (2013: 145 MW). Newly installed capacity in 2014 consisted mainly of: – Hjuleberg wind farm (36 MW) – Bajlum wind farm (15 MW) The DanTysk wind farm (288 MW) is not included in data for 2014 since the plant was formally completed in 2015. However, it began generating electricity in December 2014.

Energy efficiency	**Outcome 2014**	**Comments**
Vattenfall will save 365 GWh in 2014 both through internal efficiency improvements and by helping customers improve their energy efficiency.	Activities carried out in 2014 led to an annual decrease in energy need by approximately 435 GWh.	A number of measures were taken that increased energy efficiency in 2014 compared to 2013. These improvements were made at Vattenfall's own power plants, such as through the replacement or upgrades of turbines at the Jänschwalde and Boxberg lignite-fired plants, as well as in hydro power in the Nordic countries. The decrease in energy need by 435 GWh was evenly distributed among internal and external measures.

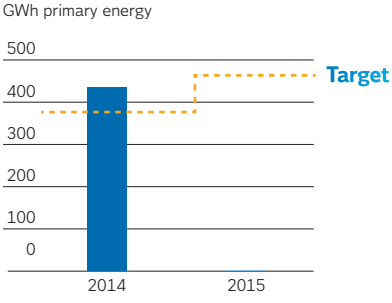
CO_2 emissions
million tonnes



Average growth in renewable capacity
%



Energy efficiency improvement
GWh primary energy



1) The ten defined countries are Denmark, Finland, Norway, Sweden, Belgium, France, the Netherlands, Poland, the UK and Germany.
2) Source: ENTSO-E, which has been commissioned by the EU to compile national information about the electricity market.

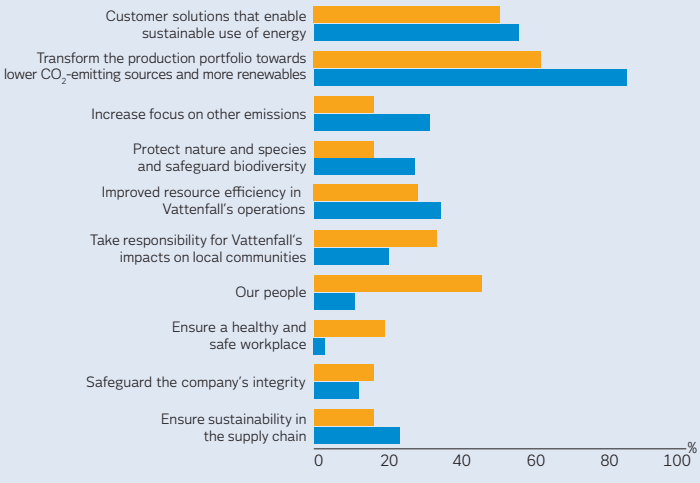
Vattenfall's stakeholders

One prerequisite for Vattenfall to be able to conduct successful business long-term is to listen to its stakeholders and understand their expectations. This gives Vattenfall an understanding for and insight into the priorities that the company must set in order to gradually reduce its negative impacts and increase its positive impacts on the environment and communities, and thereby be a more sustainable company.

Vattenfall has identified its stakeholder groups by mapping the groups of people along Vattenfall's value chain that are either impacted by or have an impact on Vattenfall's operations. Vattenfall has categorised its stakeholders in the following groups: the owner, customers, decision-makers, regulators, NGOs, financial stakeholders, suppliers, employees, the general public and media.

By listening to and carrying on an active dialogue with its stakeholders, Vattenfall can identify challenges and opportunities associated with the company's operations. This dialogue is part of the day-to-day activities and is conducted in a variety of ways throughout the organisation. Dialogues with the owner, regulators and NGOs are conducted regularly. Meetings with interest organisations, politicians and media are held on a regular basis throughout the year, both at Vattenfall's and their initiative. Every year Vattenfall conducts in-depth surveys focusing on topics such as customer satisfaction, reputation and brand. Internally, Vattenfall conducts employee surveys every second year. Focus groups are a forum for dialogue and are used for specific projects or when introducing new customer products and services. In connection with planning work for new plants, dialogues are held through formal consultations and information meetings for local organisations, people living nearby and the general public, as well as through social media.

In 2014 an in-depth survey was conducted in the Swedish market in an effort to gain a deeper understanding of the expectations held for Vattenfall. One conclusion is that the company's stakeholders have higher expectations on Vattenfall, in its capacity as a state-owned company, than they have of the company's competitors. They feel that Vattenfall should act more ethically, be more transparent, and lead the way in the transformation to a more sustainable energy system. One way of meeting these expectations and being even more transparent and more accessible is to work with continuous improvement in the sustainability focus areas identified by Vattenfall. In 2013 an extensive survey was conducted in Sweden, Germany and the Netherlands to verify that the identified sustainability focus areas are aligned with the stakeholders' expectations for the company. The result showed a close alignment. Highest priority was attached to the work on transforming the production portfolio towards electricity generation based on renewable energy, lowering CO_2 emissions and energy efficiency improvements. These areas also reflect Vattenfall's sustainability targets.



Source: Vattenfall's stakeholder dialogue 2013.

Read more about Vattenfall's stakeholder dialogues on Vattenfall's website: http://corporate.vattenfall.com/globalassets/corporate/sustainability/doc/intressentdialog_en_final_20140320.pdf

Examples of stakeholder dialogues

Vattenfall in Almedalen

During an open seminar at the annual "politicians' week" convention in Almedalen at the isle of Gotland, Vattenfall's CEO-elect at the time, Magnus Hall, listened to advice from an invited panel. Making sure to get clear owner directives, being a public educator and at the same time being a visionary were some of the advice that Magnus Hall received from the panel delegates. The seminar was attended by several hundred people, who also had the opportunity to ask questions. The seminar was videotaped and posted on Vattenfall's website and in social media.

Vattenfall arranges roundtable discussion

In September Vattenfall's Policy & Regulatory Affairs department in the Netherlands arranged the company's annual roundtable dinner. Energy spokespersons in parliament, representatives of local and national non-governmental organisations (NGOs), experts from government departments, regional grid owners and other relevant stakeholders were invited to the event, which was held for the fifth time. Every table was assigned its own topic area and was hosted by a senior executive from Vattenfall. Topics discussed included the energy market in transformation, district heating and cooling, and energy efficiency. Vattenfall believes that such events are excellent occasions to increase mutual understanding and further strengthen relationships between groups that influence energy policies in the Netherlands.

Participation in party conventions

Vattenfall participates in the political parties' conventions in the company's main markets to maintain close contact with key groups and parties with influence over the countries' energy policies. In Germany, during the year Vattenfall participated at nearly every convention held by the country's political parties that are represented in the German government, where a range of issues related to energy policies were discussed. These included, among other things, the degree of flexibility of the lignite-fired power plants in the Lausitz region, the network operators' reliability with respect to renewal of the network concession in Berlin, and Vattenfall's investment plan for offshore wind power in northern Germany.

Dialogue on long-term target for energy efficiency

During the year Vattenfall held discussions regarding energy efficiency with several organisations and stakeholder groups at the EU level in Brussels in order to set a long-term target for Vattenfall.

Vattenfall monitors its reputation

Having a good reputation is essential for long-term success. Through the Vattenfall Reputation Monitor (VRM) programme, Vattenfall conducts extensive confidence surveys among the general public, customers, capital providers and opinion-shapers, where Vattenfall's Reputation Index (VRI) is an important measuring tool. The surveys measure the company's reputation in general as well as the respondents' perception of various factors that affect the company's reputation, such as their view of the Group management, the company's sustainability work and its community involvement. Vattenfall's reputation in Sweden has fallen in recent years after having previously been at a slightly higher level than its peer competitors. In Vattenfall's other markets, Vattenfall has a higher reputation than in Sweden, and its reputation has been relatively stable for quite some time.

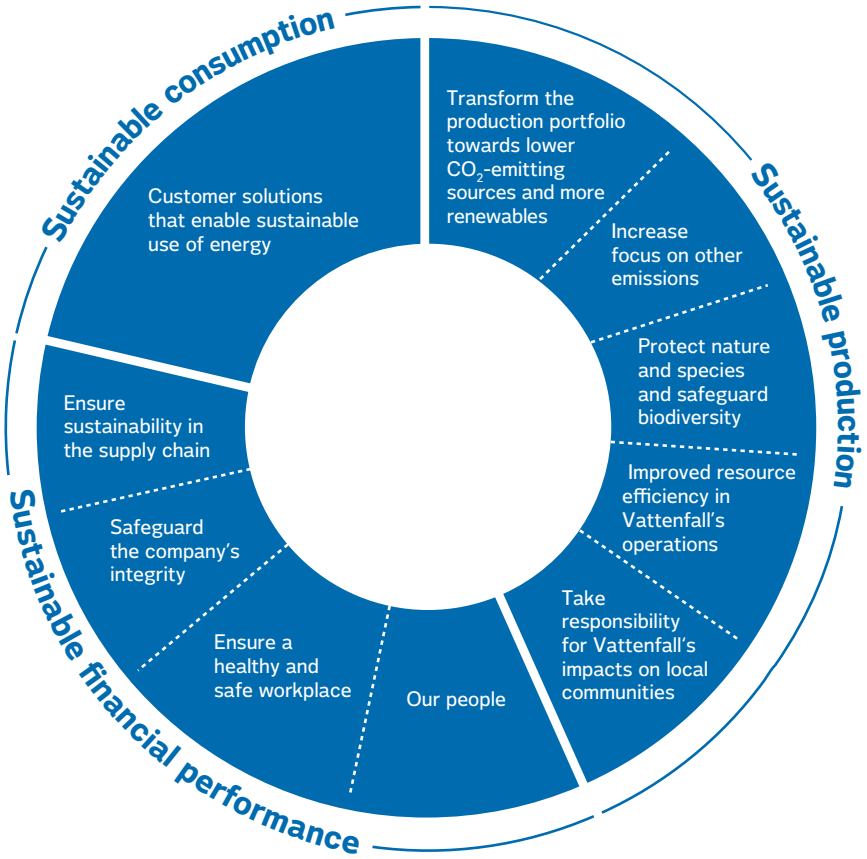
The VRM results indicate, among other things, that expectations on Vattenfall are high, especially with respect to being a leader in the development of sustainable energy solutions and actively contributing to the transformation towards a more sustainable society. Read more about the results of the VRI surveys on page 42.

Vattenfall's sustainability focus areas

In the transition to more sustainable consumption, sustainable production and sustainable financial performance, Vattenfall has defined a number of sustainability focus areas in which the company is to strive for continuous improvement. These areas have been identified through input from external and internal stakeholder dialogues to ensure that Vattenfall meets the various expectations put on the company.

Each of these sustainability areas is governed and monitored through targets and strategies, including the framework of the GRI (Global Reporting Initiative) Guidelines for sustainability reporting in the areas of the environment, economy and society.

Vattenfall strives to live up to the Brundtland Commission's definition of sustainability, including signing international principles such as the UN's Global Compact, involving senior management and the Board in sustainability work, and transparently reporting on the company's sustainability work in accordance with recognised international standards. Sustainability is a fully integrated part of Vattenfall's strategy.

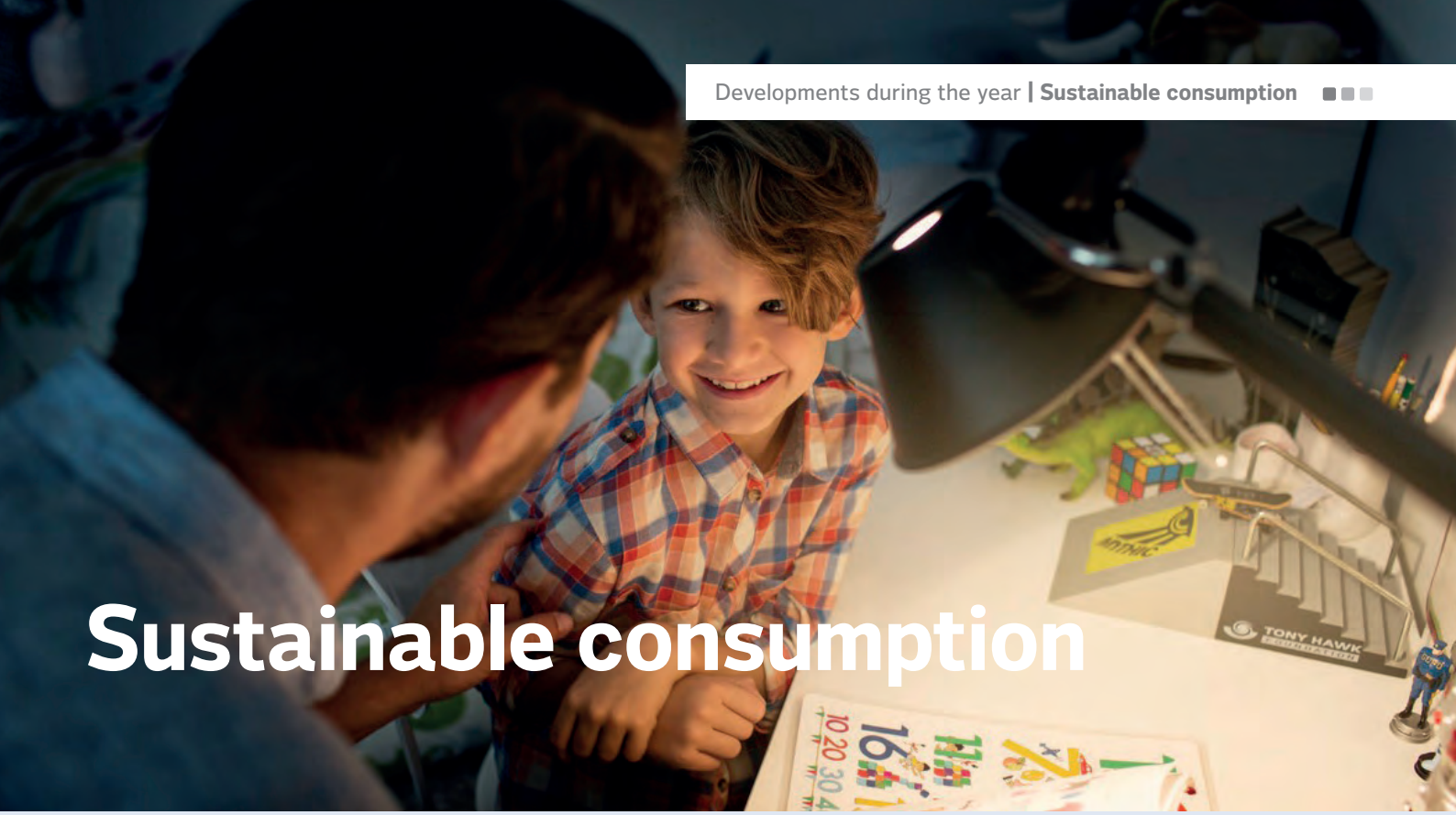


Vattenfall's breakdown of its sustainability work into ten focus areas is based in part on stakeholder dialogues, but also on a materiality analysis that shows where Vattenfall's operations have the greatest impacts. Vattenfall's current, three sustainability targets are coupled to the following areas:

- Transform the production portfolio towards lower CO_2-emitting sources and more renewables
- Improved resource efficiency in Vattenfall's operations
- Customer solutions that enable sustainable use of energy

These areas have also been ranked by external stakeholders as the most important of the ten overall areas listed above. Among internal stakeholders, the area "Our people" is ranked highly.

The following pages describe Vattenfall's work within the ten focus areas, and for each of the areas, a description is provided of strategies, targets and outcomes, activities during the year, and planned activities in the years ahead. In some areas, no Group-wide targets or strategies have been set; instead, work in the area is addressed and adapted according to the local conditions. In these cases, examples of local activities and targets are provided.



Sustainable consumption

As a result of changes in laws and regulations, technological development, and evolving customer demands, the energy sector is undergoing major changes. The most salient trends are increased consumer involvement, the transition of consumers to "prosumers" (i.e., customers who are both consumers and producers of electricity or heat), and growing demand for energy efficiency services. More sustainable energy consumption benefits Vattenfall, its customers and society at large. Sustainable energy consumption is therefore an important part of sustainable development.

The EU's energy efficiency targets, calling for a 20% reduction in annual primary energy consumption in Europe by 2020, is one of the drivers of change in the energy sector. The European Commission has proposed several measures to increase energy efficiency, focusing mainly on mass transit and the construction market, where the potential for savings is greatest. Other measures include introducing clearer product labelling and declarations for energy products as well as the use of smart meters that encourage consumers to use energy more wisely and efficiently.

Vattenfall is employing numerous measures to be part of the new energy landscape that is emerging and to take advantage of opportunities that are arising, both through partnerships involving greater customer interaction and through new offerings in the areas of electricity and heat. One of Vattenfall's strategic focus areas involves building up a market position as a company that offers smart and sustainable energy solutions. Another key area of focus for energy efficiency is district heating, where Vattenfall is a large player. District heating involves production and distribution of hot water to buildings for heating, and return of the cooler water to the district heating plant to be heated up again.

Vattenfall's electricity distribution business distributes electricity for everyday life, and energy supply with minimal power outages is the main requirement. Vattenfall is working continuously to improve the reliability and efficiency of the networks in an effort to improve security of supply and offer customers sustainable energy solutions.

Vattenfall's distribution and sales operations in 2014

Vattenfall is a major distributor of electricity in Sweden and Germany. Vattenfall also sells electricity, gas, heat, cooling and energy services to end customers. Electricity sales in 2014 amounted to 199.0 TWh, sales of heat totalled 24.1 TWh, and sales of gas totalled 45.5 TWh. Sales of electricity decreased during the year from 2013. Sales of heat and gas also decreased, mainly due to warmer weather.

Electricity distribution

Vattenfall owns and operates electricity distribution networks in Sweden and Germany. In all Vattenfall has approximately 3.2 million electricity network customers in Sweden and Germany, consisting of industrial and business customers as well as private households. Vattenfall has approximately 940,000 network customers in Sweden and approximately 2,290,000 in Germany. The number of electricity network customers in Sweden is at a relatively stable level, while the number in Germany decreased as a result of the sale of the electricity distribution operation in Hamburg at the start of the year.

In Berlin, a tendering process is currently in progress for new concessions for the electricity network. This process was supposed to be completed in 2014, but since it has been delayed, Vattenfall's electricity network company Stromnetz Berlin GmbH will continue to operate the electricity grid in Berlin at least through 2015.

Electricity distribution is a monopoly business that is regulated and monitored by the grid regulator in the respective countries. This business is legally and functionally unbundled from the parts of Vattenfall's electricity operations that are exposed to competition. Disruption-free electricity supply is the most important requirement from network customers. To meet customers' and society's expectations in this regard, Vattenfall conducts continuous development work and invests on a regular basis in electricity networks. Read more about Vattenfall's ongoing work on improving security of supply on page 32.

District heating

Vattenfall is one of Europe's largest producers and distributors of heat, with nearly 16,000 MW of installed capacity for heat. The company is a leading player in district heating in Germany and one of the foremost in Sweden and the Netherlands. Vattenfall's district heating networks in Sweden, Germany and the Netherlands span some 5,500 kilometres.

District heating is an efficient form of heating with relatively low environmental impact. Several different energy sources can be used in heating and combined heat and power plants, including biomass, waste, peat and natural gas.

Sales

Vattenfall has approximately 6.2 million electricity customers and 1.9 million gas customers. The main markets for Vattenfall's sales operations are Sweden, Germany and the Netherlands.

Vattenfall strives to deliver smart solutions for every customer's energy needs – no matter if the customer is a private household, a large company, or an entire city.

Sales of gas are concentrated mainly in the Netherlands, where Vattenfall has a market-leading position with more than 1.7 million customers. A large share of gas consumption is used for heating. For a number of years, Vattenfall has also been delivering gas to customers in Germany.

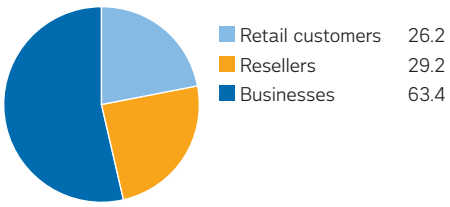
A growing segment in sales of electricity to businesses involves supplying electricity for computer server rooms. For example, Vattenfall supplies environmentally certified electricity from hydro power plants to Facebook's facility outside Luleå.

Sales of electricity, heat and gas

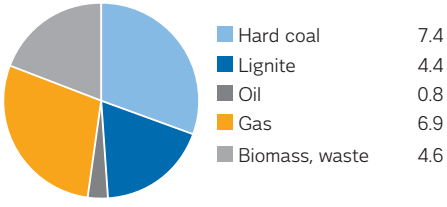
TWh	2014	2013[2]	Change, %
Sales of electricity	199.0	203.3	-2.1
of which, retail customers	26.2	28.1	-6.8
of which, resellers	29.2	27.1	7.7
of which, business customers	63.4	66.1	-4.1
Other sales of electricity[1]	80.2	81.0	-1.0
Sales of heat	24.1	30.3	-20.5
Sales of gas	45.5	55.8	-18.5

1) Mainly via electricity exchanges.
2) Certain values for 2013 have been recalculated compared with information previously published in Vattenfall's 2013 Annual and sustainability report.

Electricity volume, TWh, breakdown per customer segment



Sales of heat, TWh per energy source



Customer solutions that enable sustainable use of energy

Society is dependent on reliable energy supply at a reasonable price; at the same time, all energy production has a direct or indirect impact on the environment and society. By offering customers tools for more sustainable and efficient energy consumption, Vattenfall not only contributes to a better society but also gains competitive advantages and business opportunities.

Strategy
To offer the best value to every customer in each market.

Targets
The long-term goal is to achieve a Customer Satisfaction Index score of 75.

Achievements 2014
- Installation of several fast-charging stations in Sweden
- Strong growth in small scale CHP in Berlin and Hamburg
- First step taken to develop smart and sustainable heating and cooling solutions at Berlin's Tegel Airport
- First stage completed of Smart Grid Gotland project

Challenges
Smart and sustainable energy solutions are relatively new and differ from traditional production operations, both with respect to expertise and business models.

How is Vattenfall working with this?
Vattenfall's overall ambition is to give customers opportunities to lower their environmental footprint and actively participate in the new, emerging energy landscape. Offering sustainable energy solutions is part of this work and one of Vattenfall's strategic focus areas. Vattenfall's offerings and interactions vary from market to market. Vattenfall strives to deliver energy solutions for everyday life. This entails offering energy products and services for sustainable energy use that meet customers' expectations. Examples of such offers are:
- Electric vehicle charging stations and solutions
- Sales and installation of solar panels
- Solutions for energy efficiency improvement (EnergyWatch, E-manager, Smart Plugs)
- Energy advisory services
- Environmentally adapted electricity and heat products
- EPDs (Environmental Product Declarations) – third-party verified environmental declaration for electricity
- Heat and cooling based from CHP – both as district heating and as small-scale CHP

Vattenfall also offers customers access to marketplaces in which they can sell electricity they have generated themselves and contribute to a balancing of the electricity system.

Activities during the year
Vattenfall started installing a fast-charging network for electric vehicles which at year-end comprised seven fast-charging stations in Stockholm and Uppsala. In Berlin Vattenfall built two fast-charging stations within the framework of the "Schnell-Laden Berlin" project.

In the Netherlands, Vattenfall launched the MijnNuon app, which gives customers an overview of their energy consumption, enables them to set savings targets and offers customised tips for energy efficiency.

In Germany – mainly in Berlin and Hamburg – Vattenfall's venture into decentralised small-scale combined heat and power spurred a growing number of customers to switch from oil-fired heating boilers to district heating or gas-fired combined heat and power.

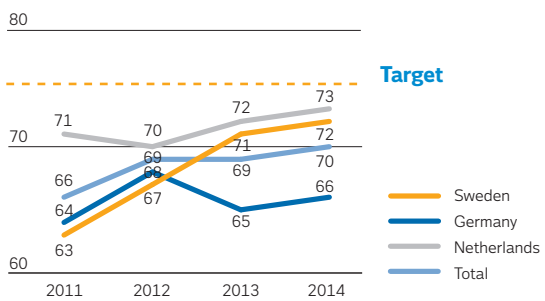
In cooperation with the organisation Quivicon, led by Deutsche Telecom, Vattenfall launched the "Vattenfall Smart Home" service, which gives customers an opportunity to actively manage their energy use. The service is usually combined with the environmentally adapted Smart Home 24 electricity product.

Within the framework of Vattenfall's investment in smart electricity grids, the first stage of the Smart Grid Gotland project was concluded, in which customers are given an opportunity to monitor and steer their energy use to hours of the day in which the electricity price is the lowest.

Planned activities
In 2015, eight plug-in hybrid buses will be put in service in Stockholm's mass transit system. The project is a partnership between Vattenfall, SL (Stockholm's mass transit company) and Volvo Buses. Read more on page 30.

Vattenfall will continue its ventures surrounding smart homes and facilities with several launches of sustainable energy solutions for both the retail and business markets.

Trend in Customer Satisfaction Index[1] 2011–2014



Vattenfall's Customer Satisfaction Index is an important tool for measuring the results of Vattenfall's customer-related activities. Vattenfall's long-term goal is to achieve a Customer Satisfaction Index of 75 and to be among the best in the industry. Vattenfall is striving to achieve this target by continuing its efforts to develop sustainable, smart products and services that benefit customers and meet their expectations. Customer satisfaction surveys are conducted primarily via phone interviews. Customers are also given opportunities to share views via other channels, such as through Vattenfall's customer service departments and websites. The Group's survey results are compiled and followed up annually.

The outcome for 2014 gave a composite Customer Satisfaction Index of 70, which is an increase of one unit over 2013. The increase was evenly spread across Vattenfall's markets.

1) The chart pertains to retail customers in sales of electricity and heat, and electricity distribution.

Electric transportation

Transportation accounts for roughly a third of global energy use and is dominated by fossil fuels. The transportation sector is thus a central area of focus in efforts to create a more sustainable energy system.

Vattenfall expects that electricity will play a key role in solving many of the challenges that the world faces – both with respect to reducing energy consumption and lowering climate impact, particularly in the face of the ongoing urbanisation. Electric transportation can make a considerable contribution to lowering carbon emissions and reducing the dependence on oil. Moreover, electric power can have a local impact through lower noise and emissions in people's everyday environment.

In order for electric vehicles (EVs) to achieve a breakthrough in society, expansion of the charging station infrastructure is important. Vattenfall has therefore launched an effort to develop a network of fast-charging stations in Sweden and built seven stations in Stockholm and Uppsala in 2014. At these stations, an EV battery can be charged from 0% to 80% in 20-30 minutes. In the Netherlands and Germany Vattenfall offers comprehensive solutions for building and operating public charging stations with normal charging. Vattenfall also offers simple and smart charging boxes for electric car owners, businesses and tenant-owner associations interested in offering EV charging to employees, tenants and visitors.

An important part of the electrification of road transportation concerns traffic from heavy vehicles – mainly buses and distribution vehicles in cities. Over time electricity is expected to play a key role as cities grow denser and efficiency improvements are made to transportation while good air quality must be maintained. Vattenfall is currently participating in a project to establish an electric bus route in central Stockholm. The buses will be charged at their end stations and will run on electricity for most stretches of their routes out of consideration for local residents and to reduce CO_2 emissions. The plug-in hybrid buses have 60% lower total energy consumption and 75% lower fuel consumption than conventional biodiesel buses. Since the buses in Stockholm's fleet will be powered by electricity from wind power and biodiesel, their CO_2 emissions will be 90% lower. The project is a collaboration between SL, Volvo Buses and Vattenfall, and receives partial funding within the framework of the EU's ZeEUS (Zero Emission Urban Bus System) project, with more than 40 participating companies and organisations.

Vattenfall is also participating in electric car R&D projects. In partnership with BMW, Vattenfall is studying methods to reuse batteries from electric vehicles in electricity networks in which a large share of wind and solar energy is fed in. Used EV batteries can be employed in flexible caching sites for renewable energy, which can help stabilise the energy system.

Vattenfall operated more than 1,000 public EV charging stations, mainly in Amsterdam, Berlin and Hamburg. These stations provide electric vehicles with nearly 200,000 kWh of renewable electricity, which corresponds to a million kilometres driven with zero direct emissions. Vattenfall has also installed several thousand charging boxes at homes and workplaces.

Types of electric cars:
A wide variety of electric cars are now available on the market, and new models are being launched at a rapid pace. There are two types of electric cars that can be charged via the electricity network:

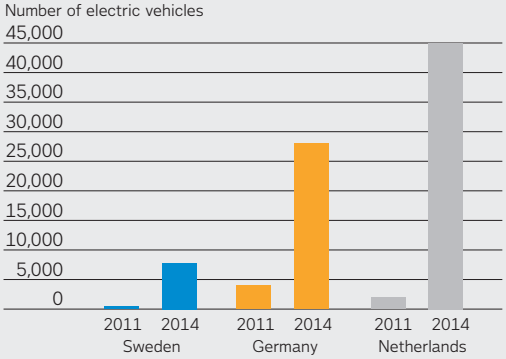
- Fully electric cars operate entirely by their battery and are charged using an ordinary electric outlet, charging box or public charging station.
- Plug-in hybrids have both a conventional combustion engine and an electric motor that is charged in the same way as a fully electric car.

There are also hybrid cars supplied with a smaller battery that is charged by the car's generator. This enables them to convert some of the braking energy for better fuel economy especially for city driving. As a rule, hybrid cars can run only a few kilometres on pure electric power and cannot be charged from an electricity network.

Types of charging:

- *Normal charging:* Normal charging is performed at home, work or in public environments. An electric car can obtain a provisional charge from an ordinary earthed electric outlet, such as for an engine heater, but the charging time is longer compared with a dedicated charging box that allows a higher continuous output. The charging time for a normal charge is 6–9 hours, depending on the battery size.
- *Semi-fast charging:* Semi-fast charging stations are usually found in public environments and have a charging time of 1–2 hours.
- *Fast charging:* Fast-charging infrastructures are beginning to emerge in pace with growth in the number of electric vehicles on roads. At a fast-charging station most electric cars can be charged to roughly 80% battery capacity in 20–30 minutes.

Development of electric vehicles[1]



Sweden:
Chargeable vehicles (2014): approximately 8,000 vehicles, including fully electric cars, plug-in hybrids, light trucks and fully electric four-wheel motorcycles. Sweden's target is to have 150,000 electric vehicles on the roads by 2020.

Germany:
Chargeable vehicles (2014): approximately 28,000 vehicles, including fully electric cars and plug-in hybrids. Germany's target is to have nearly a million electric vehicles on the roads by 2020.

Netherlands:
Chargeable vehicles (2014): approximately 45,000 vehicles, including fully electric cars and plug-in hybrids. The Netherlands' target is to have 200,000 electric vehicles on the roads by 2020.

1) The data indicates the number of electric vehicles, including fully electric cars and plug-in hybrids, based on statistics from industry organisations.

Investments in high security of supply

Energy supply with minimal disruptions is a fundamental requirement for all electricity network customers, and every year Vattenfall invests large sums in improving security of supply.

In 2014 alone Vattenfall invested more than SEK 5 billion in electricity networks in Sweden and Germany as part of its efforts to improve security of supply, of which SEK 4 billion pertained to Sweden. A large share of investments in Sweden pertain to improving the resilience of power lines to weather. This includes measures such as insulating overhead power lines or replacing them with underground cables. The aim of these investments is to reduce the average frequency of outages and the average outage duration, as measured by the System Average Interruption Frequency Index (SAIFI) and average duration of outages, as measured by the System Average Interruption Duration Index (SAIDI). For a description of definitions, see the glossary on pages 159–160.

SAIFI (number/customer)	2010	2011	2012	2013	2014
Sweden	2.4	3.1	2.6	2.1	2.4
Germany	0.25	0.23	0.27	0.29	0.20

SAIDI (minutes/customer)					
Sweden	168	349	217	183	177
Germany	13	11	12	13	15

Differences in the conditions and character of the electricity networks in the countries are reflected in the metrics SAIDI and SAIFI. The Swedish electricity network covers both urban networks and countryside networks, while Vattenfall's German network, in Berlin, is an urban network consisting almost exclusively of underground cables. Large parts of the Swedish electricity network are serviced by overhead power lines, which makes it more susceptible to outages under harsh weather conditions.

The figures in the tables above pertain to Vattenfall Eldistribution AB's local networks, and the values pertain to customer impact, including the impact of overhead power lines. The figures for Germany pertain to Vattenfall's electricity network company Stromnetz Berlin GmbH, in Berlin.

Crisis preparedness ensures security of supply

External circumstances in the form of storms, heavy snowfall, or lightning strikes, for example, have a major impact on Vattenfall's distribution operations. This is especially true in Sweden, which has a vast network of overhead power lines across the countryside. Trees that fall on power lines can cause power outages, which must be addressed promptly.

To be prepared for situations like this, Vattenfall has a crisis preparedness plan in place, with priority on being able to quickly mobilise efforts while continuing other operations without disruption. The company's major outage organisation is deployed in cases of disruptions in the electric grid that affect many customers and where the regular organisation is found to be insufficient.

An example of Vattenfall's crisis preparedness plan in action was the major forest fire in Västmanland in Sweden in late July 2014, which was one of the worst in modern time in Sweden. The fire ravaged an area of 13,800 hectares, and as the network owner, Vattenfall played a central role in the fire-fighting work. At most some 900 Vattenfall customers lost their power, and more than half of these were affected by a prolonged power outage.

Sustainable production

Today's society has grown increasingly dependent on reliable production and distribution of electricity and heat. At the same time, these operations have major impacts on the environment, both locally and globally, through their emissions and use of resources. Energy production also impacts local communities in the surrounding environment, such as through plant construction and mining.

Fossil-based energy production results in high CO_2 emissions, and Vattenfall therefore has a great social responsibility to reduce its emission levels – mainly CO_2 emissions – but also other emissions, such as SO_2, NO_x and particulate matter. Vattenfall is also working to improve resource efficiency at its plants and take responsibility for impacts on the local environment. Vattenfall strives to build up mutual trust through openness and involvement in local communities and aspires to be a responsible corporate citizen. At the same time, the national energy mix and conditions for energy supply must be considered within the individual countries in which Vattenfall operates.

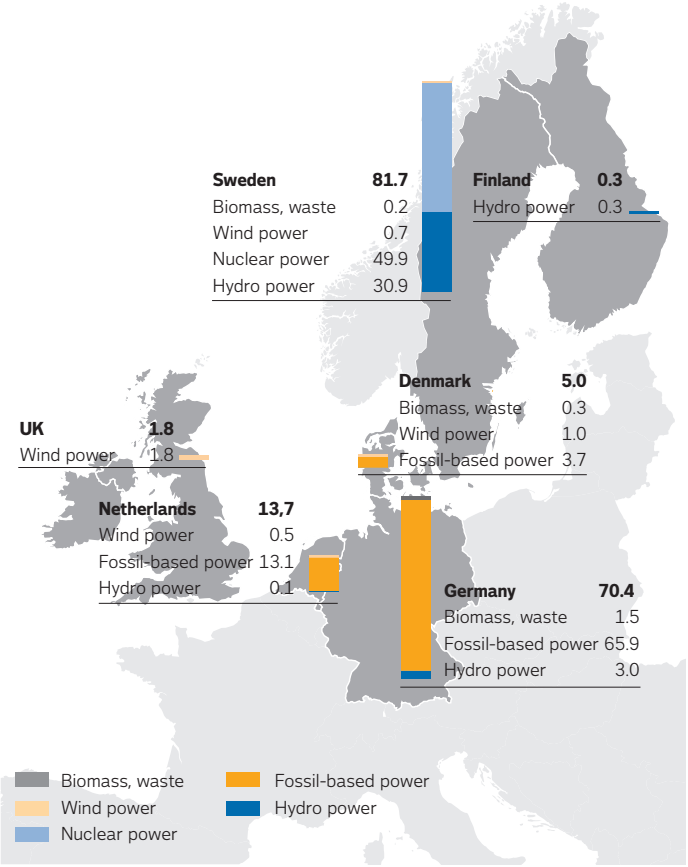
To be among the companies that lead development toward environmentally sustainable energy production, Vattenfall has set sustainability targets in the environmental area, where reducing the company's CO_2 exposure is a central part of the strategy. In addition, Vattenfall has a target to grow in renewables and increase energy efficiency. Read more about these specific targets and achievements on page 23.

In its work to shift to more sustainable production, Vattenfall has identified five sustainability focus areas:

- Transform the production portfolio towards lower CO_2-emitting sources and more renewables
- Increase focus on other emissions
- Protect nature and species, and safeguard biodiversity
- Improved resource efficiency in Vattenfall's operations
- Take responsibility for Vattenfall's impacts on local communities

Vattenfall's energy production in 2014

Vattenfall's electricity generation in Europe 2014, TWh



Vattenfall is one of Europe's largest producers of electricity and heat. Vattenfall's main products are electricity, heat and gas. Electricity generation amounted to 172.9 TWh in 2014, a decrease of 5% compared with 2013.

Hydro power

Hydro power generation decreased by 1.3 TWh in 2014, to 34.3 TWh (35.6). Reservoir levels[1] in Nordic reservoirs were 56.0% (67.6%) of capacity at year-end 2014, which is 1 percentage point below the normal level.

Modernisation and upgrading work is being conducted at existing hydro power plants to increase their level of efficiency. In addition, Vattenfall is conducting an extensive dam safety programme.

Nuclear power

Nuclear power generation decreased by 2.0 TWh to 49.9 TWh (51.9) as a result of more unplanned outage days in 2014 compared with 2013. Combined availability for Vattenfall's Swedish nuclear power plants was 82.8% (86.3%). Forsmark had availability of 88.9% (89.5%) and generation of 25.3 TWh (25.2). Ringhals had availability of 77.3% (83.4%) and generation of 24.6 TWh (26.7).

In November Vattenfall decided to put its study into replacement reactors in Sweden on hold pending discussions with the new government. In Germany only one of the company's three partly owned nuclear power plants is in commercial operation. The Krümmel and Brunsbüttel nuclear power plant have been taken out of operation as a result of the German government's decision on the early decommissioning of nuclear power in Germany. Read more about the decommissioning of nuclear power and radioactive waste on page 41.

Fossil-based power

Fossil-based power production decreased by 5.2 TWh to 82.7 TWh (87.9), which is mainly explained by the sale of the Amager CHP power station in Denmark, and by lower production at CHPs due to warmer weather in 2014.

In autumn 2014 Vattenfall began looking into the prospects for divesting its entire lignite operation in Germany, which is a precondition for being able to reach the target of reducing the company's CO_2 exposure to 65 million tonnes by 2020. Read more on page 35. The deteriorated market conditions – with lower margins for gas-fired production – led to a decision to put only one of three units at the gas-fired Magnum power plant (1,311 MW) in Eemshaven, the Netherlands, into full commercial operation at the start of 2014.

Wind power

Wind power generation increased by 0.2 TWh to 4.1 TWh (3.9) in 2014, mainly owing to higher wind power generation in the Nordic countries.

In May the Hjuleberg wind farm was inaugurated, which is Vattenfall's largest onshore wind farm in southern Sweden. In Germany, the DanTysk offshore wind farm began delivering electricity in December. During the year, Vattenfall increased its investments in new wind power. These amounted to a total of SEK 6.5 billion and thus accounted for Vattenfall's single largest investment item in 2014.

Biomass and waste

Electricity generation from biomass and waste decreased to 2.0 TW (2.4) in 2014, mainly owing to lower demand due to warmer weather.

Electricity generation

TWh	2014	2013	Change, %
Electricity generation, total	172.9	181.7	-4.8
of which, hydro	34.3	35.6	-3.7
of which, nuclear	49.9	51.9	-3.9
of which, fossil-based	82.7	87.9	-5.9
- lignite	55.4	57.2	-3.1
- hard coal	13.9	15.6	-10.9
- gas	12.9	14.7	-12.2
- oil	0.5	0.4	25.0
of which, wind power	4.1	3.9	5.1
of which, biomass, waste	2.0	2.4	-16.7

1) Reservoir level refers to the volume of water stored in a reservoir at a specific point in time and used for generation of hydro power. Reservoir levels vary during the year, depending on the amount of precipitation.

Transform the production portfolio towards lower CO_2-emitting sources and more renewables

Vattenfall emitted 82.3 million tonnes of carbon dioxide in 2014. Reducing Vattenfall's emissions will require that the production portfolio be transformed away from fossil-based energy and towards more renewables-based production. This transformation of the production portfolio is in line with the owner's expectations for the company and is an integrated part of Vattenfall's strategy.

Strategy

- To be among the leaders in developing environmentally sustainable energy production by reducing the company's CO_2 exposure and transforming the production portfolio towards more renewable production.

Targets

- Reduce annual CO_2 exposure to 65 million tonnes, read more on pages 23
- Grow faster than the market in renewable production capacity, read more on page 23

Achievements 2014

- Divestment which together reduced the Group's CO_2 exposure by approximately 3 Mtonnes
- The DanTysk (288 MW) offshore wind farm in Germany began generating electricity in December. The plant will be formally commissioned in 2015
- Co-investment in four wind power projects with the insurance and banking company Skandia

Challenges

- Low prices for CO_2 emission allowances and falling coal prices encourage the use of solid fossil fuels over gas and biomass
- Finding financing solutions which, despite a scaled-back investment framework, enable a high pace of growth in investments in wind power

How is Vattenfall working with this?

The largest emissions come from production of electricity and heat from fossil fuels – mainly lignite, hard coal and natural gas, which today account for just under half of Vattenfall's production portfolio. The work on transforming the production portfolio is being done in part by divesting fossil-based production and in part through growth and investments in renewable production.

What will be decisive for achieving the target of a 65 million tonne CO_2 exposure by 2020 is to divest all or parts of Vattenfall's fossil-based plants. This would lead to a reduction in Vattenfall's CO_2 exposure, but not necessarily in total emissions as long as the plants remain in operation. Vattenfall's CO_2 target is based on emissions corresponding to the company's ownership share in the power plants (i.e., on a pro rata basis). This means that the sale of a share in a power plant would result in a reduction in the company's CO_2 exposure by a corresponding degree.

Vattenfall continues to focus on long-term profitable growth in renewable energy, mainly wind power. Carrying out growth projects in partnership with other companies or inviting external financiers as part-owners in plants will enable a faster expansion of wind power for Vattenfall. Read more about Vattenfall's investment plan on page 20.

The use of biomass as fuel as a replacement for coal requires support systems in order to be profitable – such systems are currently lacking in Germany and the Netherlands. Vattenfall is investing to modernise its plants and to replace coal with biomass where commercially feasible.

Activities during the year

Vattenfall sold the following operations in 2014: the Amagerværket and Fynværket CHP power stations in Denmark, a minority shareholding in Enea S.A. in Poland, and the CHP assets in Utrecht, the Netherlands. Vattenfall also announced that the company has decided to look into the opportunities of divesting its lignite operations in Germany.

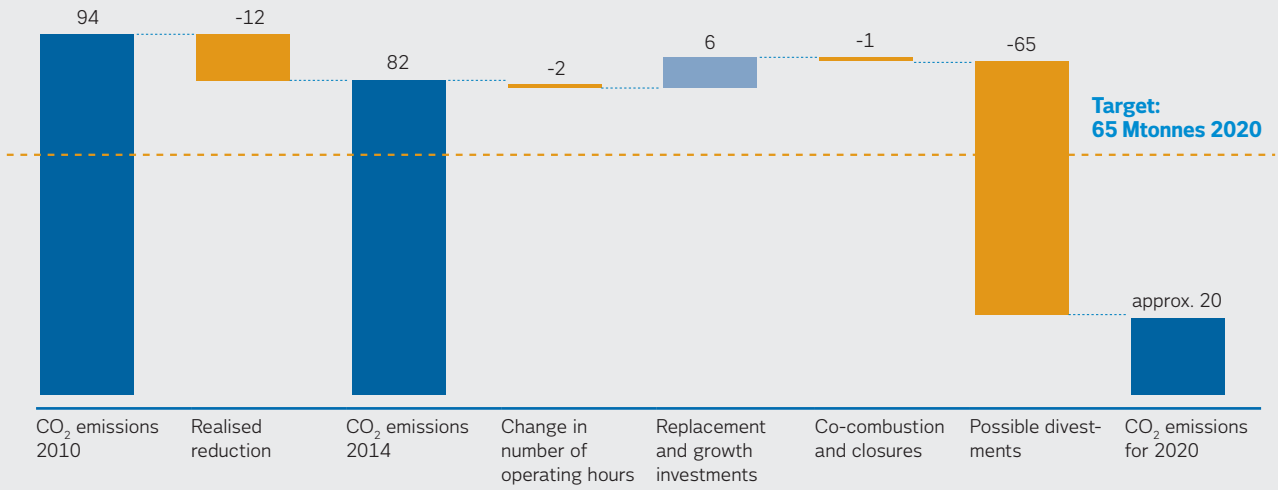
In May Vattenfall's largest onshore wind farm in southern Sweden, Hjuleberg (36 MW), was inaugurated. In Germany the DanTysk offshore wind farm began generating electricity at the end of the year. Vattenfall also decided to proceed with construction of the Sandbank (288 MW) offshore wind farm, just west of DanTysk. Vattenfall and the insurance and banking company Skandia decided to co-invest in four new wind farms in Sweden with combined capacity of 141 MW. This marks the first time that a Swedish financial investor is directly financing construction of new wind power. The wind farms will be operated by a jointly owned company. The four wind farms are: Hjuleberg (36 MW), Höge Väg (38 MW), Juktan (29 MW) and Högabjär–Kärsås (38 MW).

Planned activities

In order to reach the target of reducing the company's CO_2 exposure to 65 million tonnes and transform to more renewable production, Vattenfall has decided to look into the opportunities of divesting the lignite operations in Germany. Vattenfall is also inviting in other investors in an effort to maintain a high pace of growth in renewable electricity generation, particularly in wind power.

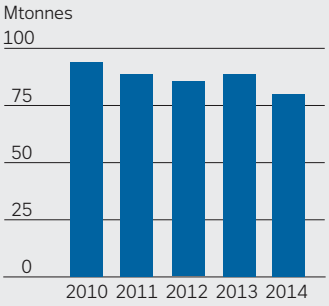
Vattenfall's plan to reduce the company's CO_2 exposure

CO_2 emissions corresponding to Vattenfall's share of ownership in the respective plants (electricity and heat), Mtonnes



- Lower anticipated operating hours in fossil-based power plants is expected to decrease emissions by 2 Mtonne by 2020, as a result of higher growth in renewable electricity generation.
- Completion of the Moorburg (hard coal) and Lichterfelde (gas) power plants will increase Vattenfall's CO_2 emissions by approximately 6 Mtonnes.
- Increased co-combustion of biomass and work on replacing older power plants with new, more efficient plants are expected to contribute to a decrease in CO_2 emissions by 1 Mtonne.
- A decisive measure for reaching the goal of 65 Mtonnes by 2020 entails the divestment of Vattenfall's lignite operation, which would lower emissions to a level of 20 Mtonnes.

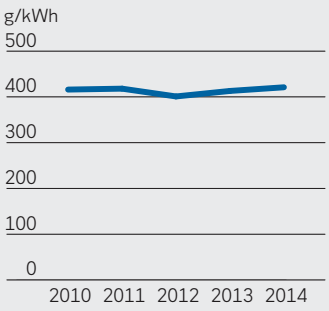
CO_2 exposure



Total CO_2 emissions 2010–2014. Emissions are reported on a pro rata basis corresponding to Vattenfall's share of ownership in the respective plants.

	2010	2011	2012	2013	2014
CO_2, Mtonnes	93.7	88.6	85.0	88.4	82.3

Specific CO_2 emissions



Specific CO_2 emissions 2010–2014, calculated as emissions per total production of electricity and heat (financial consolidation).

	2010	2011	2012	2013	2014
Specific CO_2, g/kWh	416	418	400	412	421

Increase focus on other emissions

This area is of major importance for Vattenfall's continued license to operate. Vattenfall has for many years worked on reducing its emissions of, for example, sulphur dioxide, nitrogen oxides and airborne particulates by installing state-of-the-art flue gas cleaning equipment.

Today all of the company's large plants have effective flue gas cleaning equipments, however, upcoming legislation – mainly associated with implementation of the Industrial Emissions Directive – may require further reductions in emissions. "Focus on other emissions" also include spills to soil and water. Special attention is paid to oil spills and handling of oil highlighted both from an environmental risk perspective and within the environmental incident reporting.

How is Vattenfall working with this?

Vattenfall's emissions to air occur mainly in combustion plants, the majority of which are coal-fired plants. These emissions are strictly regulated, and ensuring the company's compliance with environmental permits for existing plants has top priority. The main focus is on measures to reduce emissions, such as installation of flue gas cleaning, where technically and economically feasible. To minimise emissions, methods are also developed to gain greater flexibility in power plant processes and to optimise combustion processes, such as drying of lignite prior to burning.

Apart from emissions to air, spills to soil and water are also a matter of concern. Spills of oil to soil and water can occur during the construction and operation of power plants and in connection with transport and maintenance. In 2014 Vattenfall decided to adopt a stronger focus on managing potential oil spills, and all operations are required to develop action plans for preventing oil spills and to identify improvement measures.

Conventional power plants use large amounts of cooling water from rivers or the sea. The heated cooling water is then returned to the natural water bodies, which can lead to negative impacts on the biodiversity of aquatic ecosystems caused by the increase in water temperature. Vattenfall manages this issue through strict temperature regulation of the outflowing water in order to prevent potential harm to aquatic flora and fauna. See also page 38.

Activities during the year

Vattenfall's distribution operations in Sweden work continuously on preventing oil spills by replacing old transformers, for example.

Strategy

- Secure the company's continued licence to operate. Special attention is on preventing spills of oil to water and soil

Targets

- Develop action plans for preventing oil spills and identify improvement measures
- Examples of regional or local targets:
  – Reduce emissions of NO_x from Swedish heating plants

Achievements 2014

- New policy adopted for creosote-impregnated poles in the distribution operations in Sweden
- Use of dry, pulverised lignite at the Jänschwalde power plant

Challenges

- Adapt all plants to meet the emission levels set by the upcoming Industrial Emissions Directive
- Strike a balance between actions and costs in oil spill management

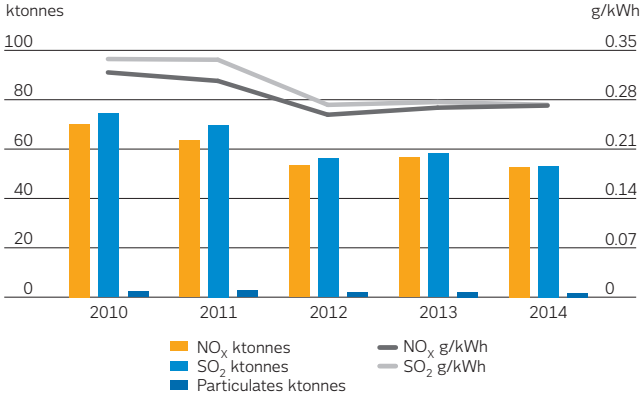
In Sweden, the electricity distribution operations adopted a policy that no creosote-impregnated poles are to be used in environmentally sensitive areas. As a result, impregnated wooden poles are not installed in parks, nature recreational areas or water protection areas. Creosote-treated poles generally last longer and do not need to be replaced as often, but they contain substances that are hazardous for both environment and health, which leach into the soil. A project is currently under way to evaluate poles that have a lower environmental impact than creosote-treated poles from a life cycle perspective.

At Vattenfall's power plant in Jänschwalde, Germany, a test phase has been started involving the use of dry, pulverised lignite instead of untreated lignite, which saves large amounts of lignite and increases plant efficiency. This, in turn, is leading to lower emissions of CO_2, NO_x, SO_2 and particulate matter.

Planned activities

The work on preventing oil spills to water and soil continues. Vattenfall is monitoring developments surrounding the Industrial Emissions Directive in an effort to be able to analyse and identify measures for meeting the new requirements.

Vattenfall's emissions of NO_x, SO_2 and airborne particulates



	2010	2011	2012[1]	2013	2014[2]
NO_x ktonnes	70.2	63.6	53.4	56.5	52.8
SO_2 ktonnes	74.4	69.8	56.1	58.2	53.1
Particulates ktonnes	2.4	2.6	1.9	2.1	1.7
NO_x g/kWh	0.318	0.306	0.258	0.268	0.271
SO_2 g/kWh	0.337	0.336	0.272	0.276	0.272

The bars show total levels of SO_2, NO_x and particulate matter for the years 2010–2014. The lines indicate specific emissions of SO_2 and NO_x, calculated as emissions per total production of electricity and heat (financial consolidation). The majority of plants already have advanced flue gas cleaning systems installed, and the differences between the years are due mainly to differences in production levels.

1) Figures for 2012 do not include the test operation of Boxberg R.
2) Figures for 2014 do not include the test operation of Moorburg.

Protect nature and species, and safeguard biodiversity

All forms of energy production have impacts on biodiversity. Adverse impacts are mainly associated with alterations of existing habitats for animals and plants through the use of land or through emissions. Power plants and energy infrastructure can also create barriers that obstruct or alter animals' natural migration patterns.

Safeguarding biodiversity is a central objective in Vattenfall's environmental work and an important issue for consideration in the establishment of new projects. It affects everything from choice of location for new production plants and technological solutions, to permitting and the actual plant operation and subsequent decommissioning and dismantling.

Certain aspects of Vattenfall's operations have shown positive effects on biodiversity, such as offshore wind power, where turbine foundations can serve as artificial reefs and provide new habitats for fish and crabs. In electricity distribution, some of Vattenfall's power transmission corridors have been declared as protected areas as they have been shown to provide a unique biotope for rare animals and plants that benefit from regular right-of-way clearance under power lines over a long period of time.

How is Vattenfall working with this?

Vattenfall works continuously to safeguard biodiversity. This is done through a range of activities associated with existing plants, restoration and compensation efforts, voluntary nature conservation, environmental analyses of new projects and through participation in research and development projects. The various types of energy sources require different measures to reduce impacts on biodiversity.

Activities during the year

Sweden's hydro power companies, authorities and other affected stakeholders have partnered in a collaboration project to identify measures to reduce the hydro power stations' negative impacts on the Ume River's ecosystem. Wind power R&D projects have been carried out in an effort to find ways to reduce bird collisions and gain an understanding of the impact of underwater piling noise on aquatic populations. At the Welzow–Süd open cast mine in Germany, a 20 hectare area has been created in the post-mining landscape as a potential recultivation area with undulating terrain, succession zones with varying types and ages of vegetation, streams and open landscapes.

Planned activities

Vattenfall will continue its efforts to identify and develop new, voluntarily protected areas. In the Nordic market the concept of ecological compensation is being developed and spread in new projects. The biodiversity programme in the hydro power operations will continue.

Plants in or less than 500 metres from a protected area

	Denmark	Gemany	Nether-lands	Sweden	UK
Natura 2000	4	10	8	14	1
Nationally protected (IUCN categories I-VI)	30	14	8	22	0

Strategy

Safeguard biodiversity through activities related to existing plants, restoration and compensation efforts, voluntary nature conservation, environmental analyses of new projects and through participation in research and development projects.

Targets

- Develop action plans for dealing with impacts on biodiversity
- Examples of regional or local targets:
  - Identify potential new voluntary protected areas nearby hydro power plants in the Nordic countries

Achievements 2014

- Collaboration project focusing on the Ume River ecosystem
- Wind power R&D programme
- Restoration of landscape at the Welzow–Süd open cast mine

Challenges

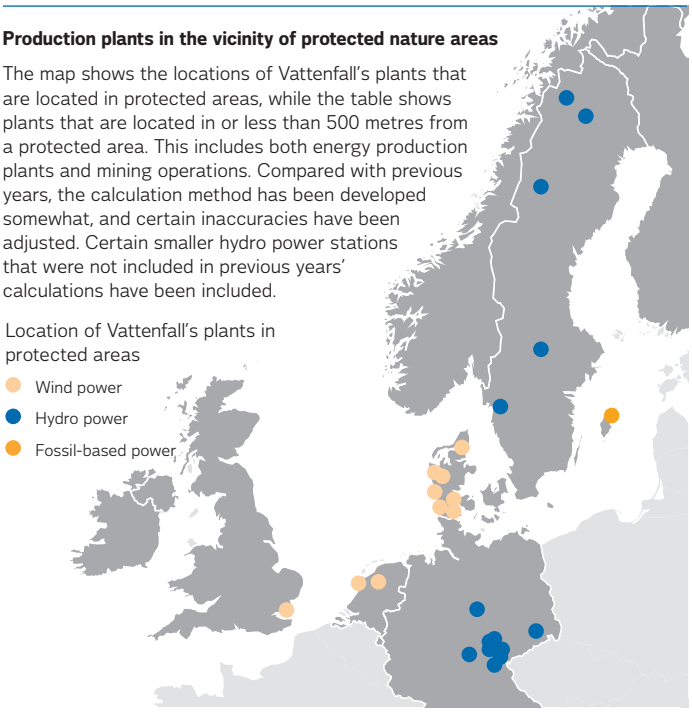
Vattenfall's diversified production portfolio entails a vast number of impacts, and finding uniform ways of working across the organisation is a challenge. Another challenge involves finding acceptable ways of balancing local aspects against overarching climate targets, which may be the case with respect to renewable energy production.

Biotope method

Within the framework of EPD certification (Environmental Product Declaration) of electricity, the impacts of energy production on biodiversity are described and assessed using the so-called Biotope method, which Vattenfall has developed. Vattenfall is the only electricity company in Sweden that can offer its customers EPD-certified electricity. A more detailed description can be found by visiting; www.environdec.com.

Production plants in the vicinity of protected nature areas

The map shows the locations of Vattenfall's plants that are located in protected areas, while the table shows plants that are located in or less than 500 metres from a protected area. This includes both energy production plants and mining operations. Compared with previous years, the calculation method has been developed somewhat, and certain inaccuracies have been adjusted. Certain smaller hydro power stations that were not included in previous years' calculations have been included.



Improved resource efficiency in Vattenfall's operations

Improving resource efficiency generates positive environmental effects and leads to lower costs for Vattenfall. Improved efficiency leads to lower costs per produced kWh of electricity and thereby improves Vattenfall's competitiveness while at the same time resulting in lower emissions per kWh of generation.

How is Vattenfall working with this?

Vattenfall strives to improve the efficient use of resources along the entire value chain, from fuel, energy use, water and chemicals, to waste and by-products. The energy efficiency target represents one of the Group-wide sustainability targets.

Energy efficiency

One of Vattenfall's most important areas coupled to more efficient use of resources entails focusing on lower use of primary energy. This can be achieved in a number of ways at Vattenfall's power plants or in interconnected systems, such as district heating networks. Vattenfall is also working with energy efficiency measures with customers, see pages 29–31.

Water used for cooling

Vattenfall operates large nuclear and fossil-based power plants which use large amounts of water for cooling. Flow-through cooling is used at plants where large volumes of water – such as seawater or rivers – are available. In areas where such volumes are not available, cooling towers or closed-loop systems are used, which require less water.

Lowering of groundwater

To be able to conduct safe and effective mining operations at Vattenfall's open cast lignite mines, groundwater must be temporarily lowered and removed. To reduce water pumping, a "sealing wall" technology is used to keep the natural groundwater level stable in the vicinity of the mining area and at the same time reduce the water table on the side of the open cast mine. This helps protect adjacent nature conservation areas from the dramatic lowering of groundwater levels.

Use of chemicals

Chemicals are used in electricity generation and heat production, such as for flue gas cleaning and water treatment, in the maintenance of technical equipment and in mining operations. Vattenfall works actively on substituting hazardous chemicals and also set requirments and evaluates the use of chemicals by contractors in connection with procurement processes.

Strategy

Lower costs and improve competitiveness through more efficient use of resources

Targets

- Reduce use of primary energy by 440 GWh in 2015. The corresponding target for 2014 was 365 GWh. Read more on page 23
- Examples of regional or local targets:
  - The recycling rate for operational waste and residual products shall amount to 96% for hydro power plants in the Nordic countries
  - Phase out all hazardous chemicals in the Nordic market, where technically feasible, by 2020

Achievements 2014

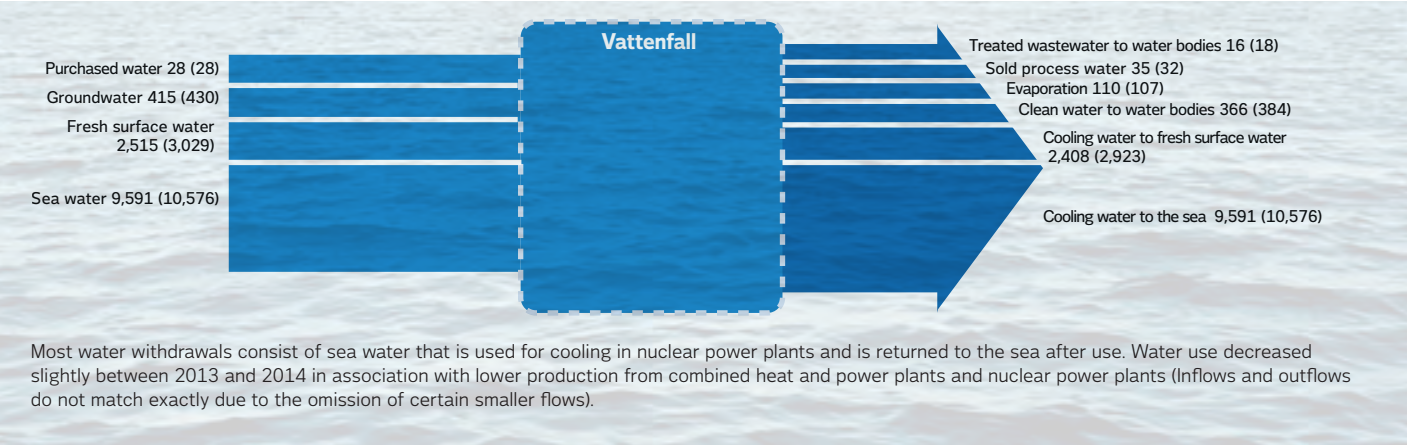
- R&D project within waste incineration focusing on ash
- At the Welzow–Süd open cast mine, Vattenfall inaugurated a new groundwater processing plant designed to reduce the level of iron that is returned to the surrounding watercourses
- Local targets were set in the Nordic operations to reduce the use of chemicals and improve waste management in accordance with the waste hierarchy[1]

Challenges

- Develop and adopt Group-wide targets that are relevant for both the environment and the business
- Find less environmentally harmful alternatives to replace hazardous chemicals without jeopardising safety and functionality

1) This is a hierarchy of priorities entailing first to prevent the production of waste, secondly to reuse it, and thirdly to recycle it. The hierarchy applies under the condition that it is environmentally justified and economically feasible.

Vattenfall, total withdrawals and discharges of water (million m³)



Most water withdrawals consist of sea water that is used for cooling in nuclear power plants and is returned to the sea after use. Water use decreased slightly between 2013 and 2014 in association with lower production from combined heat and power plants and nuclear power plants (Inflows and outflows do not match exactly due to the omission of certain smaller flows).

"Vattenfall is one of Europe's largest producers of synthetic gypsum and supplies high-quality gypsum to the construction industry."

Optimised use of by-products

By-products, mainly ash and gypsum, are produced from the combustion of solid fuels, such as lignite and hard coal, and from flue gas cleaning. The volumes of waste and by-products are a direct effect of how much fuel is used and how effective the flue gas cleaning is. Vattenfall optimises the quality of by-products to facilitate reuse. For example, ash from Vattenfall's hard coal–fired plants is used in the production of cement and asphalt for road construction. Ash from lignite-fired plants is often transported back to the mining area, where it is used as land filler for landscape restoration. In addition, Vattenfall is one of Europe's largest producers of synthetic gypsum (a by-product of flue gas desulphurisation) and supplies high-quality gypsum to the construction industry.

Waste management

All of Vattenfall's operations generate waste, including the operation and maintenance of power plants, electricity and heating networks, as well as mining, and construction and dismantling of power plants. The activities conducted at Vattenfall's offices also generate waste, although this accounts for only a minor portion compared with the other parts of the Group's operations. Certain types of waste can be used in other activities, such as ash from coal combustion for cement manufacturing, or it can be recycled, such as waste paper for paper or packaging production. Read more about radioactive waste on page 41.

Activities during the year

Energy efficiency measures were carried out both in Vattenfall's own operations and among customers via the products and services that Vattenfall offers. Read more on pages 23 and 29.

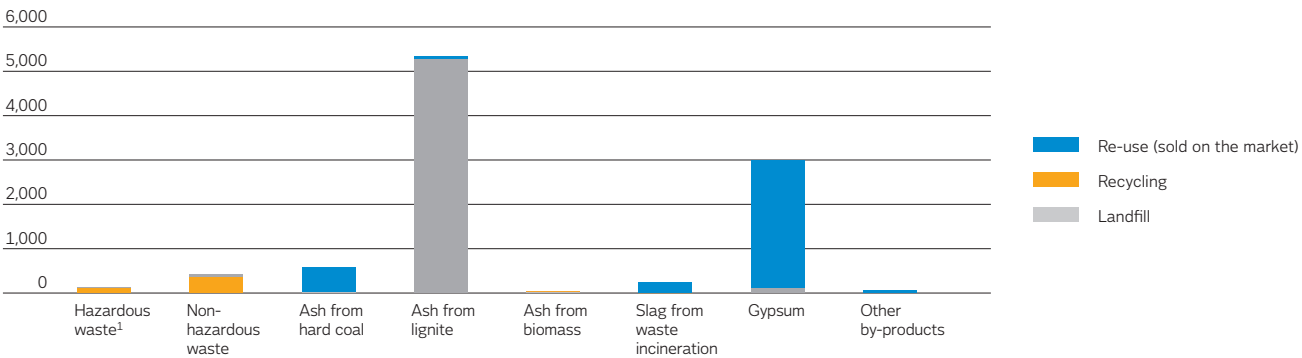
Within the framework of R&D projects Vattenfall has studied how bottom ash from waste incineration can be washed for use as construction material instead of gravel. The aim of the project is to increase the share of ash that can be reused in other applications.

In 2014 targets were formulated and adopted at the local level in the Nordic operations to reduce the use of chemicals and improve waste handling in accordance with the waste hierarchy.

Planned activities

Work on improving efficiency in Vattenfall's use of resources will continue. Methods will be developed for using ash in accordance with the waste hierarchy principles. Handling of radioactive waste will continue in a responsible manner. A study of water use will be conducted to identify potential improvements in the German and Dutch operations.

Waste and by-products, ktonnes



ktonnes	Hazardous waste[1]	Non-hazardous waste	Ash from hard coal	Ash from lignite	Ash from biomass	Slag from waste incineration	Gypsum	Other by-products
2014	123	416	578	5,334	42	245	3,000	48
2013	194	349	738	5,388	67	330	3,219	73

Waste from construction and demolition make up a small portion compared with the by-products that are created at combustion plants. The greatest volume of by-products consists of ash from the lignite-fired power plants. This ash is used almost exclusively to refill landscape in connection with restoration following mining activities.

1) Includes fly ash from waste incineration.

Nuclear power decommissioning and radioactive waste

Vattenfall owns and operates nuclear power plants (NPP) in Sweden and Germany. While several of the existing nuclear power plants in Sweden – including Vattenfall's reactors in Forsmark and Ringhals – are planned to remain in operation for another approximately 30 years, the company's nuclear power reactors in Germany will be decommissioned by 2022 at the latest. In Germany Vattenfall owns and operates the non-operational Krümmel and Brunsbüttel NPPs and is also a minority owner of Stade, which is being decommissioned, and Brokdorf, which is still in operation.

Phase-out of nuclear power in Germany

In December 2010 the German government decided to extend the useful life of all nuclear plants in Germany. However, this decision was reversed following the nuclear power plant accident in Fukushima in 2011. In its initial reaction to the accident the German government imposed a three-month moratorium, and during this time the seven oldest nuclear reactors had to stay offline, including Vattenfall's Brunsbüttel and Krümmel reactors. The German Reactor Safety Commission (RSK) reviewed all 17 reactors and evaluated their robustness with respect to natural disasters that could affect the plants, station blackouts and failure of cooling systems, precautionary and emergency measures as well as human actions that could affect the plants. The conclusion was that all of the German reactors were fundamentally safe and reliable. Despite this safety assurance, the German government decided to revive the previous government's phase-out plan and close all of the country's reactors successively by 2022. As a result, eight of the country's 17 NPPs (including Krümmel and Brunsbüttel) were shut down immediately, and the remaining nine will be phased out gradually by the end of 2022.

Several years will pass between the shutdown and the point in time when dismantling of higher-contaminated or activated plant components can actually start. The aim is for the operational site of the nuclear power plants to reach a final state as a green field.

Application for decommissioning and dismantling

Vattenfall filed an application for decommissioning and dismantling of Brunsbüttel in November 2012. Currently, documents for a public hearing procedure and the specifications for the licence are being compiled. Krümmel is in long-term standstill operation due to legal proceedings. Vattenfall has contested the confiscation of generation rights for Krümmel and has filed the case with the autonomous International Center for Settlement of Investment Disputes (ICSID) in Washington D.C. In addition, Vattenfall – like other German nuclear power companies – has filed a consitutional suit against the German government for costs and loss of revenue as a result of the German government's decision to only after a few months after having granted extended operating times for the German NPPs, deciding on the immediate closure or shortening of the operating lifetime for these.

Final storage of spent nuclear fuel

In both countries, it is the nuclear power operators' responsibility to have reliable and satisfactory solutions for handling and interim storage of radioactive waste as well as the decommissioning process until such time that the radioactive waste can be stored in a final repository.

The preconditions and the political decision-making process for the final storage of spent nuclear fuel differ in Sweden and Germany. SKB (the Swedish Nuclear Fuel and Waste Management Company), which is owned by Sweden's nuclear power operators, is conducting preparatory work for construction of a final repository for spent nuclear fuel in Sweden. Following many years of studies and analysis work, Forsmark was chosen as the most suitable location. In spring 2011 SKB applied for the necessary permits for the final repository in accordance with the Swedish Act on Nuclear Activities and the Swedish Environmental Code in order to begin construction of a nuclear fuel repository in Forsmark and an encapsulation facility in Oskarshamn. The permitting process is expected to take several years. It is estimated that construction of the nuclear fuel repository can begin in 2019 at the earliest.

In Germany, no formal proposal for a final repository for spent nuclear fuel has been set forth yet. Pursuant to a decision by the Bundesrat in June 2013, a suitable location for final storage shall be located by 2031 at the latest. Until then, spent nuclear fuel is stored in interim facilities adjacent to the nuclear power plants. For storage of low- and intermediate-level radioactive waste, national plans are in place to use a former iron ore mine outside of the town of Salzgitter in the federal state of Niedersachsen.

Financing of nuclear waste handling

Sweden's nuclear power companies appropriate reserves to cover the costs of nuclear waste management in Sweden. It is the owners of the nuclear power plants who, by law, must bear all costs for taking care of and handling final storage of spent nuclear fuel and nuclear waste, as well as for dismantling nuclear power plants and other nuclear facilities. As from 2015 the production companies appropriate 4 öre (SEK 0.04)/kWh electricity generated by the nuclear power plants to the specially designated Swedish Nuclear Waste Fund, which is to be used to compensate the nuclear power plant owners for their costs for storing spent nuclear fuel, handling waste and eventually dismantling the nuclear power plants. Previously, the companies appropriated just over 2 öre/kWh. Today the fund is worth slightly more than SEK 50 billion. Vattenfall's share of the Nuclear Waste Fund is specified in Note 42 to the consolidated accounts.

In Germany, nuclear waste handling is financed by provisions made by the owners of the nuclear reactors on their own balance sheets. No external funding is required. Vattenfall's provisions are specified in Note 42 to the consolidated accounts.

Radioactive waste	Low- and intermediate-level radioactive operational waste (m^3)	Core components (tonnes)	Spent nuclear fuel – removed fuel rods (tonnes)	Spent nuclear fuel – original uranium content (tonnes)[1]
Sweden	2,251	10	193	138
Germany[2]	0	0	0	0
Total 2014	**2,251**	**10**	**193**	**138**
Total 2013	883[3]	18	161	145

Volume of radioactive waste in 2013 and 2014, broken down by Sweden and Germany.

1) Original uranium content in replaced rods. The increase in low- and intermediate-level waste is due to maintenance work at Forsmark.

2) No transports were made of radioactive waste from the German plants in 2014 or 2013; however, waste has been stored on-site in compliance with applicable regulations in Germany.

3) Amount has been adjusted compared with the amount presented in Vattenfall's 2013 Annual and sustainability report due to an adjustment of the definition.

Take responsibility for Vattenfall's impacts on local communities

Vattenfall's operations have impacts on local communities – both positive and negative. Vattenfall's lignite mines have a large impact on local communities, including the occasional necessity for people to resettle as a result of mining operations. At the same time, mining operations create local jobs.

To build and maintain local acceptance, mutual trust and a good reputation, Vattenfall strives to include stakeholders in decision-making processes. Stakeholder engagement is crucial for Vattenfall's licence to operate as well as for the success of new projects and existing operations.

How is Vattenfall working with this?

It is important for Vattenfall that the people who live close to the company's operations are adversely affected as little as possible. Regardless of the type of impact the operations may have, Vattenfall strives to be as responsive as possible to the affected stakeholders' needs and demands, regardless of their gender, age or ethnicity. Work on reducing impacts on local communities is continuously carried out towards the goal of improving and adapting to local needs in the organisation and to promote active collaboration with local interests.

The Vattenfall Project Management Model (VPMM) is an obligatory tool used across the Group for governance and support for addressing and taking local interests into account in various projects. It is the responsibility of each project manager to implement the project management tool. All project managers, decision-makers and – to some extent – project participants are offered training in the tool.

Activities during the year

In cooperation with local authorities, Vattenfall has been working on establishing a fund, the Pen y Cymoedd Community Fund in connection with the Pen y Cymoedd Wind Energy Project in the UK.

At an early stage of an ongoing project, Vattenfall engaged in a dialogue with Gällivare skogssameby (a Sami village), one of the key stakeholders, to establish local acceptance of Vattenfall's power lines nearby the Boliden mine in Gällivare. Discussions were held with village representatives on suitable areas in which the power lines could be drawn. By taking into account the interests of the local reindeer industry, Vattenfall has established a relationship that has strengthened confidence in the ongoing process. The project is expected to be completed in 2017.

Strategy

Vattenfall will strive for active collaboration with local interests in various projects in an effort to build mutual trust through openness and involvement in local communities, while complying with local laws and regulations and taking local expectations into account.

Targets/KPI

- All assets projects will take into account and address impacts on the local community
- Vattenfall Reputation Index (VRI) score of 65 by 2020

Achievements 2014

- Local acceptance for new distribution line in northern Sweden
- Establishment of a community fund in connection with the Pen y Cymoedd Wind Energy Project, see below

Challenges

- No follow-up or implementation of Vattenfall's project management tool are performed at the Group level. As a result, the quality and degree of stakeholder involvement may vary from project to project
- A more proactive approach requires investment of a great amount of time

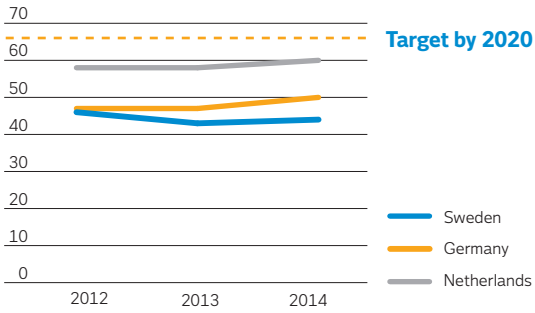
Pen y Cymoedd Community Fund

Pen y Cymoedd Wind Energy Project is a 76 turbine wind power development project in UK which will generate enough electricity to meet the needs of 140,000 homes per year. As part its local involvement, Vattenfall has been working to put in place a new independent body for the Pen y Cymoedd Community Fund in cooperation with local authorities and other local stakeholders. Once operational the wind farm will generate GBP 1.8 million per year for the community fund for more than 20 years. Via web-based platform local citizens can propose how funds should be spent; so far suggestions have been received from more than 3,000 residents. In this way the community has a say in how to use the wind farm benefits.

Planned activities

The VPMM is under continuous improvement, and its processes and project quality are reviewed annually through a quality assurance process. The results are analysed, and areas for improvement in the coming year are discussed within a VPMM network comprising representatives from the business. Going forward, the VPMM project network will continue to highlight the importance of promoting stakeholder involvement in an effort to build trust and local acceptance.

Development of Vattenfall Reputation Index, VRI



Vattenfall's reputation is measured through the Vattenfall Reputation Index (VRI). In Sweden the VRI score remains at a very low level. The level stablised in 2014, but at a level that is lower than for the company's main competitors. Vattenfall's reputation in Germany and the Netherlands is higher than in Sweden and improved further in 2014. The general public's perceptions surrounding community responsibility, sustainability, and products and services have the greatest impact on Vattenfall's reputation. Vattenfall's work with continuous improvement in these areas explains the positive development in both Germany and the Netherlands.

Resettlement of villages to open up land for lignite mining

A large share of Germany's energy supply is based on lignite. Vattenfall owns and operates three lignite-fired power plants and five open cast mines in the Lausitz region in Germany, and is a part-owner of a power plant near Leipzig. In 2014 Vattenfall generated more than 55 TWh of electricity from these plants and mined 61.8 million tonnes of lignite for use as fuel in these plants or for processing into lignite briquettes.

Mtonnes	2012	2013	2014
Lignite mined	62.4	63.6	61.8

Lignite mining is a vital economic factor for the region, and Vattenfall is a large employer, but at the same time the mining has a considerable impact on the local communities. The open cast mines move approximately 300 metres every year as the mining progresses, and as a result of this, a number of small communities have had to be relocated since 1993.

Village/community	Completed resettlements	Inhabitants
Kausche	1993–1996	360
Geisendorf	1997–2002	45
Horno	2002–2004	350
Parts of the Schleife and Trebendorf communities	2009–	250

In 2014, 4.8 km² of land was used, and a total of 4.9 km² of land was restored or had restoration work begun. Of this, 1.9 km² was restored to forest land and 1.1 km² was restored to agricultural land. Future relocations are planned for parts of the Schleife, Trebendorf, Welzow and Bahnsdorf communities in order to provide room for expansion of the Nochten and Welzow–Süd mines. An additional mine, Jänschwalde–Nord, is in the planning stages, which would entail the relocation of an additional three communities in the Schenkendöbern region.

Village/community	Inhabitants
Parts of the Schleife and Trebendorf communities (expansion of the Nochten mine)	810
Parts of the Welzow and Bahnsdorf communities (expansion of the Welzow mine)	approx. 1,700
Parts of the Schenkendöbern community (establishment of the Jänschwalde–Nord mine)	approx. 900

On account of Vattenfall's decision in October 2014 to study the possibility of divesting its lignite operations, no decisions will be made on investments in mine expansion or resettlement of villages until clarity has been obtained regarding the ownership issue.

Vattenfall's resettlement programme

Vattenfall's resettlement programme involves many aspects, from financial compensation to preserving the communities' social structures. At the start of a resettlement process, an assessment is performed that forms the basis for a specification of social requirements. The aim is for all inhabitants to move to a common location and to integrate new villages with existing communities. The people whose villages and communities are to be relocated are involved in the entire resettlement process together with the Lausitz region and Vattenfall. They decide themselves on the new location, usually by choosing from different locations. If there is no access to public services (e.g., schools, healthcare and other community services) in the existing community, new institutions are built up. In this way both communities benefit. In addition, Vattenfall appropriates funds to support social and sport activities, community events such as annual festivals and local traditions, social work and economic development. Vattenfall strives – in dialogue with the village inhabitants – to find suitable solutions for new housing and to preserve small businesses in the communities.

Cooperation with ethnic minorities in Lausitz

Lausitz is the indigenous region for the Sorbs, a western Slavic population of some 60,000 people who are recognised as an ethnic minority in Germany. The Sorbs have preserved their unique identity for centuries in Germany, with their own language and own culture. Relocation of their communities is extra sensitive, since it involves a minority population, much of whose culture is rooted in the villages and risks disappearing due the sudden disruption caused to the geographic cohesion. Vattenfall's cooperation with the Sorbs' interest organisation, Domowina, began in 2007 when a joint agreement was reached. As a result of this agreement, Sorbs are only resettled to communities that are accepted by them as new settlement areas. Under the agreement, Vattenfall has supported activities aimed at preserving and promoting the Sorbian language, culture and traditions. This agreement was renewed in 2013 until 2016.

Sustainable financial performance

Sustainable financial performance is created through stable financial results, but also by taking responsibility for employees, ensuring that the company acts with integrity, and takes responsibility for the supply chain. Generating sustainable financial performance is a fundamental precondition for Vattenfall's ability to transform to more sustainable consumption and production.

As one of Europe's largest producers of electricity and heat, Vattenfall has a responsibility to support societal development by securing supply of energy at a competitive price and with the lowest possible environmental impact. With plants and operations in sparsely populated areas, Vattenfall contributes to local and regional development by creating jobs directly and indirectly, but also through local sponsoring and community investments. In 2014 Vattenfall created SEK 34.0 billion in economic value after deducting costs for operations, payroll, interest and taxes.

Long-term financial stability and profitability are prerequisites for Vattenfall in its ability to make necessary investments in the transformation to a more sustainable production portfolio. 2014 was characterised by a continued difficult market situation with weak demand, a surplus of production capacity and low electricity prices. Since these adverse market conditions are not expected to improve in the foreseeable future, Vattenfall decided to recognise substantial impairment losses totalling SEK 23.8 billion. To counter the financial burden created by the challenging market conditions, Vattenfall is continuing its work on improving efficiency in all areas of the Group. A review has been conducted of the investment programme where investments in renewable energy production will have priority at the same time that non-core assets and assets that are considered to be unable to meet the company's required rate of return will be divested.

Apart from financial results and their development, the following focus areas are described within the framework of sustainable financial performance on the following pages:

- Our people
- Ensure a healthy and safe workplace
- Safeguard the company's integrity
- Ensure sustainability in the supply chain

Created economic value according to GRI indicator G4-EC1

SEK million	Sweden	Germany	Netherlands	Other countries	Eliminations	Total
Revenues	50,125	136,680	80,241	10,553	-108,612	168,987
Operating expenses[1]	-18,618	-106,233	-73,862	-7,585	108,611	-97,687
Salaries and remuneration	-4,033	-11,163	-2,917	-558	—	-18,671
Payments to creditors	-2,894	-289	-6	12	—	-3,178
Payments to the state	-10,687	-4,214	-379	-169	—	-15,448
Community investments[2]	N/A	N/A	N/A	N/A	N/A	N/A
Total	**13,893**	**14,782**	**3,076**	**2,254**	**-1**	**34,004**

1) According to the definition in GRI G4-EC1, operating expenses include both direct and indirect expenses.
2) Vattenfall's work with community investments is conducted in different ways. One way is through appropriations to community funds, such as the Nuon Foundation in the Netherlands, where approximately SEK 25 million has been appropriated since 2006, and Vattenfall's environmental foundation in Germany, where approximately SEK 50 million has been appropriated.

Vattenfall's financial performance in 2014

2014 was characterised by weak demand, a surplus of production capacity and falling electricity prices. Demand was further dampened by warmer weather than usual, which led to lower consumption of electricity, gas and heat.

Owing to price hedges contracted in previous years at higher prices than today and successful cost-cutting, Vattenfall was able to partly compensate the negative earnings impact through low prices achieved and lower volumes. Compared with the cost base in 2010, during the last four-year period Vattenfall has reduced its annual costs by SEK 13.7 billion. The underlying operating profit, excluding items affecting comparability, amounted to SEK 24.1 billion, a decrease of SEK 4 billion compared with 2013. As in 2013, profit after tax in 2014 was negative, at SEK -8.3 billion, compared with SEK -13.5 billion in 2013. The main explanation for both years' negative results is the large impairment losses for asset values, particularly in the Netherlands. Net debt decreased by SEK 19.5 billion in 2014, to SEK 79.5 billion, mainly owing to the proceeds from sales of divested assets. With a return on capital employed of -0.7%, due to the large impairment losses, Vattenfall was not able to meet its 9% profitability target. Excluding items affecting comparability, the return on capital employed was 8.2%.

Earnings performance in 2014

The underlying operating profit for 2014 was SEK 24.1 billion, which is SEK 4.0 billion lower than in 2013. The decrease is mainly attributable to lower production margins (SEK -2.1 billion) and lower production volumes (SEK -3.0 billion), which were partly compensated by lower operating expenses (SEK 2.4 billion). Lost earnings contribution from divested operations, mainly from the electricity distribution operation in Hamburg, had a negative impact on operating profit by SEK 0.6 billion.

Impairment losses

During the year, Vattenfall recognised impairment losses totalling SEK 23.8 billion on the book value of assets, net after tax, resulting in a charge against profit of SEK 20.4 billion. Vattenfall's cash flow and net debt were not affected by the impairment losses, however. The impairment losses arose against the background of the continued falling wholesale prices for electricity, which have led to a further narrowing of margins for electricity generation. Electricity prices and margins are at historically low levels, and Vattenfall sees no signs of a recovery in the foreseeable future. As a result, the book value of some of Vattenfall's assets exceeded their value in use (discounted cash flows), requiring recognition of impairment. Geographically the impairment losses are broken down as follows:

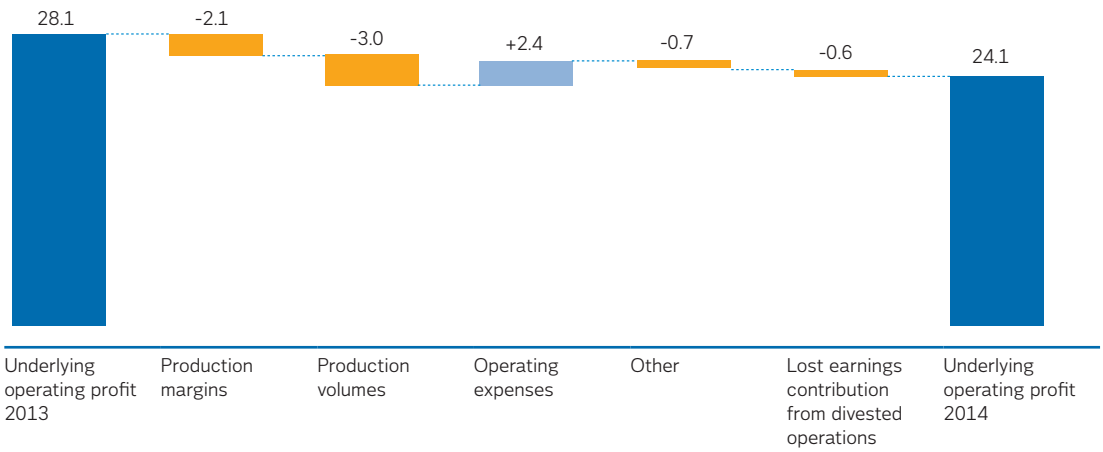
- SEK 14.5 billion in the Netherlands, of which SEK 10 billion pertains to the Trading operations
- SEK 6.9 billion in Germany, of which SEK 5.6 billion pertains to the Moorburg coal-fired plant
- SEK 1.4 billion in the Nordic countries
- SEK 1.0 billion in the UK

Detailed information on the impairment losses is provided in Note 14 to the consolidated accounts.

Higher provisions

As a result of falling market interest rates, Vattenfall lowered the discount rate it uses to calculate provisions for pensions in both Sweden and Germany as well as for other provisions in Germany, mainly for future expenses for the decommissioning of nuclear power. Together this led to an increase in adjusted net debt by SEK 15 billion. The reported operating profit decreased by SEK 5.5 billion. However, Vattenfall's cash flow and underlying operating profit were not affected. Detailed information on provisions is provided in Notes 41 and 42 to the consolidated accounts.

Development of Vattenfall's underlying operating profit in 2014, SEK billion



Cash flow and investments

Cash flow from operating activities (operating cash flow) improved by SEK 2.3 billion to SEK 40.1 billion in 2014. Funds from operations (FFO) increased by SEK 0.2 billion.

Total investments increased by SEK 1.2 billion to SEK 29 billion in 2014, of which SEK 6.5 billion pertained to investments in wind power, which thereby represented Vattenfall's single largest investment item in 2014. During the year, assets were divested for combined total of SEK 11.6 billion, net. Read more about Vattenfall's divestments under the Important events section, pages 8–9.

Reduced debt

Net debt decreased by SEK 19.5 billion, to SEK 79.5 billion, compared with the level at 31 December 2013, which is mainly attributable the proceeds from the sale of the electricity distribution operation in Hamburg, the minority shareholding in Enea S.A., the Amagerværket CHP station in Denmark, and the MVB waste incineration plant in Hamburg (together totalling SEK 11.6 billion, net). In other respects, the decrease in net debt is attributable to an improved cash flow from operating activities.

Adjusted net debt (which includes, provisions for pensions and nuclear power) decreased by SEK 4.3 billion to SEK 158.3 billion. The positive cash flow from sales of assets and from operating activities was largely countered by the higher provisions for pensions and nuclear power in Germany.

The key ratio FFO/adjusted net debt improved to 20.3% from 19.6%, but was still below the target interval of 22%–30%.

Operations requiring permits

During the year Vattenfall conducted operations that require permits under national legislation in Sweden, Finland, Denmark, Germany, the Netherlands and the UK. The Parent Company Vattenfall AB conducts operations that require permits in accordance with the Swedish Environmental Code. These consist primarily of electricity and heat production plants that require permits and/or registration. Vattenfall's other operations requiring permits that make up a significant part of the business are conducted primarily by subsidiaries. Since Vattenfall's securities operations for electricity trading no longer requires a permit from the Swedish Financial Supervisory Authority, the company has allowed that permit to lapse.

Vattenfall's R&D activities

Vattenfall conducts research and development (R&D) to contribute to the execution of Vattenfall's strategy in both the short and long term. Most R&D expenditures are invested in improving the efficiency of Vattenfall's existing plants and upgrading them to meet future needs. However, a growing share are invested in more customer-centric R&D, in gaining a greater understanding of the future energy landscape and in identifying new business opportunities. Distinct focus areas are E-mobility and greater customer interaction.

In 2014 Vattenfall invested SEK 474 million (672) in R&D (excluding resources allocated to the safe storage of spent nuclear fuel), corresponding to 0.3% (0.4%) of consolidated net sales.

Our people

At Vattenfall it is our people who develop the business. Engaged employees, clear, visible and courageous leaders, a high performance culture and a healthy and safe workplace are fundamental for the company's success. Vattenfall strives to provide a workplace in which all of its employees have equal opportunities and tools to develop themselves and thereby develop the company.

How is Vattenfall working with this?

Vattenfall is committed to creating a work environment that attracts and develops people with key competencies and encourages them to perform to the best of their potential. As a large employer Vattenfall can offer varying work tasks and career paths, such as through job rotation and training programmes. The company's leaders have an important role in instilling trust and commitment, and helping employees perform to their utmost by conveying and driving clear strategies, encouraging feedback, and being visible and accessible.

Regular goal and performance reviews provide all employees an opportunity, together with their respective managers, to set personal goals and visualise their contribution to Vattenfall's performance. Individual development plans are also an important component for fostering a high performance culture within the organisation. The development plans serve as a foundation for ensuring that every employee has the right conditions to perform and develop.

Diversity and equal opportunity are key building blocks of a successful company, and Vattenfall strives to incorporate these into the day-to-day business activities. At Group level Vattenfall runs a female mentorship programme aimed at increasing the share of female managers. Special emphasis is put on diversity in development initiatives and in the recruitment process. In Germany, where the share of female managers is the lowest, every management vacancy is viewed as an opportunity to increase the ratio of female managers.

Every other year the Group-wide employee survey, My Opinion, is conducted. The survey gives all employees an opportunity to anonymously express their views about Vattenfall as an employer and about their workplace and own development opportunities. It is an important tool for performance measurement and provides guidance for continuous improvement at the local, regional and Group-wide levels.

Strategy

Offer an attractive and inspiring work environment in which employees can develop to their full potential and see how their work contributes to the company's strategic targets. The strategy has four clear goals:

- Committed employees
- Clear, visible and courageous leaders
- A high performance culture and organisation
- A healthy and safe workplace – read more on page 49

Targets/KPIs

- Commitment index higher than 62
- Leadership index higher than 75
- Share of female managers above 24%

Achievements 2014

- Approximately 700 managers participated in Vattenfall's leadership development programme
- A Group-wide process was established for setting goals, giving and receiving feedback, and monitoring results. The results of this work will be followed up in the My Opinion employee survey in 2015
- Speakers' Corner, an internal forum, was held on some 30 occasions

Challenges

- Challenging market conditions requiring reorganisation and restructuring will affect our people and may affect employee commitment
- A decline in students' views of Vattenfall as a potential employer has been noticed
- The energy sector's new conditions and changed consumer behaviours are pointing to a need for new competence – to be able to adapt, change, develop and take on new duties

Employee key ratios

		Number of employees (FTEs)	Women, %	Men, %	< 30 years, %	30–50 years, %	>50 years, %
Position	Manager	2,627	18%	82%	2%	53%	45%
	Other positions	27,554	24%	76%	12%	44%	43%
Country	Sweden	8,870	25%	75%	10%	51%	39%
	Germany	16,158	23%	77%	12%	38%	50%
	Netherlands	4,369	26%	74%	8%	58%	34%
	Other countries	784	24%	76%	9%	58%	33%
	Total	**30 181**	**24%**	**76%**	**11%**	**45%**	**44%**

1) For more detailed information on Vattenfalls employees see Note 53 to the consolidated accounts.

Activities during the year

The Vattenfall Management Institute (VMI) is responsible for conducting leadership development programmes of a high international standard in areas of strategic importance for Vattenfall. The aim of the courses is to support and help managers, project leaders and others in senior positions in their development of leadership qualities and make them more effective at leading employees and the business activities. Training courses are held on a regular basis throughout the year.

Speakers' Corner is an internal forum for senior management and employees to meet and discuss current events and answer questions. During the year some 30 such events were held, where the company's results and other matters were discussed.

Planned activities

During times of restructuring and reorganisation, strategic competence planning is increasingly important. This includes activities such as competence sharing, job rotation, leadership development and trainee programmes aimed at ensuring access to future leaders and key competencies.

The focus of activities varies within the Group, depending on the varying conditions in Vattenfall's markets. Work in the Nordic market will revolve around a number of diversity aspects, including gender, ethnicity and age, while in the German operations the focus will continue to be on achieving a more even gender balance.

High performance culture

Vattenfall strives to foster a high performance culture in which the Group's overarching strategic direction and business objectives are clearly communicated and pursued throughout the organisation and defined as concrete goals for work teams and individual employees. In 2014 Vattenfall coordinated and established a Group-wide process for how to set goals, provide and receive feedback, and follow up results. The results of this work will be followed up in the My Opinion survey in 2015.

Ensure and healthy and safe workplace

Vattenfall is responsible for ensuring a safe and sound workplace for more than 30,000 employees plus a large number of contractors and hired-in personnel. This makes safety a priority area for Vattenfall. It is also one of Vattenfall's three core values, which means that safety is a guiding principle in the day-to-day operations (read more about Vattenfall's core values on page 56).

Strategy
Create a safe and healthy work environment through preventive work and increased awareness about safety.

Targets
- Lost-time injury frequency (LTIF) of 2.1 for employees and 2.9 for contractors in 2015
- Long-term goal of zero accidents in the workplace, no workplace-related illnesses, and that all employees will have a safe, healthy and inspiring work environment

Achievements 2014
A new health education concept was introduced.

Challenges
Cost-cutting and reorganisation measures have shifted focus away from health and safety, which can be seen in the LTIF values for 2014.

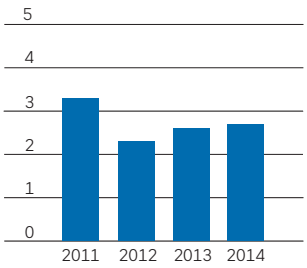
How is Vattenfall working with this?
Ensuring a safe and sound workplace for all employees, contractors and hired-in personnel requires systematic preventive work in all operations. As a result of Vattenfall's undertaking in this area, the Group's companies and units are occupational health and safety–certified according to the OHSAS 18001 standard or similar, and Vattenfall's senior management is actively involved in setting and following up targets and KPIs in this area. In 2014 Vattenfall's executive management also decided on a number of development areas. Among these are leadership in health and safety, further development of contractor management, work/life balance and health management, improvements in incident and accident reporting, and continuation of development activities for improving the safety culture in the company.

Vattenfall believes that increased awareness and knowledge about safety and focus on preventive measures are prerequisites for achieving a safe and healthy work environment. Accordingly, Vattenfall offers regular health check-ups and provides active support to employees who have been on long-term sick leave in an effort to help them return to work. Furthermore, preventive measures have been taken to protect contractors and subcontractors, such as by ensuring that they have access to necessary health and safety information. In new construction projects, all contractors undergo initial training followed by a test, which they must pass before being allowed on the construction site.

Activities during the year
In 2014 Vattenfall introduced a health education concept consisting of four training modules that cover legal and leadership aspects as well as stress-related aspects.

Planned activities
Health- and safety-related questions are included in Vattenfall's My Opinion employee survey, which is conducted every other year. The results from the survey conducted in 2013 indicated that Vattenfall should focus more actively on stress management in the coming years.

LTIF – Lost Time Injury Frequency for employees[1]



	Sweden	Germany	Netherlands	Total
LTIF per country 2014				
Internal (employees)	1.8	3.3	2.7	2.7
External (contractors)	3.4	3.9	2.7	3.7
Sickness-related absenteeism by gender and country 2014, %				
Men	1.7%	4.4%	4.4%	3.7%
Women	2.9%	6.3%	5.1%	5.0%
Total	2.0%	4.9%	4.6%	4.0%

1) LTIF is expressed in terms of the number of occupational injuries (per 1 million hours worked), workplace accidents involving an absence longer than 1 day, and accidents involving death.

Lost Time Injury Frequency (LTIF) is an important KPI in Vattenfall's internal governance and is monitored by the Executive Group Management on a monthly basis. In 2014 LTIF increased from 2.6 to 2.7. The frequency of accidents for contractors increased from 3.6 to 3.7.

As a measure to counter the rising LTIF trend, the regions are working on development of a health and safety programme based on development areas for 2014.

No accidents involving death occurred in Vattenfall's operations in 2014.

Absences due to illness decreased from 4.1% in 2013 to 4.0% in 2014.

Safeguard the company's integrity

Being a good corporate citizen involves ensuring that the organisation acts in an ethical manner that is free from corruption. Vattenfall believes that competition plays a decisive role for a market to function effectively and has a zero tolerance policy with respect to bribery and corruption.

How is Vattenfall working with this?

Vattenfall requires that all employees take personal responsibility by acting in accordance with the company's ethical guidelines, which are laid out in the Vattenfall Code of Conduct (read more about the Code of Conduct on page 56), and in internal policies and instructions. Vattenfall also adheres to the Swedish state's owner policy, which stipulates that state-owned companies are to comply with international guidelines pertaining to anti-corruption and business ethics. Vattenfall works extensively with preventive measures and monitoring. The Group's annual Integrity Survey is an example of such a measure, where some 200 of the company's senior managers respond to questions coupled to the basic principles of the Code of Conduct. Based on the responses, necessary measures are taken to increase awareness about the Vattenfall Code of Conduct, such as follow-up talks, training and checklists.

Employee training is an important part of preventive work. All senior managers and employees who have extensive contacts with competitors are required to participate in the Vattenfall Integrity Programme, which they must repeat every three years. While the programme's main focus is on competition laws, it also addresses several other integrity-related matters, including:

- Vattenfall's Code of Conduct
- Rules regarding bribes and corruption
- Incident reporting
- Insider information
- Conflicts of interest

The aim of the training is to establish a uniform, fundamental level of knowledge about these issues throughout the Group and to promote a company culture that is distinguished by personal responsibility and integrity.

For Vattenfall is it also important that the company's suppliers act in an ethically proper manner. Accordingly, Vattenfall applies a specific Code of Conduct for Suppliers. Read more about Vattenfall's work with its suppliers on page 51. The Code of Conduct for Suppliers has also begun to be used for sponsoring agreements, and the goal is that all new sponsoring agreements will be required to adhere to this code.

Activities during the year

One concrete goal in 2014 was to visualise Vattenfall's Integrity organisation internally within the company. This included creation of the "Integrity meets the business" project.

Strategy

Ensure that everyone in the Group acts in an ethical manner that is not anti-competitive.

Targets

All relevant employees and managers should have participated in the Vattenfall Integrity Programme.

Achievements in 2014

- Code of Conduct updated
- Vattenfall Integrity Programme carried out on regular basis
- Vattenfall joined the World Economic Forum Partnership Against Corruption Initiative (PACI)
- Initiation of the "Integrity meets the business" project

Challenges

To adapt Vattenfall's Integrity organisation and the existing work processes to the company's new organisational structure while maintaining a high level of quality and results.

Integrity meets the business

In 2014 the "Integrity meets the business" project was initiated at Vattenfall to increase awareness about integrity issues in the organisation. During a series of meetings, management teams from Vattenfall's various markets presented key issues in focus and the tools that are available as support in the operations. The management teams also gave feedback and suggestions for improvement. The response was very positive, and advisory and targeted training efforts have been adopted as a direct result of the project.

The Vattenfall Integrity Programme was conducted at regular intervals at all major locations where Vattenfall is active. As a complement to instructor-led training, Vattenfall also offered a number of e-learning courses.

During the year Vattenfall joined the World Economic Forum Partnership Against Corruption Initiative (PACI). Membership requires a commitment by Vattenfall to adopt a zero tolerance policy regarding bribery and corruption, and to establish an internal anti-corruption framework.

Planned activities

Vattenfall will continue its work on incorporating the Code of Conduct into business practices and related matters, but with a more local focus. A further goal will be to follow up completed training activities and verify a number of routines coupled to the company's Code of Conduct.

- In 2014 approximately 1,300 of the Group's employees participated in the Vattenfall Integrity Programme.
- Vattenfall has also developed several e-learning courses that complement the instructor-led training.
- Vattenfall did not receive any complaints from authorities in 2014, nor was it party to any legal actions, concerning alleged anti-competitive behaviour or incidents of bribery or corruption.

Ensure sustainability in the supply chain

Vattenfall has approximately 40,000 suppliers. A small but growing share of these suppliers are based in high-risk countries[1] that lack clear rules and regulations. Through its suppliers and their subcontractors, Vattenfall is exposed to risks that are outside of the company's direct control. This entails that Vattenfall also has a responsibility that goes beyond its own organisation to ensure sustainability in the supply chain.

How is Vattenfall working with this?

Vattenfall's Code of Conduct for Suppliers, which is based on international conventions and guidelines including Global Compact's principles, defines the company's requirements and expectations in the area of sustainability in the supply chain, namely, human rights, working conditions, the environment and anti-corruption.

Vattenfall has adopted a general Group-wide approach to implementation of its Code of Conduct for Suppliers based on three steps:

1. Initial risk assessment of country, sector and supplier.
2. On-site audits to evaluate and verify the supplier's performance.
3. Follow-up and verify the implementation of corrective actions to ensure continuous improvement. To date, Vattenfall's approach has largely focused on suppliers from high-risk countries.

For suppliers of fuel, Vattenfall works both internally – through audits and assessments – as well as in collaboration with external industry initiatives, such as Bettercoal (for hard coal), the Sustainable Biomass Partnership, and the Uranium Stewardship Initiative, to strengthen the company's influence and improve long term sustainability.

Activities during the year

A great deal of work was dedicated during the year to increasing awareness and understanding about the supply chain among employees in key functions. The Competence Centre for Sustainability Due Diligence, a cross-functional network, was established to increase internal awareness and understanding about these issues and to facilitate Group-wide knowledge-sharing.

Strategy

All suppliers will be required to comply with the requirements set forth in Vattenfall's Code of Conduct for Suppliers. Vattenfall's ambition is to work together with its suppliers in an effort to jointly improve any deviations from the Code of Conduct.

KPI

The share of new suppliers that are audited in accordance with Vattenfall's Code of Conduct for Suppliers.

Achievements 2014

In 2014 Vattenfall had 52 suppliers of goods and services and fuel in high-risk countries, of which five were new suppliers. Of these five, 80% were audited with respect to Vattenfall's Code of Conduct for Suppliers. All suppliers of nuclear fuel are audited by Vattenfall prior to any delivery. For the fuel that Vattenfall purchases via screen trading (as well as gas and oil), currently no audits or monitoring are conducted with respect to the requirements of the Code of Conduct.

Challenges

Vattenfall has approximately 40,000 suppliers. A more sustainable supply chain requires a balance between increased awareness and knowledge within the company, and prioritisation of measures. Increased cost constraints risk delaying progress in auditing and monitoring suppliers as well as the build-up of competence that is required for this.

The Responsible Sourcing Board, a cross-functional decision-making body, was established to ensure that the Code of Conduct for Suppliers is taken into account in new tenders for suppliers of hard coal and biomass.

Vattenfall also began work on assessing the company's suppliers of hard coal that have responsibility for mining operations.

Planned activities

Processes and control systems for auditing and monitoring will be developed for other suppliers than those from high-risk countries. Internal training will be provided to employees in key functions to increase awareness and understanding about these matters. Parallel with this, Vattenfall will continue to develop its cooperation with external industry initiatives.

1) Country risk assessments are based on BSCI's (Business Social Compliance Initiative) list of risk countries in the areas of human rights, working conditions and anti-corruption. BSCI updated its lists in 2014, and Vattenfall intends to review its lists in 2015.

Corporate governance report

The following pages include information on corporate governance during the 2014 financial year, as prescribed by law and the Swedish Corporate Governance Code. The Articles of Association, previous corporate governance reports and material from the most recent general meetings are available on Vattenfall's website, www.vattenfall.com, under "Corporate Governance". The website is also a source of current information about corporate governance at Vattenfall and provides links to the Swedish state's ownership policy and the Swedish Corporate Governance Code. The corporate governance report has been reviewed by the company's auditors.

Corporate governance at Vattenfall – general

The Parent Company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with registered office in Solna. Vattenfall AB is thereby subject to the provisions of the Swedish Companies Act. The Board of Directors is elected by the Annual General Meeting (AGM). The Board, in turn, appoints the President and CEO, who is responsible for the day-to-day administration of the company in accordance with the Board's guidelines and instructions.

Application of the Code

Vattenfall adheres to the Swedish Corporate Governance Code ("the Code"). However, since Vattenfall is wholly owned by the Swedish state, certain stipulations in the Code are not applicable. This applies to the matter of reporting on board members' independence, among other things. In addition, Vattenfall deviates from the Code with respect to the following points:

- Point 1.4, pertaining to the requirement that the nomination committee shall propose a person to serve as AGM chairman. Due to its ownership structure, Vattenfall has no nomination committee. Election of an AGM chairman is instead done at the AGM in accordance with the stipulations of the Swedish Companies Act and the Swedish state's ownership policy.
- Section 2, pertaining to the requirement that the company shall have a nomination committee. The nomination process for the Board and auditors is conducted in accordance with the Swedish state's ownership policy and is described below. Thus the references to the nomination committee in points 1.3, 1.4, 4.6, 8.1 and 10.2 are not applicable either. However, information on the nomination of board members for new election or re-election is posted on the company's website in accordance with point 2.6.

Important external and internal rules and regulations for Vattenfall

External rules and regulations

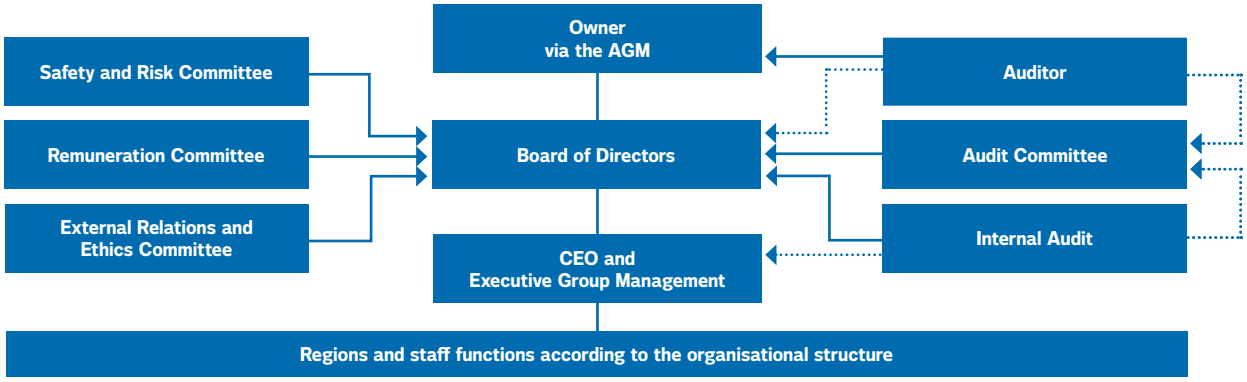
- Swedish and foreign legal rules, particularly the Swedish Companies Act and the Swedish Annual Accounts Act
- The Swedish State's ownership policy
- The Swedish Corporate Governance Code ("the Code").
- Stock exchange rules[1]
- International Financial Reporting Standards (IFRS) and other accounting rules
- The Global Reporting Initiative (GRI) guidelines – G4

Internal rules

- Vattenfall's Articles of Association
- The Board's and committees' Rules of Procedure, including the CEO's instructions and instructions for reporting to the Board
- The Vattenfall Management System (VMS) and other internal governance documents

1) Vattenfall adheres to the stock exchange rules that apply for companies that have fixed-income securities registered on Nasdaq OMX Stockholm and other marketplaces.

Governance structure



Shareholders and general meetings

By law, the Annual General Meeting (AGM) of Vattenfall AB is to be held within six months after the end of the financial year and, according to the Swedish state's ownership policy by 30 April at the latest. The AGM;

- elects the Board of Directors and auditors, and sets their fees;
- adopts the income statement and balance sheet for Vattenfall AB and the Vattenfall Group;
- decides on distribution of the company's profit;
- grants discharge from liability for the board members and CEO;
- decides on guidelines for remuneration of senior executives; and
- decides on other matters of business as prescribed by law or the Company's Articles of Association.

Vattenfall's Annual General Meeting was held on 28 April 2014 and decided on items of business listed above. All of the board members were re-elected, and Fredrik Arp was elected as a new director. The AGM also resolved in favour of amendments to the Articles of Association: The name of the company was changed from Vattenfall Aktiebolag to Vattenfall AB, and a provision was added that for cases in which the Chairman of the Board leaves his assignment during the term of office, the Board shall within itself elect a chairman for the time until the conclusion of the shareholder's meeting during which a new chairman is elected. Members of Parliament were given the opportunity to ask questions, as prescribed by Vattenfall's Articles of Association. An open Q&A session was held after the AGM, in accordance with the Swedish state's ownership policy. The meeting was open to the general public and was aired live via webcast. A videotaped version, minutes and other material from the AGM are available at vattenfall.com under "Corporate Governance".

The 2015 AGM will be held on 27 April in Solna.

Board of Directors

Appointment of the Board

For companies that are wholly owned by the Swedish state, uniform and joint principles for a structured nomination process apply. These principles are set forth in the Swedish state's owner policy and take the place of the Code's rules on drafting work for decisions on the nomination of board members and auditors.

The board nomination process in the Swedish Government Offices is coordinated by the Ministry of Enterprise and Innovation (formerly the Ministry of Finance). The competency needs are analysed on the basis of the company's operations, situation and future challenges as well as the Board's composition and evaluations of the Board that have been carried out. Thereafter, any recruitment needs are determined and recruitment work is initiated. Once this process has been completed, the nominations are publicly announced in accordance with the Code; however, no account is made regarding the directors' independence. Vattenfall provides orientation training for new directors who are elected by the AGM.

More detailed information on the board nomination process is provided in the Swedish state's owner policy, at regeringen.se.

The Board's composition

Vattenfall's Articles of Association stipulate that the Board of Directors shall have, in addition to the employee representatives, a minimum of five and a maximum of ten members without deputies. The directors are elected annually by the Annual General Meeting, which also appoints the Chairman of the Board.

Up until the AGM the Board consisted of seven and thereafter eight directors elected by a general meeting. No member of the Executive Group Management (EGM) is a director on the Board. Lars G. Nordström was Chairman of the Board in 2014. By law, the unions are entitled to appoint three board members plus three deputies, and they have exercised this right. After the AGM, four of the Board's eleven members were women, and among the directors elected by a general meeting, four of eight were women. The average age of board members was 57. One director (Eli Arnstad) was a foreign citizen. Biographical information about the board members is provided on pages 62–63.

The Board's duties

The Board's fundamental duties are laid out in the Swedish Companies Act and the Code. Each year the Board adopts its Rules of Procedure and a number of instructions. The Rules of Procedure and instructions regulate such matters as reporting to the Board, delegation of authority between the Board, the CEO and the Board's committees, the Chairman's duties, the form and content of board meetings, and the evaluation of the work of the Board and the CEO.

The Board's Rules of Procedure stipulate that the Board shall approve major investments, acquisitions and divestments, and adopt central policies and instructions. The Board shall also approve certain important contracts, including contracts between Vattenfall and the CEO, the Deputy CEO and other persons in the Group who are defined as senior executives by the Annual General Meeting. The Board's duties pertain to Vattenfall AB as well as the Vattenfall Group.

The Chairman leads the work of the Board in accordance with the Swedish Companies Act and the Code, and is responsible for – among other things – ensuring that the board members receive relevant information, contacts with the owner on ownership matters, and conveying views from the owner to the Board. According to the Rules of Procedure, the Board – through the Chairman – is to coordinate its views with representatives of the owner when the company is facing particularly important decisions.

Guidelines for directors' fees

Directors' fees and fees for committee work are set by the owner at the AGM, in accordance with the Swedish state's ownership policy. The 2014 AGM resolved in favour of unchanged fees. For information on directors' fees in 2014, see Note 53 to the consolidated accounts.

Board meetings

According to the Board's Rules of Procedure, the Board shall hold eight to twelve regular board meetings every year. In addition to the regular meetings, the Board meets when necessary. The Rules of Procedure stipulate that the agenda of every regular meeting shall include the following items of business:

- The Group's business situation
- Financial report for the Group
- Reports from board committees
- Matters that are not handled by the CEO in the day-to-day administration
- Other matters of material importance for the Group

In addition, the following items of business are included on the agenda every year, in accordance with the yearly planning in the Board's Rules of Procedure:

- April: first quarter interim report, strategic personnel issues, risk mandate and risk policy, and the statutory board meeting after the AGM
- July: Half-year interim report, report on major disputes
- September: Strategic plan
- October: Nine-month interim report
- December: Business, investment, communication and financing plans, the auditors' interim review, guidelines for remuneration of senior executives, Internal Audit's budget and internal audit plan
- February: Year-end report, dividend, evaluation of the Board and CEO, reporting of major disputes and integrity report
- March: Annual and sustainability report, AGM notice

Investments are followed up by the Board three years after they have been decided on by the Board. In addition, the Board holds at least one board seminar every year. At these seminars the Board receives more detailed information and discusses Vattenfall's long-term development, strategy, competitive situation and risk management.

The Board met twelve times in 2014, including the statutory meeting and two meetings conducted via circulation. The agendas of the meetings included the following items of business, among others:

- Decision on appointment of the new President and CEO as well as on the terms of employment
- The Group's strategy and organisation
- Cost-cutting and cost-cutting targets
- Impairment of Vattenfall's assets
- Provisions for the nuclear power operations
- Divestment of electricity distribution network and waste incineration plant in Hamburg
- Divestment of non-core businesses
- Investments in new wind farms and wind power partnership in Sweden
- Investments in safety-enhancement measures in the nuclear power operations
- Vattenfall's sustainability targets and sustainability policy
- The Vattenfall brand
- Variable remuneration programmes for employees who are not senior executives

Evaluation of the Board's and CEO's work

The Board evaluates its own work and the CEO's work once a year as part of efforts to develop the Board's way of working and effectiveness. This evaluation is conducted under the direction of the Chairman and is reported to the Board and the owner.

The most recent evaluation was begun in autumn 2014 and was reported to the Board on 4 February 2015. External consultants are used in connection with the Board's evaluation.

Board committees

The Board has established four committees, which are described below, and has drawn up rules of procedure for each of them. At the statutory board meeting, the Board appointed three directors elected by a general meeting for each committee, of whom one serves as committee chair. In addition, the Board can, where necessary, establish other board committees or temporary work groups to address matters in more defined areas. In 2014 such a work group was created for recruitment of a new Group CEO.

The committees report their work to the Board at the next regular board meeting, whereby the committee chair presents a report accompanied by minutes of the committee meetings. Except for a few matters handled by the Audit Committee, the committees are only drafting bodies. The Board's legal responsibility under company law for the company's organisation and administration of the company's affairs is not constrained by the committees' work.

Audit Committee

The Audit Committee's most important duties are as follows:

- To oversee Vattenfall's financial reporting
- To monitor the effectiveness of Vattenfall's internal control, internal audit and risk management with respect to the financial reporting
- To stay informed about the audit of the annual report and consolidated accounts
- To review and monitor the auditor's impartiality and independence, and in connection with that, to pay particular attention to whether the auditor provides other services to the company than auditing services
- To assist in the drafting of recommendations for decisions on the election of auditor by the Annual General Meeting
- To monitor and oversee the management of market and credit risks
- To conduct an annual evaluation of the external auditors' work

Another important issue in 2014 involved preparatory work in connection with Vattenfall's annual impairment testing of asset values, which led to a decision to recognise impairment losses.

The Audit Committee is responsible for meeting with Vattenfall AB's external and internal auditors on a regular basis in order to stay informed about the planning, focus and scope of the company's audit. The Audit Committee is also responsible for discussing coordination of the external and internal audit work and views of the company's risks. Internal Audit's budget, the Internal Audit Charter and the internal audit plan are prepared by the committee.

The Audit Committee has the right, on behalf of the Board, to decide on guidelines for other services than auditing that Vattenfall may procure from the Group's auditors.

The Audit Committee meets prior to Vattenfall's publication of interim reports and when warranted by the prevailing conditions. The CFO and head of Internal Audit serve in a reporting role on the committee. The company's external auditors attend all regular meetings and report on their observations of the audit. During the entire year 2014 the committee had at least one member with accounting or auditing competence.

Remuneration Committee

The Remuneration Committee's most important duties are as follows:

- To conduct drafting work for board decisions on matters regarding remuneration principles, remuneration and other terms of employment for members of the Executive Group Management and other senior executives
- To monitor and evaluate application of the guidelines for remuneration of senior executives, which the AGM, by law, is required to decide on as well as the applicable remuneration structures and levels of remuneration in the company

In 2014 the committee was also tasked with conducting drafting work for the Board's decisions regarding overarching remuneration principles in general, such as the general existence of, amount and structure of variable remuneration.

The committee's duties also include the following:

- Serving as a drafting body to ensure implementation and compliance with guidelines
- Where applicable, conducting drafting work for any special reasons that may exist in an individual case to deviate from the guidelines
- Conducting drafting work for the Board's report on remuneration of senior executives in the annual report and, ahead of the Annual General Meeting, monitoring and following up the auditors' review

The CEO serves in a reporting role on the Remuneration Committee.

Safety and Risk Committee

The aim of the Safety and Risk Committee is to increase knowledge and awareness about safety and risk issues in the Board ahead of the Board's treatment of these issues. The committee is tasked with the following:

- Conducting drafting work for the Board in its work on overseeing and quality assuring operational safety and risk work within the Vattenfall Group, with special focus on nuclear power safety and dam safety
- Reviewing and, when the committee deems it suitable, providing suggestions regarding these safety and risk matters

During the year, the committee's duties were concentrated on nuclear power safety and dam safety.

The heads of the Nordic and Continental/UK regions, and the Chief Nuclear Safety Officer (CNSO) serve in a reporting role on the Safety and Risk Committee.

For a more detailed description of Vattenfall's risks and risk management, see pages 66–72 in the Annual and sustainability report.

External Relations and Ethics Committee

This committee was established at the Board's statutory meeting in 2013 and is tasked with the following:

- Maintaining an overview of Vattenfall's actions with respect to its undertakings as a company and in society
- Upholding, protecting and building the Vattenfall brand
- Reviewing and monitoring the effectiveness of the company's compliance and requirements according to the Global Compact and the company's sustainability targets and strategy

The CEO serves in a reporting role on the committee.

Auditor

The Swedish state's ownership policy states that the owner is responsible for the election of auditors and that the auditors are to be appointed by the Annual General Meeting. The auditors are elected for a mandate period of one year, in accordance with the main rule in the Swedish Companies Act. Vattenfall's Articles of Association stipulate that the company shall have one or two auditors with or without one or two deputy auditors, or a chartered auditing firm as auditor.

The 2014 Annual General Meeting re-elected the auditing firm Ernst & Young AB as auditor. The auditing firm has appointed Authorised Public Accountant Hamish Mabon as auditor-in-charge. Hamish Mabon has been auditor-in-charge since 2008 and will therefore be succeeded by another auditor in 2015, at which time he will have held his assignment for seven years. He is also the auditor of Husqvarna AB, AB Tetra Pak, Tetra Laval International, Dustin AB, Apotek Hjärtat AB and Ambea AB, among other companies. The auditor has no assignments with companies that affect its independence as auditor of Vattenfall. The auditor's audit assignment also includes a review of the sustainability reporting.

The Audit Committee has approved guidelines for how procurement of other services than auditing shall take place from the auditor. Consulting services provided by Ernst & Young AB from 2012 to 2014 mainly pertained to tax and accounting issues as well as special input in connection with the divestment of subsidiaries that are no longer core businesses.

At the Annual General Meeting on 28 April 2014 the auditor reported on the audit work in 2013 and on its review of compliance with the guidelines for remuneration of senior executives that had applied since the 2013 Annual General Meeting. The auditor reported on its review of the year-end accounts for 2014 to the entire Board at the board meeting on 4 February 2015 (without the presence of any person from the Executive Group Management), and also reported on its observations at the board meeting on 17 December 2014. In addition, the auditors performed a review of the half-year interim report. The auditor has access to minutes of board meetings and board committee meetings, as stipulated in the Board's Rules of Procedure.

In accordance with the Act on Auditing of State Activities, etc., the Swedish National Audit Office may appoint one or more auditors to participate in the annual audit. No such auditor was appointed in 2014.

The auditor's fees are payable according to an approved invoice. The Group's auditing costs are described in more detail in the annual report, in Note 22 to the consolidated accounts and Note 19 to the Parent Company accounts.

Internal governance

Core values and vision

Vattenfall's core values are Safety, Performance and Cooperation. Vattenfall's vision is to develop a sustainable, diversified European energy portfolio with long-term increased profits and significant growth opportunities. At the same time, Vattenfall will be among the leaders in developing environmentally sustainable energy production.

Governing business ethics

Vattenfall's Code of Conduct outlines eight principles in the areas Health and Safety, People, Customers and Suppliers, Business Ethics, Communication, Information Security, Company Resources, and the Environment, and includes references to the Vattenfall Management System (VMS), which more clearly elaborates on the principles. Information about the Code of Conduct is provided on the company's intranet in all of the company's languages, through articles in Vattenfall's employee news magazine, and in connection with new hiring and training. These measures have contributed to employees' familiarisation with the Code of Conduct. Vattenfall's Code of Conduct is also posted on vattenfall.se (English version on www.vattenfall.com).

The Code of Conduct gives employees the opportunity to report incidents through a whistleblowing function staffed by locally appointed external ombudsmen (advocates), to whom employees, consultants and contractors can turn to report suspected, serious improprieties that the whistleblower for some reason does not want to report internally via the normal reporting channels.

CEO and Executive Group Management

The President of Vattenfall AB, who is also CEO of the Vattenfall Group, is responsible for the day-to-day administration in accordance with the Swedish Companies Act. The CEO in 2014 was Øystein Løseth until 30 September, and thereafter Magnus Hall. The Board began the work on recruiting a new CEO in 2013 and formed a special work group for this purpose, which was assisted in this process by an external recruitment company. After the work group submitted its recommendation and the Board made its decision, Magnus Hall was presented as the new CEO on 7 May 2014. Magnus Hall's remuneration corresponds to Øystein Løseth's and is described in the Annual and sustainability report, Note 53 to the consolidated accounts.

The CEO has appointed internal bodies for governance of the Group and makes decisions independently or with the support of these bodies. The most important of these are is the Executive Group Management (EGM) and the Vattenfall Risk Committee (VRC).

The EGM focuses on the Group's overall direction and addresses – within the framework of the CEO's mandate from the Board of Directors – matters of importance for the Group, such as certain investments. The VRC focuses on decisions pertaining to risk mandates and credit limits, among other things, and exercises oversight of the risk management framework. Both of these bodies conduct preparatory drafting work on matters that are to be decided by the Board of Directors.

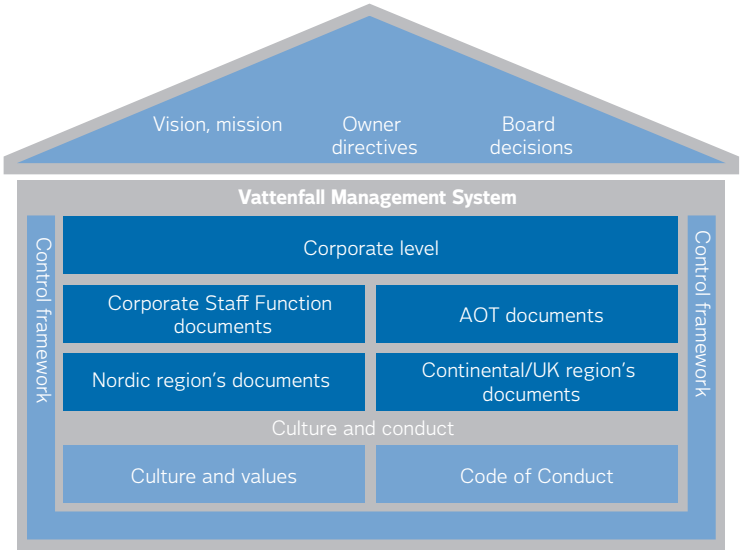
Biographical information on the members of the Executive Group Management is provided on page 64.

Vattenfall Management System

The Vattenfall Management System (VMS) is the framework that ensures that Vattenfall's governance adheres to formal requirements as well as to requirements made by the Board, the CEO, the business operations and the Staff Functions. The VMS is documented in binding governance documents consisting of policies, instructions and process documents on three different levels: corporate level, function level and business level. Certain central documents are approved by the Board of Directors of Vattenfall AB. The VMS is an integrated management system that applies for the entire Vattenfall Group, along with the limitations that may arise from legal requirements, such as regarding the unbundling of the electricity distribution business. Vattenfall's Environmental Management System is integrated in the VMS. Special routines are in place to ensure adherence to the management system also by subsidiaries.

Work was conducted in 2014 on completing the update of the VMS as a result of the organisational change that took effect on 1 January 2014.

VMS structure and other governance documents



Organisation

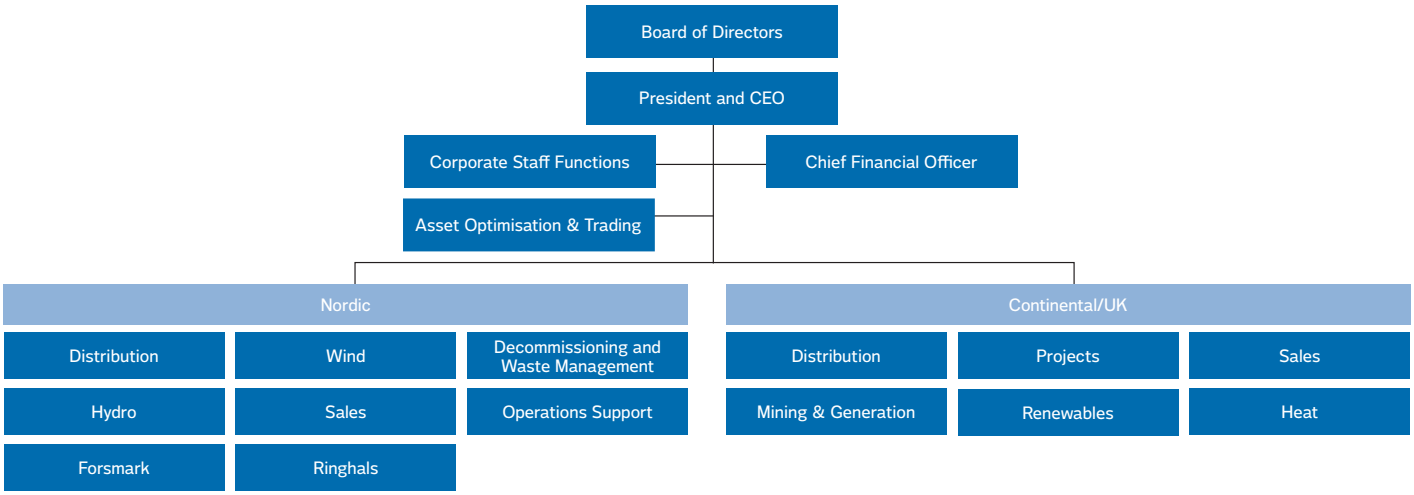
Vattenfall had three organisational levels in 2014 – Group, regional and business unit level – with operations broken down into three categories:

- Business activities, broken down into Business Units and organised in two regions and in the cross-regional unit Asset Optimisation & Trading
- Staff Functions, which are organised at the Group, regional and Business Unit levels
- Service operations, which are organised in Business Support functions and Shared Service centres at the regional level or lower

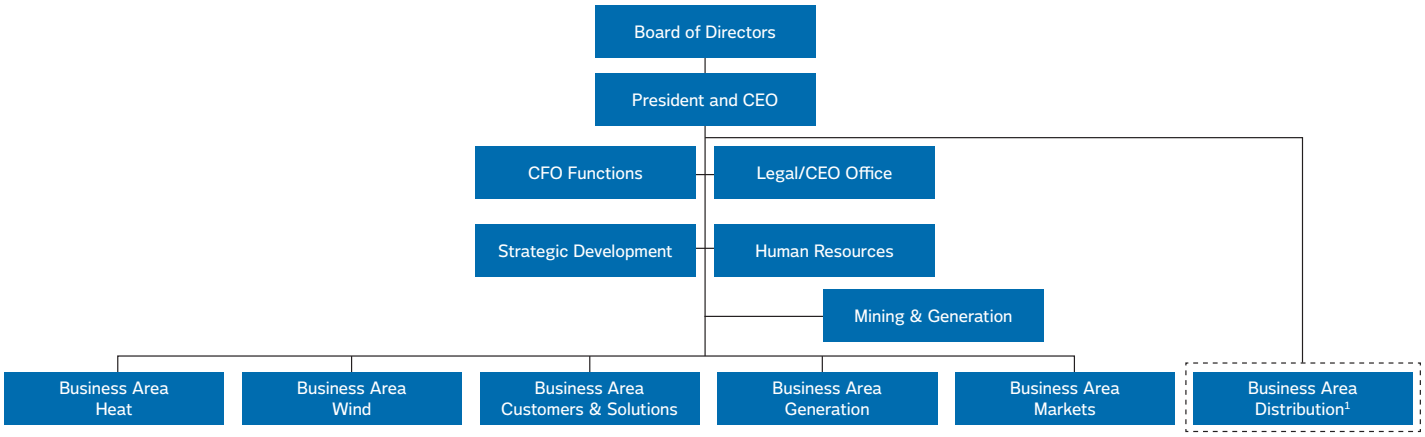
The legal structure deviates from the business structure. Governance is conducted financially, non-financially (e.g., via Staff Functions) and operationally. Unit scorecards and the VMS are the most important governance tools.

In December 2014 the Board approved a new organisational structure, entailing that the breakdown into the Nordic and Continental/UK regions has been replaced with six new Business Areas, effective 1 April 2015: Heat, Wind, Customers & Solutions, Generation, Markets, and Distribution. Vattenfall's lignite operations are organised as a separate unit, Mining & Generation, in line with Vattenfall's ambition to find a new owner. Further information is provided on pages 9 and 18–19.

Organisational structure 2014



New organisational structure effective 1 April 2015



1) The electricity distribution operations are regulated by the Swedish Electricity Act and the German Energy Industry Act (Energiewirtschaftsgesetz), and are unbundled from Vattenfall's other operations.

Governance of sustainability issues

The Swedish state's ownership policy stipulates that companies with state ownership shall act as a model in the area of sustainable business. In the owner policy, sustainable business is defined as "a development that meets the needs of today without jeopardising future generations' ability to meet their needs" and covers the areas of the environment, human rights, work conditions, anti-corruption, business ethics, and equality and diversity. Companies with state ownership shall also strive to comply with international guidelines that exist with respect to sustainability.

In 2014 the Board decided to adopt an overall sustainability policy as complement to individual policies, including environment, Code of Conduct and health and safety. It stipulates that for Vattenfall, sustainability entails taking responsibility for future generations by contributing to sustainable development in society – economically, environmentally and socially. The sustainability policy also stipulates that environmental issues are the top-priority focus area, based on a decision by Swedish Parliament in 2010 that Vattenfall shall operate a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production. This parliamentary decision is also reflected in Vattenfall AB's Articles of Association.

Vattenfall's governance with respect to sustainability issues is based on a number of policies:

- The environmental policy
- The health and saftey policy
- The Code of Conduct
- The Supplier Code of Conduct, which addresses – among other things, human rights and working conditions, the environment and anti-corruption, based on the UN Global Compact

The sustainability policy, environmental policy and Code of Conduct are decided on by the Board of Directors, while other policies are decided on by the CEO. Drafting work for the Board's work with sustainability issues is conducted by the External Relations and Ethics Committee. In the EGM, the CFO is responsible for sustainability issues.

All of the aforementioned policies are part of the VMS. They are accessible for employees on the Group's intranet and are also communicated externally. However, Vattenfall does not require any signatures from employees or members of management. The content is concretised in instructions and process documents within the VMS, for example in special instructions for matters concerning competition law and for the prevention of bribes and corruption.

Operations are monitored monthly in Business Review Meetings (BRMs), where outcomes, forecasts, important events and challenges are discussed to ensure that the organisation is performing according to expectations. Every quarter a more comprehensive overview of the current situation is presented and include reports on the status of Vattenfall's sustainability areas and sustainability targets, which are discussed with the top management of each Business Unit.

Guidelines for remuneration of senior executives

Vattenfall AB applies the Swedish Government Offices' "Guidelines for terms of employment for senior executives in state-owned companies". These guidelines are available on the Government Offices' website; regeringen.se.

The 2014 AGM approved Vattenfall's application of the guidelines with the deviation that instead of the definition of senior executive in the Swedish Companies Act, senior executives shall be defined on the basis of whether they have a significant impact on the Group's earnings, through use of the International Position Evaluation (IPE) model. Managers with positions of IPE 68 and higher are to be considered to be senior executives. The Board's explanation for this deviation is stated in the 2013 Annual and sustainability report, on page 49.

Based on the AGM's definition, in 2014 a total of 15 persons, excluding the current and former CEOs, were covered by the stipulations on contracts with senior executives. Actions taken with respect to agreements with these executives were continuously reported to the Remuneration Committee and Board, which also decided on the entering into such agreements. Remuneration of senior executives and compliance with the adopted guidelines are described in more detail in the Annual and sustainability report, Note 53 to the consolidated accounts.

An evaluation of the application of the guidelines for remuneration of senior executives decided by the Annual General Meeting is posted on vattenfall.se and vattenfall.com. The proposed guidelines ahead of the 2015 AGM are shown on page 65.

Internal control over financial reporting

This section describes the most important elements in Vattenfall's system of internal control and risk management in connection with the financial reporting, as prescribed by the Annual Accounts Act and the Code. Vattenfall's framework for this control is based on the COSO framework, which has been developed by the Committee of Sponsoring Organizations of the Treadway Commission. For further information see also the risk section, pages 66–72.

Control environment

According to the Swedish Companies Act and the Code, the Board of Directors has overarching responsibility for internal control over financial reporting. In this context the Board shall ensure that the company's organisation is structured in such a way that the bookkeeping, treasury management and the company's financial conditions in general are controlled in a satisfactory manner. The Board's audit committee conducts drafting work for the Board on matters related to internal control over financial reporting.

The control environment is based on the division of responsibility between the Board and the CEO, which is set forth in the Board's Rules of Procedure, along with the reporting requirements made by the Board. The Board has also adopted Vattenfall's Code of Conduct, which lays out the overarching rules governing employee conduct.

The VMS is an integrated management system for the Vattenfall Group and is revised on a continuing basis (see also the section on internal governance on page 56). The VMS contains governance documents for all identified material areas, including roles and responsibilities, authority, decision-making processes, risk management, internal control, and ethics and integrity issues. The VMS lays out the "grandfather principle" and "four eyes principle" for decision-making. The VMS also stipulates which decision-making, oversight and advisory bodies exist within the Group, in addition to those required by law.

Vattenfall has an internal financial control (IFC) process whose overall purpose is to ensure that controls are in place in the financial reporting.

Risk assessment

The Board handles the Group's risk assessment and risk management process at an overarching level. The Board's audit committee conducts drafting work for evaluation and monitoring of risks and quality in financial reporting. The Audit Committee maintains continuous and regular contact with the Group's internal and external audit functions. Other risks of an operational character that are evaluated and monitored at the board level are addressed and drafted primarily by the Board's safety and risk committee.

The Board's risk management and reporting is centrally coordinated via Vattenfall's risk committee (VRC). A continuous Enterprise Risk Management (ERM) process makes it possible to quantify and compare both financial and non-financial risks.

For the financial reporting, the IFC process serves as a framework for internal control that identifies and defines risks for material errors in the financial reporting. These are overseen by the CFO Staff Function through regular reporting on tests performed of defined control points. The CFO Staff Function is also responsible for performing regular analyses of risks related to financial reporting and for updating this framework.

The external and internal auditors discuss Vattenfall's risk situation in connection with the planning work ahead of the annual audit.

Control activities and monitoring

Vattenfall applies the "three lines of defence" model for management and control of risks. The first line of defence consists of the Business Units, which own and manage risks. The risk organisation, which is headed by the Chief Risk Officer (CRO), makes up the second line of defence and is responsible for monitoring and controlling risks. Internal and external audit make up the third line of defence. Internal Audit is an independent and objective function that reviews and evaluates the first and second lines of defence.

The CRO is responsible for the risk management organisation within the Group and provides information to the Board's audit committee and safety and risk committee on a regular basis. The CRO is also responsible for processes related to, among other things, new products and certain contracts with long durations.

Internal Audit evaluates, recommends and monitors improvements to the effectiveness of Vattenfall's risk management, internal controls and governance processes throughout the Group. This also applies for compliance with Vattenfall's governance documents, including the Code of Conduct. The Internal Audit function is directly subordinate to the Board of Directors and Audit Committee, and performs its work in accordance with an established internal audit plan. Internal Audit's budget, the Internal Audit Charter and the internal audit plan are drafted by the Audit Committee and decided on by the Board of Directors. The Head of Internal Audit reports administratively to the CEO and informs the management teams of the Business Units and other units about audit activities that have been performed.

Three lines of defence

The Board oversees the Group's financial situation and addresses this matter at every regular board meeting. The Executive Group Management holds regular follow-up meetings with the heads of the regions and Staff Functions regarding the financial outcome. The internal framework for internal control includes processes for self assessments, monitoring, reporting and improvement of control activities in order to prevent, discover and correct errors in the financial reporting. Written confirmation of adherence to internal and external stipulations is part of these processes.

In 2014 a project was carried out to overhaul and upgrade the IFC process in an effort to strengthen the governance structure and effectiveness of the controls. Going forward, continuous improvements of the IFC process will be ensured through introduction of an annual evaluation and updating process. This also includes expanded control points for the most central VMS documents and establishment of a Group IFC Officer position. The project was concluded in 2014, and the upgraded IFC process will be applied starting in 2015.

Information and communication

The Group's governance documents are accessible via Vattenfall's intranet. The forms for handling internal and external communication are documented in a VMS instruction which aims to ensure that Vattenfall is in compliance with legal as well as stock exchange rules, the state's guidelines for external reporting, and other obligations. Accounting policies and reporting principles are laid out in a joint manual for the entire Group. Updates and changes in these policies and principles are communicated on a continuous basis via the intranet as well as at meetings with representatives of the Group's regions and Staff Functions.

Reporting and follow-up reporting to the Board and EGM are part of monitoring activities. Internal Audit and the CRO also report on their observations to the Board's audit committee.

Financial reporting includes interim reports, the year-end report and the annual report. In addition to these reports, financial information is provided to the Group's external stakeholders via press releases and Vattenfall's websites, in accordance with the Swedish Securities Market Act, among other things.

Composition of the Board and meeting attendance

The composition of the Board of Directors and attendance at board meetings in 2014 are shown below. Current biographical information about board members is provided on the corporate governance pages on vattenfall.se and vattenfall.com.

Name	Function	Committee assignment(s)	Attendance at board meetings[2]	Attendance at committee meetings
Lars G. Nordström	Chairman of the Board	Remuneration Committee, External Relations and Ethics Committee (chair)	12 of 12	RemCom: 4 of 4 ERE: 2 of 2
Carl-Gustaf Angelin	Employee representative	—	11 of 12	—
Eli Arnstad	Director	Safety and Risk Committee (chair), External Relations and Ethics Committee	12 of 12	S&R: 2 of 2 ERE: 2 of 2
Fredrik Arp[1]	Director	Remuneration Committee	4 of 8	2 of 2
Lennart Bengtsson	Employee representative, deputy director	—	10 of 12	—
Gunilla Berg	Director	Audit Committee (as chair from 28 April), Remuneration Committee (through 28 April; chair), External Relations and Ethics Committee	10 of 12	AC: 7 of 7 RemCom: 2 of 2 ERE: 1 of 2
Johnny Bernhardsson	Employee representative	Safety and Risk Committee, External Relations and Ethics Committee	12 of 12	S&R: 2 of 2 ERE: 1 of 1
Håkan Buskhe	Director	Safety and Risk Committee	10 of 12	1 of 2
Ronny Ekwall	Employee representative	Audit Committee	12 of 12	5 of 7
Håkan Erixon	Director	Audit Committee (as chair through 28 April), External Relations and Ethics Committee (through 28 April)	12 of 12	AC: 7 of 7 ERE: 1 of 1
Christer Gustafsson	Employee representative, deputy director	—	9 of 12	—
Jenny Lahrin	Director	Audit Committee, Safety and Risk Committee (from 28 April)	12 of 12	AC: 7 of 7 S&R: 1 of 1
Jeanette Regin	Employee representative, deputy director	—	8 of 12	—
Åsa Söderström Jerring	Director	Remuneration Committee (as chair from 28 April), External Relations and Ethics Committee (from 28 April)	12 of 12	RemCom: 4 of 4 ERE: 1 of 1

1) Elected at the Annual General Meeting on 28 April 2014.
2) Two of the board meetings were held via circulation, whereby only ordinary directors participated.

Board of Directors

Lars G. Nordström

Chairman of the Board

Born 1943. Law studies. Elected in 2011. Chairman of the External Relations and Ethics Committee and member of the Remuneration Committee.

Other assignments: Chairman of the Finnish–Swedish Chamber of Commerce. Board member of Nordea Bank, Viking Line Abp and the Swedish–American Chamber of Commerce. Member of the Royal Swedish Academy of Engineering Sciences (IVA). Honorary Consul for Finland in Sweden.

Previous positions held: Board member of TeliaSonera (2006–2010). Chairman of the Royal Swedish Opera (2005–2009). President and CEO of Posten Norden AB (2008–2011). Various executive positions with Nordea Bank (1993–2007), including as President and Group CEO of Nordea Bank AB (2002–2007). Various positions with Skandinaviska Enskilda Banken (1970–1993), including as Executive Vice President (1989–1993).

Eli Arnstad

Born 1962. Studies in public law and political science. Elected in 2008. Chairman of the Safety and Risk Committee and member of the External Relations and Ethics Committee.

Executive Manager of SpareBank 1 SMN.

Other assignments: Board member of the Norwegian Football Association.

Previous positions held: Independent consultant (2008–2012). CEO of Enova SF (2001–2007).

Fredrik Arp

Born 1953. B.Sc. Econ. Honorary Doctor of Economics. Elected in April 2014. Member of the Remuneration Committee.

Other assignments: Chairman of Nolato AB, Mediplast AB and Parques Reunidos. Board member of Technogym Spa.

Previous positions held: President and CEO of Volvo Car Corporation (2005–2008). CEO of Trelleborg AB (1999–2005), PLM AB (1996–1999), Trelleborg Industrier AB (1989–1996) and Boliden Kemi AB (1988–1989). Various positions in Trelleborg AB (1986–1989) and Tarkett (1979–1986).

Gunilla Berg

Born 1960. B. Sc. Econ. Elected in 2012. Chairman of the Audit Committee and member of the External Relations and Ethics Committee.

CFO of PostNord Group.

Other assignments: Board member of Alfa Laval.

Previous positions held: Executive Vice President and CFO of Teracom Group (2010–2014). Executive Vice President and CFO of SAS Group (2002–2009). Executive Vice President and CFO of the KF Group (1997–2001). Various positions in the AGA Group (1987–1997).

Håkan Buskhe

Born 1963. M. Sc. Eng., Licentiate in transport and logistics. Elected in 2012. Member of the Safety and Risk Committee.

President and CEO of Saab AB.

Previous positions held: President and CEO of E.ON Nordic AB and E.ON Sverige AB (2008–2010). Executive Vice President of E.ON Sverige AB (2007–2008). Senior Vice President of E.ON Sverige AB (2006–2007). CEO of Schenker North (2002–2006). Managing Director Schenker-BTL AB (2000–2002).

Håkan Erixon

Born 1961. B.Sc. International Business Administration and Economics. Elected in 2011. Member of the Audit Committee.

Other assignments: Chairman of Orio AB. Member of the Nasdaq OMX Stockholm AB Listing Committee. Board member of Alfvén & Didrikson Invest AB.

Previous positions held: Board member of Saab Automobile Parts AB (2012–2013). Senior Advisor, Corporate Finance, Swedish Government Offices, which included work for the Swedish National Debt Office (2007–2010). Board member of Carnegie Investment Bank AB (2008–2009). Board member of Vasakronan AB (2007–2008). Various positions with UBS Investment Bank Ltd, London (1997–2007), including as Vice Chairman of the Investment Banking Division. Various positions with Merrill Lynch International Ltd, London (1992–1997). Kansallis-Osake-Pankki, London (1991–1992). Citicorp Investment Bank Ltd, London (1989–1991).

Jenny Lahrin

Born 1971. Master of Laws. Executive MBA. Elected in 2013. Member of the Audit Committee and Safety and Risk Committee.

Deputy Director, Division for State-Owned Enterprises, Ministry of Enterprise and Innovation.

Other assignments: Board member of Swedavia AB and AB Göta kanalbolag.

Previous positions held: Board member of RISE Research Institutes of Sweden AB (2012–2013), Legal Counsel at the Division for State-Owned Enterprises, Ministry of Enterprise/Ministry of Finance (2008–2012). Legal Director at Veolia Transport Northern Europe AB (2003–2008) and admitted to the bar association (2001–2002).

Åsa Söderström Jerring

Born 1957. B. Sc. Econ. Elected in December 2013. Chairman of the Remuneration Committee and member of the External Relations and Ethics Committee.

Other assignments: Chairman of ELU Konsult AB and Infobooks AB. Board member of JM AB, Rejlers AB, San Sac AB, Nordic Home Improvement AB and Scanmast AB. Chairman of the Construction Division of the Royal Swedish Academy of Engineering Sciences (IVA).

Previous positions held: President SWECO Theorells AB (2001–2006) and Ballast Väst AB (1997–2001). Marketing Manager NCC Industry (1994–1997), and Communications Manager NCC Bygg AB (1991–1993).

Carl-Gustaf Angelin

Born 1951. M.Sc. Eng. Elected in 2003. Employee representative for Akademikerrådet at Vattenfall. Vattenfall employee since 1988, currently in Business Unit Sales Nordic.

Employee representative

Johnny Bernhardsson

Born 1952. Engineering studies with supplementary course-work in economics. Elected in 1995. Employee representative for Unionen. Member of the External Relations and Ethics Committee and of the Safety and Risk Committee. Vattenfall employee since 1970, currently as Controller at Vattenfall Business Services.

Other assignments: Chairman of the European Works Council.

Employee representative

Ronny Ekwall

Born 1953. Electrical engineer. Elected in 1999. Employee representative for SEKO Facket för Service och Kommunikation. Member of the Audit Committee. Vattenfall employee since 1977 as fitter.

Employee representative

Lennart Bengtsson

Born 1958. Two-year secondary school degree in mechanics and network technology training in IT. Elected in 2011. Employee representative for SEKO Facket för Service och Kommunikation. Vattenfall employee since 1979, currently as IT technician.

Employee representative (deputy)

Christer Gustafsson

Born 1959. Four-year education in technology. Elected in 2013. Employee representative for Ledarna (the Association of Management and Professional Staff). Employed at Vattenfall since 1986, currently in the staff function for the engineering department, Forsmarks Kraftgrupp AB.

Other assigments: Representative for energy & technology, Confédération Européenne des Cadres (for energy issues).

Employee representative (deputy)

Jeanette Regin

Born 1965. Secondary school diploma and two-year education in healthcare. Elected in 2011. Employee representative for Unionen. Currently head of customer service/office services for Gotland Energientreprenad.

Employee representative (deputy)

Board members who left the Board in 2014:

No board members left the Board in 2014.

Executive Group Management

Magnus Hall

Born 1959. M.Sc. Industrial Engineering and Management.

President and CEO since 1 October 2014.

Many years of experience as President and CEO of the forestry group Holmen, plus several other executive positions with Holmen.

Other assignments: Deputy Chairman of NTM AB, Deputy Chairman of Linköping University, Director of AMF Pension, board member of the Confederation of Swedish Enterprise.

In 2014 Magnus Hall did not have any significant shareholdings in companies with which Vattenfall has business relations.

Ingrid Bonde

Born 1959. M.Sc. Econ.

Chief Financial Officer and Deputy CEO.

Vattenfall employee since 2012. Many years of experience in the financial sector, both from the public sector and private business, most recently as Director General of the Swedish Financial Supervisory Authority (2002–2008) and President and CEO of AMF (2008–2012).

Other assignments: Chairman of Hoist Finance AB, board member of Loomis AB and a commission member of the Global Commission on the Economy and Climate.

Stefan Dohler

Born 1966. M.Sc. Aerospace Engineering, MBA.

Senior Vice President, Asset Optimisation and Trading.

Vattenfall employee (HEW) since 1998. Head of network operations Vattenfall Europe AG. CEO of the Management Board of Distribution and Transmission System Operators (2008–2010). Vice President Finance, Business Division Production (2011–2012).

Tuomo Hatakka

Born 1956. Economics studies.

Senior Executive Vice President, Continental/UK Region. Executive Vice President of Vattenfall AB.

Vattenfall employee since 2005. Head of Business Group Poland (2005–2007). Head of Business Group Central Europe (2008–2010). Head of Business Division Production (2010–2013).

Anne Gynnerstedt

Born 1957. LL.B.

Senior Vice President, General Counsel and Secretary to the Board of Directors.

Vattenfall employee since January 2012. General Counsel, Secretary to the Board and member of executive management of SAAB AB (2004–2012). General Counsel and member of executive management of the Swedish National Debt Office (2002–2004). Corporate Legal Counsel, SAS (1990–2002).

Torbjörn Wahlborg

Born 1962. M.Sc. Eng.

Senior Vice President, Nordic Region.

Executive Vice President of Vattenfall AB.

Vattenfall employee since 1990. Held positions in Vattenfall's Polish operations since 1997, including as country manager (2008–2009). Head of Business Group Nordic (2010). Head of Business Division Distribution and Sales (2010–2012). Head of Business Division Nuclear (2012–2013).

Persons who left the Executive Group Management:

Øystein Løseth left the EGM on 30 September 2014 in connection with his departure as President and CEO.

Olof Gertz, Head of Staff Function Human Resources, left the EGM on 2 December 2014.

AGM proposal

Proposed principles for compensation and other terms of employment for senior executives

The Annual General Meeting resolved on 28 April 2014 to adopt the Board's proposed guidelines for compensation of senior executives. The Board proposes that the 2015 Annual General Meeting resolves to adopt the Board's proposal for unchanged guidelines for compensation of senior executives.

The Board's proposed guidelines correspond to the government's guidelines for terms of employment for senior executives of state-owned enterprises, adopted by the government on 20 April 2009 (www.regeringen.se), with the deviation set out below.

In accordance with a resolution by the Annual General Meeting on 28 April 2014, Vattenfall deviates from the definition of senior executive of a subsidiary in such way that instead of using the definition of senior executive set forth in the Swedish Companies Act, senior executives shall be defined based on whether they have significant influence on the Group's earnings. Through application of the International Position Evaluation (IPE) model, executives with positions of IPE 68 and higher shall be considered to be senior.

The Board certifies that the compensation in question is in compliance with the guidelines set by the Annual General Meeting, in the following respects: before a decision is made on compensation and other terms of employment for a senior executive, written documentation shall be available that shows the company's total cost. The proposal for decision shall be drafted by the Board's remuneration committee and thereafter be put to the Board for a decision. The company's auditors shall perform a review to ensure that the set compensation levels and other terms of employment have not been exceeded and, in accordance with the Companies Act, shall once a year – not later than three weeks before the Annual General Meeting – issue a written statement as to whether the adopted guidelines have been adhered to.

The Board's explanation for deviations from the guidelines

The deviation decided on by the owner at the 2014 Annual General Meeting entails use of a generally accepted ranking model instead of the definition of senior executive of a subsidiary in the Swedish Companies Act. The Board is of the opinion that the following, special reasons exist for deviating from the guidelines.

Like other international groups, Vattenfall governs its operations from a commercial perspective and not according to the legal company structure. For commercial and legal reasons, the Vattenfall Group has more than 300 subsidiaries. Through application of the government's guidelines for subsidiaries, a very large number of executives would be considered to be senior, without them having any significant influence on the Group's earnings.

The proposed deviation reflects these circumstances. The criteria used to define what constitutes a senior executive are the individual subsidiary's size, based on sales, the number of employees and number of links in the value chain, as well as the requirements on the individual executive for innovation, knowledge, strategic/visionary role and international responsibility.

The International Position Evaluation (IPE) model is used as support for determining in a systematic manner which positions can be considered to be senior. The Board's conclusion is that, in addition to the members of the Executive Group Management, executives in positions of IPE 68 or higher, should be considered to be senior.

Proposed distribution of profits

The Annual General Meeting has at its disposal retained profits, including the result for the year, totalling SEK 43,736,750,503. In accordance with the dividend policy adopted by the Annual General Meeting of Vattenfall AB, the Board of Directors and President propose, in view of the result for the year, that the profits be distributed as follows:

To be distributed to the shareholders	SEK 0
To be carried forward	SEK 43,736,750,503

The Board of Directors' and President's assurance upon signing the Annual and sustainability report for 2014

The undersigned certify that the consolidated accounts and the Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Commission, for application within the EU, and generally accepted accounting principles, respectively, and give a true and fair view of the Parent Company's and Group's financial position and earnings, and that the Administration Report for the Parent Company and Group presents a fair overview of the development of the Parent Company's and Group's operations, financial position and earnings and describes significant risks and uncertainties that the companies in the Group face. In addition, the undersigned certify that the sustainability report, as defined in the GRI Index on pages 154–158, has been prepared in accordance with the GRI G4 Guidelines, and has been adopted by the Board of Directors.

Solna, 17 March 2015

Lars G. Nordström
Chairman of the Board

Carl-Gustaf Angelin	Eli Arnstad	Fredrik Arp	Gunilla Berg	Johnny Bernhardsson
Håkan Buskhe	Ronny Ekwall	Håkan Erixon	Åsa Söderström Jerring	Jenny Lahrin

Magnus Hall
President and CEO

Risks and risk management

Vattenfall applies conscious and balanced risk-taking in which business transactions are reviewed from both profitability and risk perspectives. In accordance with the Swedish Corporate Governance Code and the Board of Directors' Rules of Procedure, Vattenfall's risk management framework ensures thorough identification of Vattenfall's risks and acceptable risk exposure. Risks and risk management are part of the financial statements in accordance with IFRS, which can be found on pages 73–142.

Enterprise Risk Management

Enterprise Risk Management (ERM) at Vattenfall is a systematic and structured process of identifying, analysing and, above all, managing risks at an early stage that could have a negative impact on Vattenfall's business operations. The aim of ERM is to improve the business operations and optimise risk management. Vattenfall bases its ERM on the risk management standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and coordinates the process with the company's financial reporting.

Vattenfall's risk management process quantifies and compares risks with respect to both financial and non-financial consequences (such as reputation, environment, health and safety). After aggregating the risks, a composite overview is made of Vattenfall's risk situation and the potential financial impact is coupled to relevant financial key data information that is used for the financial governance of the company. Vattenfall is exposed to three main categories of risk:

- Strategic risk – such as a change in political control and changes in legislation and rules and regulations governing the energy industry.
- Operational risk – such as risks associated with operation and maintenance of electricity and heat production plants, high process safety, supplier cooperation, and competence succession and planning.
- Financial risk – such as currency risk, interest rate risk, electricity price risk, fuel price risk, and credit and liquidity risks.

Selected examples of risks that Vattenfall is exposed to and how the company manages these are provided on the following pages.

Enterprise Risk Management

		Examples of risks		Examples of risk mitigation
Financial risk	Financial risk (short- to medium-term)	Electricity price risk Fuel price risk Volume risk Credit risk	Liquidity risk Interest rate risk Currency risk Price risk in equities	Hedging of electricity and fuel prices Effective management of debt portfolio Analysis and selection of counterparties Risk mandate
Operational risk	Risks in operational assets and infrastructure, and personnel and organisational risks (short- to long-term)	Operational asset risk Security risk Personnel risk Legal risk Tax risk		Maintenance and renewals Optimisation of asset management Insurance High process safety Internal governance and control Succession and competence planning
Strategic risk	Risk for changes in political control, changes in public opinion, changes in rules and regulations, and risk in choice of technology (medium- to long-term)	Political risk Investment risk		Active business intelligence activities Diversified and sustainable production portfolio Scenario analyses in the strategic process

This illustration above shows Vattenfall's general risk structure and indicates a relative net exposure/impact on the value of Vattenfall's production and distribution portfolio after suitable risk mitigation actions have been taken.

Strategic risk

Vattenfall is exposed to a number of different factors that are difficult to influence. To manage strategic risk, Vattenfall relies on scenario analyses and business intelligence activities as well as on risk diversification in the production and distribution portfolios with respect to markets as well as to sources of energy.

Risk	Risk management
Political risk Business risk that can arise as a result of political decisions or changes in the laws, rules and regulations that govern the energy industry.	Vattenfall conducts active business intelligence and related activities to mitigate political risk. In addition, Vattenfall belongs to various national and international trade organisations in order to promote the company's interests.
Investment risk There are several different types of investment risks, including procurement risk, market risk, risk in choice of technology, and risk of changes in environmental permits.	Vattenfall is a highly capital-intensive company with an extensive investment programme. The company has a very thorough project management process in which risk assessment is an integrated part. Before every investment decision, the risk unit performs an independent review of obligations and transactions. In addition to a strategic investment roadmap, a detailed investment plan is updated yearly to provide the Executive Group Management (EGM) with guidance in the investment decision process.

Operational risk

In the course of its operations, Vattenfall is exposed to a range of operational risks, such as in plants, infrastructure, personnel and organisation.

Risk	Risk management
Operational asset risk Risks associated with the operation of electricity and heat production plants, open cast lignite mines, and damage to distribution networks.	An important part of the management of operational asset risks involves a rolling inspection programme, continuous control of plant conditions, and effective maintenance. Nuclear power safety and dam safety are special focus areas for Vattenfall's Safety and Risk Committee. Vattenfall's Chief Nuclear Safety Officer (CNSO) is responsible for overseeing nuclear power safety at the Group level. Vattenfall's ambition is to be world-leading in nuclear power safety by promoting a strong safety culture, by having competent employees and by establishing clear and effective processes.
Environmental risk Environmental impacts take place primarily through emissions to air, water and soil, and the production of waste.	Vattenfall's Environmental Management System lays out how environmental work is to be organised and conducted throughout the Group and is integrated with Vattenfall's overarching management system. The Group-wide sustainability targets in the environmental area are broken down into regional and local environmental targets and activities. Read more about Vattenfall's sustainability targets on page 23. Identification and management of environmental risks are handled by the respective units, and reporting is conducted via the Group-wide risk reporting system. Environmental risk management is also closely linked with the reporting on environmental accidents and incidents, which is presented to the EGM monthly.
Security risk Fraud and other types of security risk.	Vattenfall works with loss prevention and mitigating security measures to protect the Group's assets, IT systems, information, personnel and continuing operations. The Group ensures that assets and information are protected from improprieties and fraud, among other things by adherence to the "four eyes principle", entailing that decisions must be approved by at least two persons unless special exceptions exist.
Supplier risk Risks in the supply chain that could have a negative impact on the company's business, reputation and financial results.	Vattenfall has a Code of Conduct for Suppliers and performs risk assessments and reviews of its suppliers. Read more about Vattenfall's work within the supply chain on page 51.

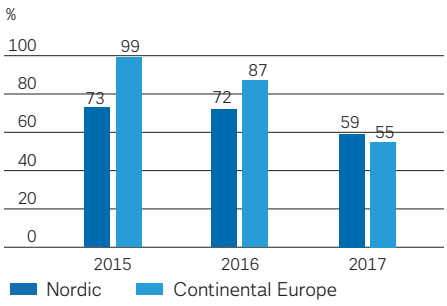
Risk	Risk management
Personnel risk Work-related accidents, and health and safety risks	Vattenfall works with preventive measures and adopts best practices in its health and safety work. Vattenfall's production sites maintain a high level of process safety to ensure the safety of both employees and society in general. Safety is one of Vattenfall's three core values, where quantitative targets are defined and evaluated based on Vattenfall's health and safety policy. Lost Time Injury Frequency (LTIF) is an important KPI for Vattenfall's internal governance and is monitored on a monthly and yearly basis. Read more about Vattenfall's work with health and safety on page 49.
Legal risk Risk for loss of value and harm to the company's reputation resulting from non-compliance with laws, rules and regulations, codes of conduct or (contractual) requirements by Vattenfall or a third party, or from changes in legislation.	Vattenfall mitigates legal risks by engaging Staff Function Legal Affairs in the ongoing business activities and decision-making processes. Vattenfall's General Counsel regularly reports on ongoing disputes to the Board of Directors.
Tax risk Risk of Vattenfall failing to comply with applicable tax rules.	Tax-related risks are part of the Group's risk management process. The company's policy for tax risks describes the ethical framework for handling tax issues. Vattenfall's head of taxes reports on the company's tax position on a regular basis and quarterly to the CFO as well as half-yearly in a compiled report to the Audit Committee.

Financial risk

Vattenfall's financial risks arise in both the commodity and financial markets. Vattenfall's board of directors has given the CEO a risk mandate for the Group, which is delegated onwards to the business units. The maximum loss on a yearly basis for trading in commodities is limited to an amount corresponding to approximately 1.5% of equity. On average, approximately 25%–30% of the permitted exposure is utilised under these limits. Most of Vattenfall's risk exposure in the proprietary trading portfolio is based on market prices (mark-to-market). In cases where market prices cannot be observed, modelled prices are used (mark-to-model). Mark-to-model positions arise mainly in plant- and sales-related portfolios, see Note 47 to the consolidated accounts. Management of such valuation models is strictly regulated, and approval is required from the risk organisation before they may be used.

Risk	Risk management
Electricity price risk Change in the price of electricity, which could have a negative impact on Vattenfall's financial results.	Electricity prices are affected by fundamental factors such as supply, demand, fuel prices and the price of CO_2 emission allowances. Vattenfall hedges its electricity generation and electricity sales through the use of physical and financial forward contracts and long-term customer contracts. The long-term customer contracts pertain to time horizons in which there is no possibility to hedge prices in the liquid part of the futures market and stretch as far as to 2024. The total hedged volume for the period 2017–2024 is 57 TWh, where most is hedged in the beginning of the period, with falling volumes over time. Vattenfall's risk committee decides how much of future electricity generation is to be hedged within the mandates issued by the Board of Directors. To measure electricity price risk, Vattenfall uses methods such as Value at Risk (VaR) and Gross Margin at Risk along with various stress tests.

Hedge ratios for planned electricity generation as per 31 December 2014



Average price hedges as per 31 December 2014

EUR/MWh	2015	2016	2017
Nordic countries	36	34	32
Continental Europe	45	39	36

The price hedges and average prices for the years 2014, 2015 and 2016 were reported as follows in the 2013 Annual and sustainability report:

Nordic countries :
2014: 67%, price EUR 40/MWh
2015: 68%, price EUR 39/MWh
2016: 53%, price EU 37/MWh

Continental Europe:
2014: 100%, price EUR 50/MWh
2015: 95%, price EUR 44/MWh
2016: 56%, price EUR 40/MWh

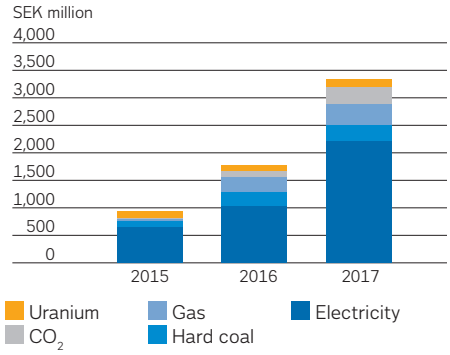
Risk	Risk management

Fuel price risk

The risk of Vattenfall's earnings changing as a result of changes in fuel prices, which in turn are affected by macroeconomic factors.

Fuel price risk is minimised through analysis of the various commodity markets and diversification of contracts with respect to price model and terms. Regarding hard coal–fired and gas-fired electricity generation, hedges on electricity and fuel prices are coordinated to ensure a set fuel cost and thus the gross margin on the electricity generation. For lignite-fired plants, there is no fuel price risk, since Vattenfall owns the lignite mines. The price risk for uranium is limited, since uranium accounts for a relatively small proportion of the total cost of nuclear power generation.

Sensitivity analysis, impact of price movements (+/-10%) on operating profit



Market-quoted risks

	Impact of +/–10% price on operating profit before tax, SEK million[1]			Observed yearly volatility[2], %
	2015	2016	2017	
Electricity	+/- 638	+/- 1,024	+/- 2,202	8% – 13%
Hard coal	-/+ 121	-/+ 268	-/+ 305	9% – 10%
Gas	-/+ 30	-/+ 272	-/+ 368	9% – 15%
CO_2	-/+ 26	-/+ 107	-/+ 327	46% – 47%
Uranium	-/+ 120	-/+ 106	-/+ 132	

1) The denotation +/– entails that a higher price affects operating profit favourably, and –/+ vice versa.
2) Observed yearly volatility in 2014 for daily price movements for each commodity, based on forward contracts for the period 2015–2017. Volatility normally declines the further ahead in time the contract pertains to.

The sensitivity analysis shows the impact that variations in market prices can have on Vattenfall's operating profit. The exposure of Vattenfall's hedges for electricity and fuel prices is monitored daily. The effect of price movements increases as the share of exposure that is not hedged increases. The exposure for the next-coming year is hedged to a higher degree than the exposure that is expected three years ahead.

Vattenfall is a net seller of electricity (long position) and net buyer of commodities (short position), which means that an increase in electricity prices would have a positive effect on Vattenfall's operating profit. Conversely, an increase in commodity prices would have a negative effect on operating profit. This analysis is based on the assumption that risks are independent of each other and are based on 252 trading days in a year. Prices and positions are stated as per 31 December 2014. For example, a movement of +10% in the price of electricity in 2016 would have an impact on profit of SEK +1,024 million for 2014. Observed yearly volatilities for 2014 are shown in the far-right column.

Volume risk

Pertains to the risk for deviations between anticipated and actual delivered volume.

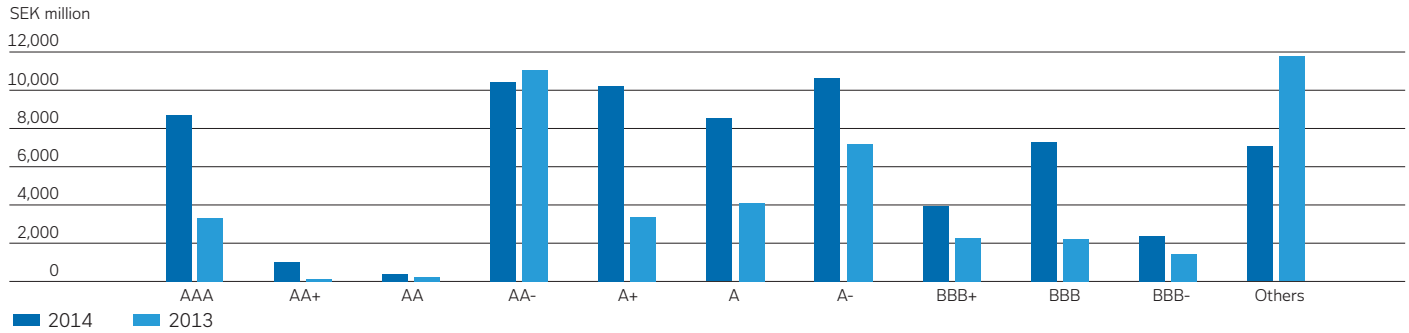
In hydro power generation, volume risk is managed by analysing and forecasting such factors as precipitation and snowmelt. The analysis models are based on extensive historical weather data, among other things. Volumes are managed by improving and developing forecasts for electricity consumption. There is a correlation between electricity prices and produced electricity volume. The impact of the price of electricity on Vattenfall's electricity generation volume is therefore included in calculations of price sensitivity in the sensitivity analysis of market-quoted risks above. Volume risk also arises in the sales activities as deviations in anticipated versus actual volumes delivered to customers.

Credit risk

Credit risks can arise if a counterparty cannot or fails to meet its obligations, and exist in Vattenfall's commodity trading, sales, treasury operations and investments.

Vattenfall's credit risk management involves analyses of the company's counterparties, reporting of credit risk exposure and proposals for risk mitigation measures (such as by obtaining collateral). Credit exposure per rating class is shown in the chart below.

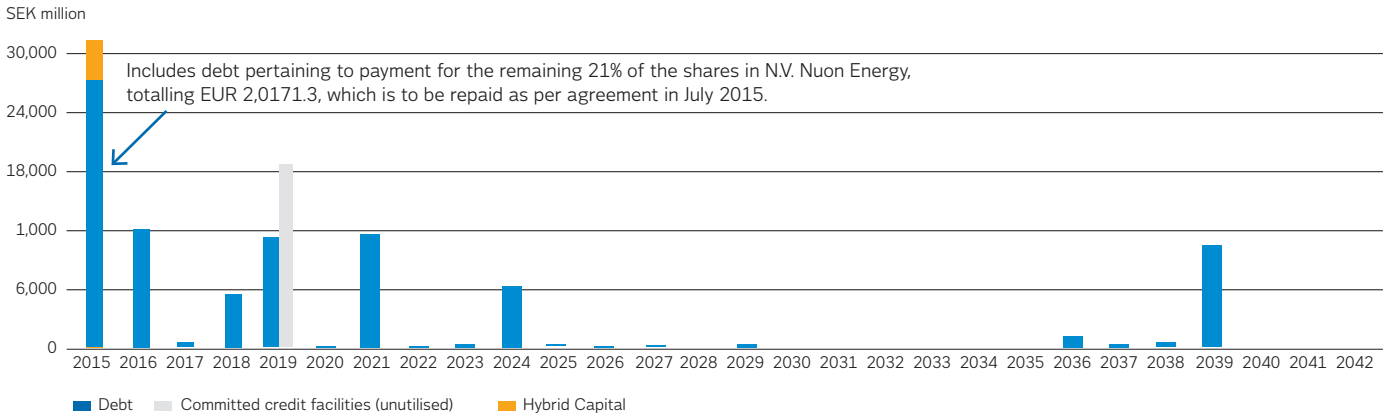
Credit risk exposure per rating class



The chart shows exposures to Vattenfall's counterparties where the exposure is greater than SEK 50 million per counterparty, broken down per rating classification according to Standard & Poor's rating scale. Counterparties with an exposure greater than SEK 10 million must be reviewed by Vattenfall's credit risk department. Smaller exposures are considered to have such a large diversification effect that the net risk for Vattenfall is judged to be low. Other financial assets (that are neither past-due nor impaired) are considered to have good creditworthiness. The values for "Others" in the chart include all counterparties with a lower rating class than BBB- where the exposure is greater than SEK 50 million. It consists mainly of counterparties covered by policy and limit exceptions, mainly pertaining to long-term sales contracts. Procurement, heating and sales exposures are not included.

Risk	Risk management
Liquidity risk Pertains to the risk of Vattenfall not being able to finance its capital needs.	Access to capital and flexibility are ensured through several types of debt issuance programmes and credit facilities. The maturity profile for Vattenfall's debt portfolio is shown in the chart below. The Group has a defined target for its short-term accessibility to capital. The goal is that funds corresponding to no less than 10% of the Group's sales, or the equivalent of the next 90 days' maturities, shall be available. As per 31 December 2014, available liquid assets and/or committed credit facilities amounted to 34% of net sales (24%). Vattenfall is committed to maintaining financial stability and has the ambition to maintain a Single A rating from both Moody's and Standard & Poor's. Vattenfall's current long-term borrowing ratings are A- (Standard & Poor's) and A3 (Moody's), with a stable outlook from both Standard & Poor's and Moody's.

Maturity profile for Vattenfall's loans as per 31 December 2014[1]



1) Excluding loans from minority owners and associated companies.

Borrowing programmes and committed credit facilities

		Maximum aggregated amount		Maturity		Used portion, %		Reported external liability, SEK million	
	Currency	2014	2013	2014	2013	2014	2013	2014	2013
Borrowing programmes									
Commercial paper	SEK	15,000	15,000	—	—	16	20	2,374	2,994
Euro Commercial Paper	EUR	2,000	2,000	—	—	13	8	2,418	1,470
Euro Medium Term Note	EUR	15,000	15,000	—	—	41	52	64,723	71,493
Committed credit facilities									
Revolving Credit Facility[1]	EUR	2,000	2,550	2019	2016	—	—	—	—

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

Committed credit facilities consist of a EUR 2.0 billion Revolving Credit Facility that expires on 10 December 2019, with an option for two one-year extensions. This credit facility, which replaced the previous EUR 2.55 billion facility, was contracted on 10 December 2014 and has better terms than the previous facility.

Maturity structure for the debt portfolio excluding loans from minority owners and associated companies, which amounted to SEK 15,002 million for 2014 (21,938). Further information about the maturity structure of loans is provided in Note 40 to the consolidated accounts.

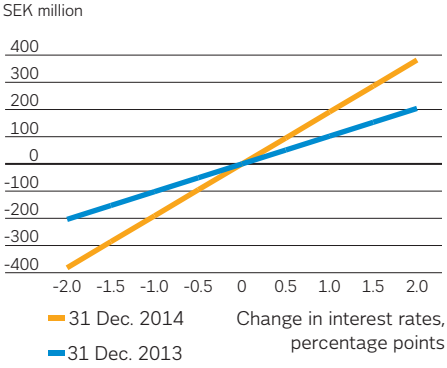
Risk	Risk management
Interest rate risk Pertains to the negative impact of changed interest rates on the Group's income statement and cash flow.	Vattenfall quantifies interest rate risk in its debt portfolio in terms of duration, which describes the average term of fixed interest. The norm duration is based on the company's current financing need and desired interest rate sensitivity in net interest income/expense. Duration is to have a norm of three years with a permissible variation of +/– one year. The duration of the Group's debt portfolio at year-end was 2.8 years including Hybrid Capital (2.9). See the table below for the remaining fixed rate term in Vattenfall's debt portfolio.

Remaining fixed rate term in debt portfolio 2014 (2013)

	Debt		Derivative		Total	
SEK million	2014	2013	2014	2013	2014	2013
< 3 months	7,224	7,362	35,966	42,120	43,190	49,482
3 months–1 year	30,899	17,219	-17,843	-26,526	13,057	-9,307
1–5 years	24,763	45,463	3,350	5,198	28,113	50,661
> 5 years	37,123	39,298	-23,302	-22,111	13,821	17,187
Total	100,009	109,342	-1,828	-1,319	98,181	108,023

The portfolio includes loans and interest rate derivatives in order to steer the duration of borrowing. Negative amounts are explained by the use of derivatives, such as interest rate swaps and interest rate forwards. The sum of derivatives is not equal to zero due to currency effects. Figures are exclusive of loans from minority owners and associated companies, totalling SEK 15,002 million for 2014 (21,938). The average financing rate as per 31 December 2014 was 3.60% (3.52%). All figures in nominal amounts.

Interest rate sensitivity



The interest rate sensitivity analysis shows how changes in interest rates affect the Vattenfall Group's interest income and expenses (before tax and including capital gains/losses on interest rate derivatives) within a 12-month period given the Group's current structure of borrowing at fixed interest rates. With the same method and an assumption that interest rates would rise by 100 basis points, the impact on the Vattenfall Group's equity after tax would be SEK -153 million (-80), including derivatives and Hybrid Capital, but excluding loans from minority owners and associated companies. All figures in nominal amounts.

Risk	Risk management
Currency risk Pertains to the negative impact of changed currency exchange rates on the Group's income statement and balance sheet.	Vattenfall is exposed to currency risk through exchange rate movements attributable to future cash flows (transaction exposure) and in the revaluation of net assets in foreign subsidiaries (translation or balance sheet exposure). Vattenfall's debt portfolio per currency is shown in the table below. Currency exposure in borrowing is limited using currency interest rate swaps. Vattenfall strives for an even maturity structure for derivatives. Derivative assets and derivative liabilities are reported in Note 30 to the consolidated accounts. Vattenfall has limited transaction exposure, since most production, distribution and sales of electricity take place in the respective local markets. Sensitivity to currency movements is thus also relatively low. All transaction exposure that exceeds a nominal value equivalent to SEK 10 million is to be hedged immediately when it arises. The target for hedging translation exposure is to, over time, match the currency composition in the debt portfolio with the currency composition of the Group's funds from operations (FFO). Vattenfall's largest exposure is in EUR, for SEK 117,229 million (2013: 124,266). Of this amount, 48% was hedged at year-end (53%). For further information, see Note 49 to the consolidated accounts. With respect to currency movements, a 5% change in exchange rates, for example, would affect the Group's equity by approximately SEK 3.8 billion (3.6), where a strengthening of the currencies shown in the table in Note 49 to the consolidated accounts would result in a positive change in equity.

Debt portfolio, breakdown per currency

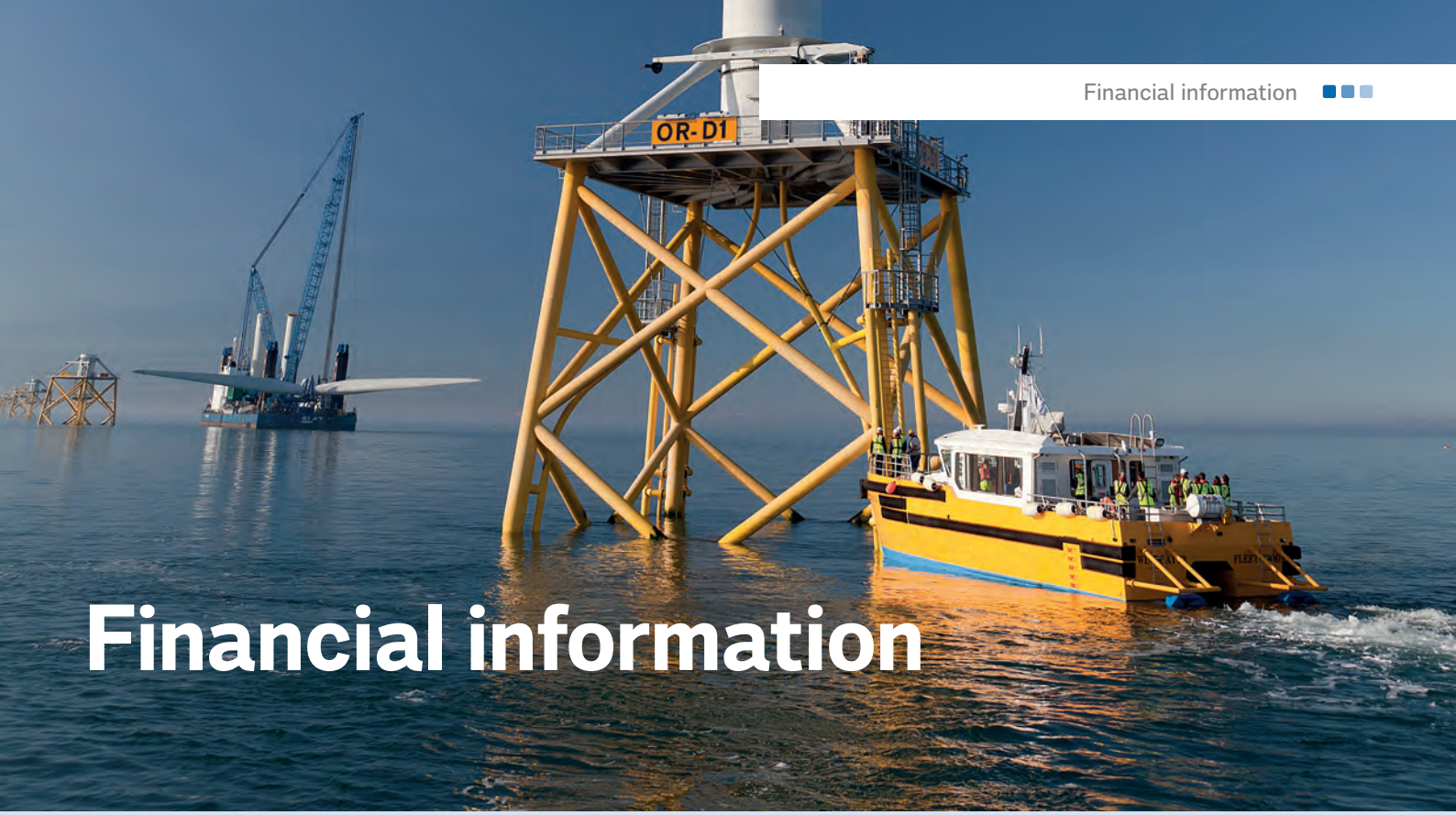
	Debt		Derivative		Total	
Original currency	2014	2013	2014	2013	2014	2013
CHF	1,562	1,443	-1,562	-1,443	—	—
EUR	72,971	82,867	12,175	14,893	85,147	97,759
GBP	16,285	14,349	-9,889	-10,626	6,396	3,723
JPY	2,270	2,945	-2,270	-2,945	—	—
NOK	1,324	2,410	-1,325	-2,410	—	—
PLN	0	0	—	—	0	0
SEK	5,596	5,328	1,042	1,212	6,638	6,540
Total	100,009	109,342	-1,828	-1,319	98,181	108,023

The table shows the currency risk in the debt portfolio and the currencies that Vattenfall is exposed to. The level of debt, and thus the currency risk, decreased in 2014 compared with 2013. Figures above are exclusive of loans from minority owners and associated companies, totalling SEK 15,002 million. All figures in nominal amounts.

Consolidated operating income and expenses per currency, %

	Income		Expenses	
Currency	2014	2013	2014	2013
EUR	66	67	61	69
SEK	28	27	21	14
GBP	4	3	13	11
DKK	2	3	2	3
Other	1	0	3	3
Total	100	100	100	100

The values are calculated based on a statistical compilation of external operating income and expenses.



Financial information

Consolidated income statement

Amounts in SEK million, 1 January–31 December	Note	2014	2013[10]
Net sales	7, 8, 9	165,945	172,253
Cost of products sold[1]	10	-149,395	-158,569
Gross profit		**16,550**	**13,684**
Other operating income	11	4,597	2,232
Selling expenses		-7,142	-6,470
Administrative expenses		-12,442	-14,279
Research and development costs		-636	-846
Other operating expenses	12	-2,684	-947
Participations in the results of associated companies[2]	8, 27, 56	-438	408
Operating profit (EBIT)[3, 4]	8, 9, 13, 14, 15, 21, 22	**-2,195**	**-6,218**
Financial income[5,8]	16	2,590	1,416
Financial expenses[6,7,8]	17	-8,635	-10,453
Profit before tax		**-8,240**	**-15,255**
Income tax expense	19	-44	1,712
Profit for the year		**-8,284**	**-13,543**
Attributable to owner of the Parent Company		-8,178	-13,668
Attributable to non-controlling interests	20	-106	125
Earnings per share			
Number of shares in Vattenfall AB, thousands		131,700	131,700
Earnings per share, basic and diluted, SEK		-62.10	-103.78
Dividend, SEK million		—[9]	—
Dividend per share, SEK		—[9]	—
Supplementary information			
Operating profit before depreciation, amortisation and impairment losses (EBITDA)		41,038	43,554
Financial items, net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund		-3,516	-6,132
Underlying operating profit		24,133	28,135
1) Of which, depreciation, amortisation and impairment losses pertaining to intangible assets (non-current) and property, plant and equipment		-42,398	-48,342
2) Of which impairment losses pertaining to non-current assets		-155	-477
3) Of which, depreciation, amortisation and impairment losses pertaining to non-current assets		-679	-953
4) Including items affecting comparability		-26,328	-34,353
5) Including return from the Swedish Nuclear Waste Fund		962	363
6) Including interest components related to pension costs		-1,240	-1,170
7) Including discounting effects attributable to provisions		-3,491	-3,268
8) Items affecting comparability recognised as financial income and expenses, net		-52	-469
9) Proposed dividend.			

10) Certain amounts for 2013 have been recalculated compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Comments on the consolidated income statement

Sales
Consolidated net sales in 2014 decreased by SEK 6.4 billion compared with 2013. The decrease is mainly attributable to the divested electricity distribution operation in Hamburg (SEK 5.3 billion), and to average lower electricity prices achieved and lower volumes. Currency effects on net sales were positive by approximately SEK 5.6 billion, due to a weaker Swedish krona compared with 2013.

Underlying operating profit
The underlying operating profit for 2014 decreased by SEK 4.0 billion, which is mainly explained by the following:
- Lower production margins (SEK -2.1 billion)
- Lower generation volumes (SEK -3.0 billion)
- Lost earnings contribution from divested operations – mainly electricity distribution in Hamburg (SEK -0.6 billion)
- Lower operating expenses (SEK 2.4 billion)
- Other items, net (SEK -0.7 billion), of which lower depreciation (SEK 0.2 billion) and currency effects of the weaker Swedish krona compared with 2013 (SEK 0.4 billion)

Amounts in SEK million	2014	2013
Operating profit (EBIT)	-2,195	-6,218
Items affecting comparability	-26,328	-34,353
Underlying operating profit	24,133	28,135

Items affecting comparability that affected operating profit

Amounts in SEK million	2014	2013
Capital gains	3,227	189
Capital losses	-185	-132
Impairment losses	-23,808	-30,147
Unrealised changes in the fair value of energy derivatives	819	-995
Unrealised changes in the fair value of inventories	72	281
Restructuring costs	-765	-1,568
Other items affecting comparability	-5,688	-1,981
Total	-26,328	-34,353

Items affecting comparability in 2014 amounted to SEK -26.3 billion (-34.4). Impairment losses amounted to SEK 23.8 billion. Capital gains pertain primarily to the sale of Vattenfall's electricity distribution operation in Hamburg. Other items affecting comparability pertain to higher provisions primarily for future expenses for the decommissioning of nuclear power in Germany.

Items affecting comparability in 2013 amounted to SEK -34.4 billion. Impairment losses (SEK 30.1 billion) pertain to the impairment losses recognised in the 2013 half-year book-closing as a result of deteriorated market conditions. Restructuring costs (SEK -1.6 billion) are mainly attributable to staff reductions. Other items affecting comparability consist mainly of a provision related to the German Renewable Energy Act (EEG) (SEK -0.9 billion) and higher provisions in the German nuclear power operations (SEK 0.9 billion).

Operating segments
The underlying operating profit for the Nordic operating segment was SEK 12.0 billion. This is a decrease of SEK 3.4 billion compared with 2013 and is mainly attributable to average lower electricity prices achieved and lower production volumes, which were partly compensated by lower operating expenses. For the Continental/UK operating segment, the underlying operating profit was SEK 12.7 billion. This is a decrease of SEK 1.0 billion compared with 2013 and is mainly attributable to lower production margins, lower production volumes and a lower earnings contribution from the Trading operation. The lost earnings contribution from the divested electricity distribution operation in Hamburg amounted to approximately SEK 0.6 billion. For further information on the Group's operating segments, see Note 8 to the consolidated accounts, Operating segments.

Costs for CO_2 emission allowances
Costs for CO_2 emission allowances for own use amounted to SEK 4.2 billion in 2014, compared with SEK 6.0 billion in 2013.

Financial items
Financial items amounted to SEK -6.0 billion, an increase by SEK 3.0 billion compared with 2013. The improvement in financial items for 2014 compared with 2013 is mainly attributable to lower interest costs and changes in the market value of financial derivatives as well as to the fact the net financial items in 2013 were charged with impairment losses for Vattenfall's shareholding at the time in the Polish energy company Enea S.A. and impairment losses pertaining to loans to one of Vattenfall's project companies in the UK.

Taxes
The Group reported a tax expense of SEK 44 million for 2014. The low tax expense is mainly attributable to a positive one-time effect of SEK 3.4 billion through deferred taxes as an effect of the impairment losses recognised during the third quarter of 2014. The effective tax rate for 2014 was -0.5% (11.2%). Excluding the effects of the impairment losses, the effective tax rate was 22.0%.

The low effective tax rate of 11.2% for 2013 is mainly attributable to a positive one-time effect of SEK 5.3 billion from lower deferred tax associated with the impairment losses recognised during the second quarter of 2013. For further information, see Note 19 to the consolidated accounts, Income tax expense.

Consolidated statement of comprehensive income

Amounts in SEK million, 1 January–31 December	2014	2013 [1]
Profit for the year	**-8,284**	**-13,543**
Other comprehensive income:		
Items that will be reclassified to profit or loss when specific conditions are met:		
Cash flow hedges:		
– Changes in fair value	5,243	12,510
– Dissolved against the income statement	-5,871	-9,920
– Transferred to cost of hedged item	-3	-7
– Tax attributable to cash flow hedges	184	-736
Hedging of net investments in foreign operations:		
– Hedging of net investments in foreign operations	-5,452	-2,717
– Tax attributable to hedging of net investments in foreign operations	3,058	598
Other:		
– Translation differences	10,453	4,165
– Translation differences and exchange rate effects, net, divested companies	101	—
– Remeasurement of available-for-sale financial assets-	-182	182
– Impairment of available-for-sale financial assets-	—	-30
Total Items that will be reclassified to profit or loss when specific conditions are met	**7,531**	**4,045**
Items that will not be reclassified to profit or loss:		
Remeasurement pertaining to defined benefit obligations	-9,130	-1,200
Tax attributable to remeasurement pertaining to defined benefit obligations	2,587	469
Total Items that will not be reclassified to profit or loss	**-6,543**	**-731**
Total other comprehensive income, net after tax	**988**	**3,314**
Total comprehensive income for the year	**-7,296**	**-10,229**
Attributable to owner of the Parent Company	-7,412	-10,722
Attributable to non-controlling interests	116	493

1) Certain amounts for 2013 have been recalculated compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Consolidated balance sheet

Amounts in SEK million	Note	31 December 2014	31 December 2013 [1]
Assets	8		
Non-current assets			
Intangible assets: non-current	9, 23	19,586	31,285
Property, plant and equipment	9, 24	271,306	269,160
Investment property	9, 25	461	479
Biological assets		29	20
Participations in associated companies and joint ventures	27	7,765	8,391
Other shares and participations	28	284	2,699
Share in the Swedish Nuclear Waste Fund	29	31,984	30,600
Derivative assets	30, 47	18,366	16,239
Current tax assets, non-current	19	449	627
Prepaid expenses		115	117
Deferred tax assets	19	9,310	5,978
Other non-current receivables	31	8,407	6,686
Total non-current assets		**368,062**	**372,281**
Current assets			
Inventories	32	18,502	18,596
Biological assets		11	5
Intangible assets: current	33	4,885	7,535
Trade receivables and other receivables	34	31,217	34,450
Advance payments paid	35	2,617	2,765
Derivative assets	30, 47	13,342	10,967
Prepaid expenses and accrued income	36	5,622	6,285
Current tax assets	19	2,390	525
Short-term investments	37	32,785	11,460
Cash and cash equivalents	38	12,283	15,801
Assets held for sale	39	4,717	4,814
Total current assets		**128,371**	**113,203**
Total assets		**496,433**	**485,484**
Equity and liabilities			
Equity attributable to owners of the Parent Company			
Share capital		6,585	6,585
Reserve for cash flow hedges		4,828	5,315
Other reserves		-2,707	-10,288
Retained earnings incl. profit for the year		106,554	118,758
Total equity attributable to owners of the Parent Company		**115,260**	**120,370**
Equity attributable to non-controlling interests		**13,202**	**10,348**
Total equity		**128,462**	**130,718**
Non-current liabilities			
Hybrid Capital	40	—	8,835
Other interest-bearing liabilities	40	78,807	90,374
Pension provisions	41	45,298	35,477
Other interest-bearing provisions	42	86,487	76,553
Derivative liabilities	30, 47	11,760	9,734
Deferred tax liabilities	19	27,595	31,651
Other noninterest-bearing liabilities	43	5,756	6,000
Total non-current liabilities		**255,703**	**258,624**
Current liabilities			
Trade payables and other liabilities	44	30,641	30,002
Advance payments received	45	2,397	3,289
Derivative liabilities	30, 47	5,065	4,280
Accrued expenses and deferred income	46	17,406	20,748
Current tax liabilities	19	1,135	1,496
Hybrid Capital	40	9,385	—
Other interest-bearing liabilities	40	37,736	27,279
Interest-bearing provisions	42	6,782	6,136
Liabilities associated with assets held for sale	39	1,721	2,912
Total current liabilities		**112,268**	**96,142**
Total equity and liabilities		**496,433**	**485,484**

See also information on Collateral (Note 50), Contingent liabilities (Note 51) and Commitments under consortium agreements (Note 52) to the consolidated acounts.

1) Certain amounts for 2013 have been recalculated compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Comments on the consolidated balance sheet

Capital employed

Amounts in SEK million	31 Dec. 2014	31 Dec. 2013
Capital employed	294,278	293,706
Average capital employed	293,992	302,743

Non-current assets

Non-current assets decreased by SEK 4.2 billion compared with the level on 31 December 2013. This is mainly attributable to the impairment losses that were recognised in the third quarter of 2014, which were partly offset by higher investments and exchange rate effects of the weaker Swedish krona. For further information of the impairment losses, see Note 14 to the consolidated accounts, Impairment losses and reversed impairment losses.

Current assets

Current assets increased by SEK 15.2 billion, mainly due to an increase in cash and cash equivalents, and short-term investments.

Financial assets as per 31 December

Amounts in SEK million	2014	2013
Cash and cash equivalents, and short-termin-vestments	45,068	27,261
Committed credit facilities (unutilised)	18,786	22,591

The increase in cash and cash equivalents, and short-term investments is mainly attributable to the sales of the electricity distribution operation in Hamburg, the minority shareholding in the Polish company Enea S.A., the Amager combined heat and power station in Denmark, and the MVB waste incineration plant in Hamburg (together totalling SEK 11.6 billion, net). The increase is also attributable to a positive cash flow from operating activities and currency effects of the weaker Swedish krona.

Committed credit facilities consist of a EUR 2.0 billion Revolving Credit Facility that expires on 10 December 2019, with an option for two one-year extensions. This credit facility, which replaced the previous EUR 2.55 billion facility, was contracted on 10 December 2014 and has better terms than the previous facility. As per 31 December 2014, available liquid assets and/or committed credit facilities amounted to 34% of net sales. Vattenfall's target is to maintain a level at no less than 10% of the Group's net sales, but at least the equivalent of the next 90 days' maturities.

Interest-bearing liabilities and net debt as per 31 December

Amounts in SEK million	2014	2013
Hybrid Capital	-9,385	-8,835
Bond issues, commercial paper and liabilities to credit institutions	-72,461	-78,109
Present value of liabilities pertaining to acquisitions of Group companies	-19,293	-17,892
Liabilities to associated companies	-2,617	-1,706
Liabilities to owners of non-controlling interests	-12,384	-12,425
Other liabilities	-9,788	-7,521
Total interest-bearing liabilities	**-125,928**	**-126,488**
Cash and cash equivalents	12,283	15,801
Short-term investments	32,785	11,460
Loans to owners of non-controlling interests in foreign Group companies	1,387	229
Net debt	**-79,473**	**-98,998**

Compared with the level on 31 December 2013, total interest-bearing liabilities decreased by SEK 0.6 billion. The decrease is mainly attributable to amortisation of external loans. Currency effects of the weaker Swedish krona were negative in the amount of SEK 7 billion.

Net debt decreased by SEK 19.5 billion compared with the level on 31 December 2013, mainly due to the sales of the electricity distribution operation in Hamburg, the minority shareholding in Enea S.A., the Amager combined heat and power station in Denmark, and the MVB waste incineration plan in Hamburg (together totalling SEK 11.6 billion, net). The decrease is also attributable to higher cash flow from operating activities.

Adjusted gross debt and net debt as per 31 December

Amounts in SEK million	2014	2013
Total interest-bearing liabilities	-125,928	-126,488
50% of Hybrid Capital	4,693	4,418
Present value of pension obligations	-45,298	-35,477
Provisions for mining, gas and wind operations and other environment related provisions	-14,497	-11,760
Provisions for nuclear power (net)[1]	-33,696	-28,054
Currency derivatives for hedging of debt in foreign currency	—	1,212
Margin calls received	7,013	2,176
Liabilities to owners of non-controlling interests due to consortium agreements	11,626	10,866
Adjusted gross debt	**-196,087**	**-183,107**
Reported cash and cash equivalents and short–term investments	45,068	27,261
Unavailable liquidity	-7,272	-6,744 [2]
Adjusted cash and cash equivalents and short–term investments	**37,796**	**20,517**
Adjusted net debt	**-158,291**	**-162,590**

1) The calculation is based on Vattenfall's share of ownership in the respective nuclear power plan, less Vattenfall's share in the Swedish Nuclear Waste Fund and liabilities to associated companies. Vattenfall has the following ownership interests in the respective plants: Forsmark 66%, Ringhals 70.4%, Brokdorf 20%, Brunsbüttel 66.7%, Krümmel 50%, and Stade 33.3%. (According to a special agreement, Vattenfall is responsible for 100% of the provisions for Ringhals.)

2) Includes Vattenfall GmbH's share of the solidarity agreement ("Solidarvereinbarung") between the German nuclear power plant owners (SEK 3 billion), paid margin calls (SEK 1.7 billion) and other items (SEK 2.0 billion).

In their assessments of a company's credit strength, the rating agencies and analysts regularly make a number of adjustments of various items on the balance sheet in order to arrive at a figure for adjusted gross and net debt. Vattenfall's calculations of its adjusted gross and net debt are shown in the table above.

Adjusted net debt decreased by SEK 4.3 billion compared with the level on 31 December 2013. A positive cash flow from sales of assets and from operating activities was largely offset by higher provisions. As a result of falling market interest rates, Vattenfall lowered the discount rate it uses to calculate provisions for pensions in both Sweden and Germany as well as for other provisions in Germany, mainly for future expenses for decommissioning of nuclear power in Germany.

Equity

The Group's equity decreased by SEK 2.2 billion. The decrease is mainly attributable to the decrease in profit for the year, mainly due to the impairment losses recognised in 2014. Currency effects of the weaker Swedish krona and contributions from minority owners had a positive impact on equity.

Consolidated statement of cash flows

Amounts in SEK million, 1 January–31 December	Note	2014	2013 [1]
Operating activities			
Profit before tax		-8,240	-15,255
Reversal of depreciation, amortisation and impairment losses		43,270	50,264
Tax paid		-3,168	-4,090
Capital gains/losses, net		-3,028	-79
Other, incl. non-cash items	48	3,297	1,048
Funds from operations (FFO)		**32,131**	**31,888**
Changes in inventories		1,080	1,361
Changes in operating receivables		3,421	-3,959
Changes in operating liabilities		909	5,145
Other changes		2,605	3,408
Cash flow from changes in operating assets and operating liabilities		**8,015**	**5,955**
Cash flow from operating activities		**40,146**	**37,843**
Investing activities			
Acquisitions in Group companies	5	-10	-41
Investments in associated companies and other shares and participations	5	222	15
Other investments in non-current assets	48	-29,244	-27,735
Total investments		**-29,032**	**-27,761**
Divestments	48	12,054	651
Cash and cash equivalents in acquired companies		35	—
Cash and cash equivalents in divested companies		-513	-16
Cash flow from investing activities		**-17,456**	**-27,126**
Cash flow before financing activities		**22,690**	**10,717**
Financing activities			
Changes in short-term investments		-19,921	17,948
Changes in loans to owners of non-controlling interests in foreign Group companies		-1,109	-75
Loans raised[2]		21,259	7,449
Amortisation of debt pertaining to acquisitions of Group companies		—	-10,257
Amortisation of other debt interests		-29,024	-27,362
Divestment of shares in Group companies to owners of non-controlling interests		491	—
Payment from Vattenfall's pension foundation		—	2,911
Settlement of receivable from Vattenfall's pension foundation		—	1,807
Dividends paid to owners		-104	-6,840
Contribution from owners of non-controlling interests		1,912	1,275
Cash flow from financing activities		**-26,496**	**-13,144**
Cash flow for the year		**-3,806**	**-2,427**
Cash and cash equivalents			
Cash and cash equivalents at start of year		15,801	18,045
Cash and cash equivalents included in assets held for sale		—	-1
Cash flow for the year		-3,806	-2,427
Translation differences		288	184
Cash and cash equivalents at end of year		**12,283**	**15,801**

Supplementary information

Amounts in SEK million, 1 January–31 December	Note	2014	2013 [1]
Cash flow before financing activities		**22,690**	**10,717**
Financing activities			
Divestment of shares in Group companies to owners of non-controlling interests		491	—
Dividends paid to owners		-104	-6,840
Payment from Vattenfall's pension foundation		—	2,911
Contribution from owners of non-controlling interests		1,912	1,275
Cash flow after dividend		**24,989**	**8,063**
Analysis of change in net debt			
Net debt at start of year		-98,998	-111,907
Change accounting principles		—	7,907
Cash flow after dividends		24,989	8,063
Changes as a result of valuation at fair value		-2,739	2,126
Change in interest-bearing liabilities for leasing		34	36
Interest-bearing liabilities/short-term investments acquired/divested		145	—
Changes in liabilities pertaining to acquisitions of Group companies, discounting effects		-322	-408
Cash and cash equivalents included in assets held for sale		—	-1
Transfer to liabilities due to changed shareholders' rights		3,043	-3,387
Translation differences on net debt		-5,625	-1,427
Net debt at end of year		**-79,473**	**-98,998**
Free cash flow (Cash flow from operating activities less maintenance and replacement investments)		23,234	23,579

1) Certain amounts for 2013 have been recalculated compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

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

Comments on the consolidated statement of cash flows

Funds from operations (FFO)
Funds from operations (FFO) increased by SEK 0.2 billion to SEK 32.1 billion.

Change in operating assets and operating liabilities (working capital)
Cash flow from changes in working capital amounted to SEK 8.0 billion during 2014 (6.0). This is mainly attributable to changes in margin calls (SEK 2.6 billion), a change in inventories (SEK 1.1 billion), and a net change in operating receivables and operating liabilities (SEK 4.3 billion).

Cash flow from investing activities
Cash flow from investing activities amounted to SEK -17.5 billion in 2014 (-27.1). Total investments during the year amounted to SEK 29.0 billion (27.8). In 2014, divestments of assets led to net cash flow of SEK 11.6 billion.

Amounts in SEK million	2014	2013
Maintenance/replacement investments	16,912	14,264
Growth investments[1]	12,120	13,497
– of which, shares	-212	26
Total investments	**29,032**	**27,761**
Total divestments	**12,054**	**651**
– of which, shares	8,875	271

1) Investments in new capacity.

Specification of investments

Amounts in SEK million	2014	2013
Electricity generation		
Hydro power	1,441	1,300
Nuclear power	3,674	2,993
Coal power	5,282	4,367
Gas	188	1,622
Wind power	6,522	4,095
Biomass, waste	14	14
Other	753	1,280
Total electricity generation CHP/heat	**17,874**	**15,671**
Fossil-based power	2,110	1,699
Biomass, waste	297	377
Other	1,312	1,022
Total CHP/heat Electricity networks	**3,719**	**3,098**
Electricity networks	5,057	4,571
Total electricity networks	**5,057**	**4,571**
Purchases of shares	-137	-15
Other, excl. purchases of shares	2,519	4,436
Total	**29,032**	**27,761**

Cash flow from financing activities
Cash flow from financing activities amounted to SEK -26.5 billion (-13.1). Repayment of loans amounted to SEK 29.0 billion.

Consolidated statement of changes in equity

Amounts in SEK million	Attributable to equity owner of the Parent Company						Attributable to non-controlling interests	Total equity
	Share capital	Reserve for hedges	Translation reserve	Fair value reserve	Retained earnings	Total		
Balance brought forward 2014	6,585	5,315	-10,470	182	118,758	120,370	10,348	130,718
Dividends paid to owners	—	—	—	—	—	—	-104	-104
Group contributions from(+)/to(-) owners of non-controlling interests	—	—	—	—	—	—	484	484
Changes in ownership in Group companies on divestments of shares to owners of non-controlling interests	—	—	—	—	-33	-33	387	354
Contribution from minority interest	—	—	—	—	—	—	1,912	1,912
Other changes in ownership	—	—	—	—	2,335	2,335	59	2,394
Cash flow hedges:								
Changes in fair value	—	5,209	—	—	—	5,209	34	5,243
Dissolved against income statement	—	-5,871	—	—	—	-5,871	—	-5,871
Transferred to cost of hedged item	—	-6	—	—	—	-6	3	-3
Tax attributable to cash flow hedges	—	181	—	—	—	181	3	184
Total cash flow hedges	—	-487	—	—	—	-487	40	-447
Hedging of net investments in foreign operations	—	—	-5,452	—	—	-5,452	—	-5,452
Tax attributable to hedging of net investmentsin foreign operations	—	—	3,058	—	—	3,058	—	3,058
Total hedging of net investmentsin foreign operations	—	—	-2,394	—	—	-2,394	—	-2,394
Translation differences	—	—	10,056	—	—	10,056	397	10,453
Translation differences and exchange rate effects net, divested companies	—	—	101	—	—	101	—	101
Remeasurement of available-for-sale financial assets	—	—	—	-182	—	-182	—	-182
Total	—	-487	7,763	-182	—	7,094	437	7,531
Remeasurement pertaining to defined benefit obligations	—	—	—	—	-8,841	-8,841	-289	-9,130
Tax attributable to remeasurement pertaining to defined benefit obligations	—	—	—	—	2,513	2,513	74	2,587
Total	—	—	—	—	-6,328	-6,328	-215	-6,543
Total other comprehensive income for the year	—	-487	7,763	-182	-6,328	766	222	988
Profit for the year	—	—	—	—	-8,178	-8,178	-106	-8,284
Total comprehensive income for the year	—	-487	7,763	-182	-14,506	-7,412	116	-7,296
Balance carried forward 2014	6,585	4,828	-2,707	—	106,554	115,260	13,202 [1]	128,462

See also Note 49 to the consolidated accounts, Specifications of equity.

Amounts in SEK million	Attributable to equity owner of the Parent Company						Attributable to non-controlling interests	Total equity
	Share capital	Reserve for hedges	Translation reserve	Fair value reserve	Retained earnings	Total		
Balance brought forward 2013	**6,585**	**3,478**	**-12,171**	**30**	**142,842**	**140,764**	**8,608**	**149,372**
Dividends paid to owners	—	—	—	—	-6,774	**-6,774**	-66	**-6,840**
Group contributions from(+)/to(-) owners of non-controlling interests	—	—	—	—	—	**—**	505	**505**
Contribution from minority interest	—	—	—	—	—	**—**	1,297	**1,297**
Other changes in ownership	—	—	—	—	4	**4**	-3	**1**
Changes as a result of changed ownership	—	—	—	—	-2,902	-2,902	-486	**-3,388**
Cash flow hedges:								
Changes in fair value	—	12,503	—	—	—	**12,503**	7	**12,510**
Dissolved against income statement	—	-9,922	—	—	—	**-9,922**	2	**-9,920**
Transferred to cost of hedged item	—	-11	—	—	—	**-11**	4	**-7**
Tax attributable to cash flow hedges	—	-733	—	—	—	**-733**	-3	**-736**
Total cash flow hedges	**—**	**1,837**	**—**	**—**	**—**	1,837	**10**	**1,847**
Hedging of net investments in foreign operations	—	—	-2,717	—	—	**-2,717**	—	**-2,717**
Tax attributable to hedging of net investmentsin foreign operations	—	—	598	—	—	**598**	—	**598**
Total hedging of net investmentsin foreign operations	**—**	**—**	**-2,119**	**—**	**—**	**-2,119**	**—**	**-2,119**
Translation differences	—	—	3,820	—	—	**3,820**	345	**4,165**
Remeasurement of available-for-sale financial assets	—	—	—	182	—	**182**	—	**182**
Impairment of available-for-sale financial assets	—	—	—	-30	—	**-30**	—	**-30**
Total	**—**	**1,837**	**1,701**	**152**	**—**	3,690	**355**	**4,045**
Remeasurement pertaining to defined benefit obligations	—	—	—	—	-1,213	**-1,213**	13	**-1,200**
Tax attributable to remeasurement pertaining to defined benefit obligations	—	—	—	—	469	**469**	—	**469**
Total	**—**	**—**	**—**	**—**	**-744**	**-744**	**13**	**-731**
Total other comprehensive income for the year	**—**	**1,837**	**1,701**	**152**	**-744**	2,946	**368**	**3,314**
Profit for the year	—	—	—	—	-13,668	**-13,668**	125	**-13,543**
Total comprehensive income for the year	**—**	**1,837**	**1,701**	**152**	**-14,412**	**-10,722**	**493**	**-10,229**
Balance carried forward 2013	**6,585**	**5,315**	**-10,470**	**182**	**118,758**	**120,370**	**10,348** [1]	**130,718**

1) Of which, Reserve for cash flow hedges SEK 1 million (-39).

Notes to the consolidated accounts

Amounts in SEK million unless indicated otherwise.

Note 1 Company information

The year-end report for Vattenfall AB for 2014 was approved for publication on 4 February 2015 in accordance with a decision by the Board of Directors. The Annual Report was approved in accordance with a decision by the Board of Directors on 17 March 2015.

The Parent Company, Vattenfall AB (publ) with corporate identity number 556036-2138, is a limited liability company with its registered office in Solna, Sweden and with the mailing address SE-169 92 Stockholm, Sweden.

The consolidated balance sheet and income statement included in the Annual Report will be submitted at the Annual General Meeting (AGM) on 27 April 2015. The main activities of the Group are described in Note 8 to the consolidated accounts, Operating segments.

Note 2 Important changes in the financial statements compared with the preceding year

Recalculation of financial statements for 2013

As shown in Note 3 to the consolidated accounts, Accounting policies, new accounting rules apply as from 2014 in accordance with IFRS 11 – *Joint Arrangements* with respect to reporting of joint arrangements, i.e., arrangements in which two or more parties have joint control. Under IFRS 11 the Krümmel nuclear power plant in Germany is to be classified as a joint operation. This leads to a change from application of the equity method to recognition of Vattenfall's share in the assets, liabilities as well as revenues and expenses in Krümmel. As a result of the amendments in IFRS 11, the consolidated financial statements for the comparison year 2013 have been recalculated. The effects of this recalculation are reported in Note 27 to the consolidated accounts, Participations in associated companies and joint arrangements.

Changed depreciation period for the Swedish nuclear power plants

During the 3rd quarter of 2014 the estimated useful life for the nuclear power plants Ringhals 3 and 4, and Forsmark 1, 2 and 3, was extended to 60 years from the previous 50 years. As a result, lower depreciation is reported as from the 3rd quarter. During the second half of 2014 this entails lower depreciation by approximately SEK 290 million. The full-year effect for 2015 will be lower depreciation by approximately SEK 570 million. As previously, certain components within nuclear power plants have a shorter useful life.

Note 3 Accounting policies

Conformity with standards and regulations

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations issued by the IFRS Interpretations Committee (IFRIC) as endorsed by the European Commission for application within the EU.

In addition, recommendation RFR 1 – *Supplementary Accounting Policies for Groups,* issued by the Swedish Financial Reporting Board (RFR), has been applied. RFR 1 specifies the additions to the IFRS disclosure requirements that are required by the Swedish Annual Accounts Act.

Basis of measurement

Assets and liabilities are reported at cost or amortised cost, with the exception of certain financial assets and liabilities and inventories held for trading, which are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities measured at fair value consist of holdings in the categories financial assets and liabilities recognised at fair value through profit or loss, holdings in the category available-for-sale financial assets, and all derivatives.

Vattenfall uses valuation methods that reflect the fair value of an asset or liability appropriately. Financial assets and liabilities that are measured at fair value are described below according to the fair value hierarchy (levels), which in IFRS 13 is defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). In Level 2 Vattenfall reports mainly commodity derivatives, currency-forward contracts and interest rate swaps.
- Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

Classification into a level is determined by the lowest level input that is significant for the measurement of the fair value at the end of a reporting period. Vattenfall assesses whether reclassifications between the levels are necessary. Observable input data are used whenever possible and relevant. For assets and liabilities included in Level 3, fair value is modelled either on the basis of market prices with adjustments that consider specific terms of a contract, or on the basis of unobservable inputs such as future cash flows. The assumptions for the estimated cash flows are monitored on a regular basis and adjusted if necessary.

Functional and presentation currencies

The functional currency is the currency of the primary economic environment in which each Group entity operates.

The Parent Company's functional currency is Swedish kronor (SEK), which is also the presentation currency of both the Parent Company and the Group. This means that the financial statements are presented in Swedish kronor. Unless otherwise stated, all figures are rounded off to the nearest million Swedish kronor (SEK million).

Estimations and assessments

Preparation of the financial statements in accordance with IFRS requires the company's executive management and Board of Directors to make estimations and assessments as well as to make assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses.

Assessments made by the company's executive management and Board of Directors, when applying IFRS, that have a material effect on the financial statements, and estimations that may result in substantial adjustments to the following year's financial statements, are described in greater detail in Note 4 to the consolidated accounts, Important estimations and assessments in the preparation of the financial statements.

Accounting policies

The accounting policies of the Group described below, with the exception of what is stated under the heading New IFRSs and interpretations effective as of 2014, have been applied consistently for all periods presented in the consolidated financial statements.

New IFRSs and interpretations effective as of 2014

The following new standards and amendments to standards and interpretations described below, and endorsed by the EU, are effective as of the 2014 financial year.

IFRS 10 – *Consolidated Financial Statements.* The standard contains uniform rules for determining which units are to be consolidated and supersedes large parts of IAS 27 – *Consolidated and Separate Financial Statements* and SIC 12, which addresses Special Purpose Entities. The rules in IFRS 10 on consolidation and on when consolidated financial statements are to be prepared, have been transferred unchanged from IAS 27. The new standard has not had any effect on Vattenfall's financial statements.

IFRS 11 – *Joint Arrangements.* The standard addresses the reporting of joint arrangements, that is, arrangements in which two or more parties have joint control, and supersedes IAS 31 – *Interests in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-monetary Contributions by Ventures.* Under IFRS 11 the Krümmel nuclear power plant in Germany should be classified as a "joint operation". This leads to a change from application of the equity method to recognition of Vattenfall's share in the assets, liabilities as well as revenues and expenses in Krümmel. The effects of this changed accounting on the comparison year 2013 are shown in Note 27 to the consolidated accounts.

IFRS 12 – *Disclosures of Interests in Other Entities.* Expanded disclosure requirements regarding subsidiaries, joint arrangements and associates have been gathered in a single standard. The disclosures address the effects of holdings on the financial statements and risks associated with the current holdings. The scope of the disclosures has increased to some extent as a result of IFRS 12.

Amendment and change of name for IAS 27 – *Separate Financial Statements,* where the requirements concerning separate financial statements are unchanged, while other parts of IAS 27 are superseded by IFRS 10. The amendments have not affected Vattenfall's financial statements.

Amendment of IAS 28 – *Investments in Associates and Joint Ventures,* which has been adapted to IFRS 10, IFRS 11 and IFRS 12. The amendments have not affected Vattenfall's financial statements.

Amendments in IAS 32 – *Financial Instruments: Presentation* and amendments in IFRS 7 – *Financial Instruments: Disclosures* clarifying some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments have not affected Vattenfall's financial statements.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) provides an exception to the consolidation requirements for companies that meet the definition of an investment entity. Vattenfall has not been affected by these amendments.

Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting.* The amendment provides relief by allowing continuing hedge accounting when novation, or transferral, to a central counterparty of a derivative designated as a hedging instrument meets certain criteria, including a requirement by law or regulation, such as EMIR. The amendment is not applicable for transactions where derivatives are voluntarily transferred to a central counterparty. Vattenfall has not been affected by these amendments.

New IFRSs and interpretations not yet adopted

New standards, amendments to standards and interpretations endorsed by the EU as per 31 December 2014, which are effective as of the 2014 financial year and which have not been applied prospectively:

IFRIC 21 – *Levies*. The interpretation clarifies when a liability for levies should be recognised. Levies are fees and taxes charged to companies by governmental authorities in accordance with laws and regulations, except income taxes, penalties and fines. The interpretation clarifies that a liability should be recognised when a company has an obligation to pay due to a past event. A liability is recognised progressively if the obligating event occurs over a period of time. If an obligation to pay a levy is triggered when a minimum threshold is reached, the liability is not recognised until the minimum threshold is reached. The interpretation, which will be applied starting in 2015, will have only a marginal effect on Vattenfall's financial statements.

Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions*, entail clarifications on how contributions to a pension plan from employees or third parties should be recognised. The clarifications do not change the way Vattenfall recognises these fees.

Annual improvements to IFRSs 2010–2012 Cycle and *Annual improvements to IFRSs 2011–2013 Cycle* aim to streamline and clarify the accounting standards concerning presentation, recognition and measurement, including changes in terminology and amendments of an editorial nature. The amendments have no significant effect on Vattenfall's financial statements.

New standards, amendments to standards and interpretations issued by IASB/IFRIC which at 31 December 2014 had not yet been endorsed by the EU:

IFRS 9 – *Financial Instruments* is a new standard drawn up to supersede IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 was published in July 2014 and consists of the following three parts: Classification and measurement of financial assets and financial liabilities, Impairment and Hedge accounting. Classification and measurement: IFRS 9 prescribes that financial assets are to be divided into two categories – those measured at fair value and those measured at amortised cost. Classification is made at the time the financial asset is initially recognised based on the characteristics of the asset and the company's business model. The biggest change pertains to liabilities recognised at fair value. For these, the portion of the change in fair value that is attributable to own credit risk is to be reported in other comprehensive income instead of through profit or loss, insomuch as this does not cause an inconsistency in the reporting. Impairment: A new model for impairment, the expected loss impairment model, has been introduced. The new model requires the recognition of expected credit losses from the point in time when a financial instrument is first reported. Hedge accounting: The new model represents a significant overhaul of hedge accounting and aligns the accounting treatment with the company's risk management. Vattenfall has not yet evaluated the effects of the new standard. Provided endorsement by the EU, IFRS 9 is expected to be effective as from 2018.

IFRS 14 – *Regulatory Deferral Accounts* is a standard entailing that an entity that conducts operations whose income and profitability is regulated in some way may account for regulatory deferral account balances upon initial adoption of IFRS. Companies that already report in accordance with IFRS may not apply IFRS 14. Since Vattenfall already applies IFRS, it is not affected by this standard. Provided endorsement by the EU, IFRS 14 is expected to be effective as from 2016.

IFRS 15 – *Revenue from Contracts with Customers* is a new revenue recognition model that provides a single, principles-based standard for all revenue recognition, regardless of the type of transaction or sector. IFRS 15 supersedes all previously issued standards and interpretations that address revenue recognition, including IAS 11, IAS 18, IFRIC 13, IFRIC 15 and IFRIC 18. Vattenfall is evaluating the effects of the new standard. Provided endorsement by the EU, IFRS 15 is expected to be effective as from 2017.

Amendments in IFRS 10 and IAS 28 – *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* address a conflict between IFRS 10 and IAS 28 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The change is not expected to have any significant effect on Vattenfall's financial statements. The changes are expected to be effective as from 2016 provided endorsement by the EU.

Amendments in IAS 27 – *Equity Method in Separate Financial Statements* entail that the equity method may be used as an accounting option for investments in subsidiaries, joint ventures and associates for entities that report in separate financial statements according to IAS 27. Vattenfall is not affected by these changes, as the accounts of Vattenfall's parent company, Vattenfall AB, are prepared in accordance with the Annual Accounts Act and RFR 2 – Accounting for Legal Entities.

Amendments in IAS 16 and IAS 41 – *Bearer Plants* entail that so-called bearer plants are to be stated at cost in accordance with IAS 16 instead of at fair value in accordance with IAS 41. The change will not have any significant effect on Vattenfall's financial statements. The changes are expected to be effective as from 2016 provided endorsement by the EU.

Amendments in IAS 16 and IAS 38 entail a clarification of acceptable policies for depreciation and amortisation of tangible and intangible non-current assets. The clarification is not expected to have any significant effect on Vattenfall's financial statements. The changes are expected to be effective as from 2016 provided endorsement by the EU.

Amendments in IFRS 11 add guidance clarifying that when a part-owner of a joint operation acquires a business as defined in IFRS 3, the acquirer shall apply IFRS 3 when accounting for the acquisition. The change is not expected to have any significant effect on Vattenfall's financial statements. The changes are expected to be effective as from 2016 provided endorsement by the EU.

Annual improvements to IFRSs 2012–2014 Cycle aim to streamline and clarify the accounting standards concerning presentation, recognition and measurement, including changes in terminology and amendments of an editorial nature. Vattenfall has not yet evaluated the effects of the new amendments. The changes are expected to be effective as from 2016 provided endorsement by the EU.

Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. An operating segment's result is reviewed regularly by "the chief operating decision maker", who in Vattenfall is the Chief Executive Officer, to assess its performance and to make decisions about resources to be allocated to the operating segment. Segmental information (see Note 8 to the consolidated accounts) is only provided for the Group.

Classification of current and non-current assets and liabilities

An asset is classified as a current asset when it is held primarily for the purpose of trading or is expected to be realised within twelve months after the balance sheet date or consists of cash and cash equivalents, provided it is not subject to restrictions on its exchange or use for regulating a liability at least twelve months after the balance sheet date.

All other assets are classified as non-current assets.

A liability is classified as a current liability when it is held primarily for the purpose of trading or is expected to be settled within twelve months after the balance sheet date or one for which the Group does not have an unconditional right to defer settlement of for a minimum of twelve months after the balance sheet date.

All other liabilities are classified as non-current liabilities.

Assets held for sale

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

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

Principles of consolidation

Starting in 2014, the consolidated financial statements are prepared in accordance with the principles set forth in IFRS 10 – *Consolidated Financial Statements*. The consolidated financial statements cover the Parent Company, subsidiaries, associated companies, joint ventures and joint arrangements that are reported as a joint operation according to IFRS 11.

Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. Control is considered to exist when the following three criteria are met: (i) the investor is exposed to or is entitled to a variable return from the investment, (ii) the investor has the opportunity to influence the return through its opportunity to govern the company, and (iii) there is a link between the return that is received and the opportunity to govern the company. By influence is meant the rights that allow the investor to govern the relevant business, that is, the business which significantly influences the company's return.

Business combinations are accounted for using the purchase method. This method entails that the acquisition of a subsidiary is considered to be a transaction through which the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement.

Through purchase price allocation (PPA) of the business acquisition, the cost of the participating interests or business activities is established as well as the fair value of acquired identifiable assets, assumed liabilities and contingent liabilities. Deferred tax is taken into account for differences between the carrying amount and the corresponding tax base on all items except goodwill. The difference between the cost of the subsidiaries' shares and the fair value of acquired assets, assumed liabilities and contingent liabilities constitutes goodwill. If the cost of the subsidiaries' shares is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's net assets.

Contingent payments are classified as liabilities subsequently remeasured through profit or loss.

All acquisition-related costs are expensed.

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

Acquisitions and divestments of non-controlling interests in subsidiaries are recognised in equity.

When the Group ceases to have control in a subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset.

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

Joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. Joint arrangements are classified as a joint operation or joint venture. A joint operation entails that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture entails that the parties that have joint control of the arrangement have rights to the net assets of the arrangement. In a joint operation, the respective owners recognise in relation to their interest in the joint organisation: their assets and liabilities as well as their respective share of assets and liabilities held or incurred jointly; revenue from the sale of their respective shares of the output of the joint operation and their share of the revenue from the sale of the output of the joint operation; and their expenses, including the share of any expenses incurred jointly. Joint ventures are reported in accordance with the equity method.

Associated companies

Associated companies are companies in which the Group has a significant – but not controlling – influence or joint control with other owners over their operational and financial management, usually through shareholdings corresponding to between 20% and 50% of the votes. In conjunction with the acquisition of an associated company, a purchase price allocation similar to that of a business combination is made. Identifiable surplus values are handled in a similar manner to surplus values in business combinations. From the point at which the significant influence is acquired, participations in associated companies are reported in the consolidated accounts in accordance with the equity method. The equity method entails that the value of the shareholding in associated companies reported in the consolidated accounts corresponds to the Group's share of the associated companies' equity plus consolidated goodwill and any unamortised value of consolidated surplus and deficit values less internal profit reserves. Dividends received from an associated company reduce the carrying amount of the investment.

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

The equity method is applied from the point of acquisition up to the point when the significant influence ceases.

Transactions that are eliminated upon consolidation

Intra-Group receivables and liabilities, income and expenses, as well as gains or losses arising from intra-Group transactions between Group companies, are eliminated in their entirety when preparing the consolidated accounts.

Gains arising from transactions with associated companies and joint ventures are eliminated to an extent that corresponds to the Group's holding in the company. Losses are eliminated in the same manner as gains, but are treated as an indicator of impairment.

Foreign currencies

Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the day of the transaction. On the balance sheet date, monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on that day. Exchange rate differences arising from translation of currencies are reported in the income statement. Operationally derived exchange gains and losses are shown under Other operating income and Other operating expenses, respectively. Financially derived exchange gains and losses are shown as financial income and expenses, respectively.

Financial reporting of foreign activities

Assets and liabilities of foreign activities, including goodwill and other consolidated surplus and deficit values, are translated to SEK at the exchange rate in effect on the balance sheet date. Income and expenses of foreign activities are translated to SEK using an average exchange rate. Translation differences arising from foreign currency translation of foreign activities are reported in Other comprehensive income.

For the Vattenfall Group, key exchange rates applied in the accounts are provided in Note 6 to the consolidated accounts, Exchange rates.

Revenue recognition

Net sales include sales proceeds from core businesses, that is, generation, sales and distribution of electricity, sales and distribution of heat, sales of gas, energy trading and other revenues such as service and consulting assignments and connection fees.

Sales of electricity, heat and gas

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

Vattenfall's electricity transactions between Nordic electricity generation and sales activities in the Nordic countries are transactions vis-à-vis the Nordic electricity exchange. The purchases that the sales activities make from the Nordic electricity exchange are, at the Group level, offset against sales of generation to the Nordic electricity exchange.

The change in fair value of derivatives, including commodity derivatives, that does not qualify for hedge accounting is reported in gross profit unless it does not relate to derivative instruments used in financial activities.

Other revenues

In the case of service and consulting assignments, the percentage of completion method is applied, that is, revenues and expenses are reported in proportion to the degree of completion. The degree of completion is established according to the relation between accrued expenses on the balance sheet date and estimated total expenses. In cases where losses are expected, a provision is established immediately.

Connection fees for electricity distribution and heat distribution are reported as revenues to the extent that they are not required to cover future obligations.

Government grants

Grants are reported at fair value when it can reasonably be assumed that the grant will be received and that the Group will meet the conditions of the grant.

A grant tied to a non-current asset reduces the reported cost of the asset.

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

Operating expenses

Operating leases

Expenses paid for operating leases are reported in the income statement on a straight-line basis over the leasing period. For a definition of operating leases, see below under the heading Property, plant and equipment/Leasing.

Financial income and financial expenses

Financial income

Financial income consists of interest income on bank balances, receivables and interest-bearing securities, returns from the Swedish Nuclear Waste Fund, dividend income, exchange rate differences, and positive changes in values of financial investments and derivative instruments used in financial activities.

Interest income is adjusted for transaction costs and any rebates, premiums and other differences between the original value of the receivable and the amount received when due. Interest income is reported as it is earned. The calculation is made on the basis of the return on underlying assets in accordance with the effective interest method.

Dividend income is reported when the right to receive payment is established.

Financial expenses

Financial expenses consist of interest expenses on loans, discounting effects and interest attributable to provisions, exchange rate differences, and negative changes in values of financial investments and derivative instruments used in the financial activities. Discounting effects are defined here as the periodic change of the present value which reflects the time value of money.

Issue expenses and similar direct transaction costs for raising loans are distributed over the term of the loan in accordance with the effective interest method.

Borrowing costs directly attributable to investment projects in non-current assets which take a substantial period of time to complete are not reported as a financial expense but should be included in the cost of the non-current asset during the construction period.

Leasing fees pertaining to finance leases are distributed between interest expense and amortisation of the outstanding debt. Interest expenses are distributed over the leasing period so that each accounting period is charged in the amount corresponding to a fixed interest rate for the reported debt in each period. Variable fees are carried as an expense in the period in which they arise.

Financial assets and financial liabilities

General principles

Financial instruments are reported initially at cost, corresponding to the instrument's fair value plus transaction costs for all financial instruments, except for those that belong to the category "financial assets at fair value through profit or loss" and all derivatives, which are reported at fair value excluding transaction costs.

A financial asset or financial liability is recognised on the balance sheet when Vattenfall becomes a party to such in accordance with terms of the instrument's contract. A trade receivable is recognised on the balance sheet when an invoice has been sent. A liability is recognised when the counterparty has performed a service and a contractual obligation to pay exists, even if the invoice has not yet been received. A trade payable is recognised when the invoice has been received.

A financial asset is derecognised from the balance sheet when the rights under the contract are sold, expire, or when Vattenfall no longer retains the risks and rewards of ownership of the asset. The same applies for parts of a financial asset.

A financial liability is derecognised from the balance sheet when the contractual obligation has been fulfilled or in some other way extinguished. The same applies for parts of a financial liability.

Foreign exchange gains and losses concerning operating receivables and liabilities in foreign currencies are reported under operating profit, while foreign exchange gains and losses concerning other receivables and liabilities in foreign currencies are reported under net financial items.

For financial instruments traded in active financial markets, the fair value is set at the rate applicable when the market closes on the balance sheet date. The same rule applies for fixing the fair value of bilaterally traded financial instruments (OTC trading). For unlisted financial instruments, fair value is set by discounting estimated future cash flows. Discounting is done using discounting factors based on return curves in the cash flows of the respective currencies. The return curves are based on the market interest rates, such as swap rates, that apply on the balance sheet date.

Financial assets

Financial assets are classified in various categories depending on the purpose of the acquisition of the financial asset. The classification is determined at the original point of acquisition.

Settlement day accounting is applied for spot purchases and spot sales of financial assets.

Financial assets at fair value through profit or loss

This category includes assets classified as held for trading, which means that the intention is for them to be divested in the near term. Derivative instruments not held for hedging purposes are always regarded as held for trading. Fair value of currency forward contracts is calculated by discounting the difference between the contracted forward rate and the forward rate that can be contracted on the balance sheet date for the remaining contract period. Discounting is done at a risk-free interest rate based on government bonds. Fair value of interest rate swaps is based on a discounting of calculated future cash flows in accordance with the contract's terms and due dates, based on the market rate of interest. Fair value of options is based on quoted prices, where such are available. The value of unquoted options is calculated using the Black-Scholes model, based on underlying market data.

Fair value of commodity contracts is calculated by discounting the difference between the contracted forward price and the contracted forward price that can be obtained on the balance sheet date for the remaining contract period.

For Vattenfall, the category "Financial assets at fair value through profit or loss" also includes short-term liquid investments with terms of less than three months, since Vattenfall follows up and measures these based on fair values. The category also includes short-term investments with original maturities in excess of three months. For listed securities, fair value is based on the quoted buying price on the balance sheet date. For other short-term investments, fair value is calculated by discounting estimated future cash flows in accordance with the contract's terms and maturity dates, and based on the market rate of interest for similar instruments on the balance sheet date.

The assets are remeasured on a continuous basis to fair value, with changes in value presented in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed payments or payments whose amounts can be determined. Receivables arise when the company provides money, goods and services directly to the debtor without the intention of trading in the receivable rights. Acquired receivables are also covered. Loans and receivables are measured at amortised cost. Amortised cost is defined as the value at which a financial asset or liability is stated when it is initially recorded on the balance sheet, less any repayments, and with additions or deductions for the distribution over time of any differences between the amount initially recognised and the repayment amount.

Trade receivables are reported at the amount expected to be paid, that is, less doubtful debts. Impairment losses on trade receivables are reported under operating expenses. Trade receivables have a short anticipated term and are therefore valued at a nominal amount without discounting.

Fair value of loans is calculated for disclosure purposes by discounting future cash flows using the current interest rate. For trade receivables, the reported value is considered to reflect fair value.

The category Loans and receivables also includes Cash and bank balances, that is, immediately available balances with banks and similar institutions, and Shares in the Swedish Nuclear Waste Fund.

Available-for-sale financial assets

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

Holdings in listed companies are measured based on the share price on the balance sheet date.

Shares and participations for which there are no balance sheet date quotations and for which a fair value cannot be established are valued at cost, after taking accumulated impairment losses into account.

Financial liabilities

Financial liabilities have been classified in various categories depending on the purpose of the acquisition of the financial liability. The classification is determined at the date of original acquisition.

Financial liabilities at fair value through profit or loss

Derivative instruments not held for hedging purposes are always classified in this category. These financial liabilities are measured at fair value with changes in value recognised in profit or loss. For a description of how fair value is measured, see above under the heading "Financial assets at fair value through profit or loss".

Other financial liabilities

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

Trade liabilities have a short anticipated term and are therefore valued at a nominal amount without discounting.

Fair value of other financial liabilities is calculated for disclosure purposes by discounting future cash flows using the current interest rate for the remaining term, with the exception of trade payables, where the reported value is considered to reflect fair value.

Liabilities included in a hedge relationship are reported in accordance with the principles described below.

Derivative instruments

Vattenfall uses various types of derivative instruments (forwards, futures and swaps) to hedge various financial risks, primarily interest rate risks, currency risks and commodity price risks.

Derivative assets are reported as a separate line item on the balance sheet under non-current assets and current assets, respectively, while derivative liabilities are reported as a separate line item under non-current liabilities and current liabilities, respectively.

Derivative instruments are reported at fair value on the balance sheet date. The reporting of changes in value depends on whether the derivative instrument is classified as a hedge or not. In a situation where hedging is not applied, the change in value is recognised in profit or loss in the period in which it arises. Based on the purpose of the contract, changes in value are reported either under operating profit or as financial income/expense. Effects of hedge accounting are described below.

Embedded derivatives

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

Hedge accounting

Hedge accounting is applied for derivative instruments that are included in a documented hedge relationship. For hedge accounting to be applied, a direct connection between the hedge and the hedged item is required. Further, it is necessary for the hedge to protect the risk effectively as intended, that the effectiveness of the measure can be demonstrated at all times to be sufficiently high through effectiveness testing, and that hedging documentation has been prepared. The reporting of changes in value depends on the type of hedge entered into.

Cash flow hedges

Cash flow hedges are used primarily in the following cases: i) when forward commodity contracts are used to hedge commodity price risk in future purchases and sales, ii) when forward exchange rate contracts are used to hedge currency risk in future purchases and sales in foreign currencies, and iii) when interest rate swaps are used to replace borrowing at a floating interest rate with a fixed interest rate.

For derivative instruments that constitute a hedge instrument in a cash flow hedge, the effective part of the change in value is reported in Other comprehensive income while the ineffective part is recognised directly in profit or loss. The part of the change in value that is reported in Other comprehensive income is then transferred to the income statement in the period when the hedged item affects the income statement. In cases where the hedged item refers to a future transaction, which is later capitalised as a non-financial asset or liability on the balance sheet (for example, when hedging future purchases of non-current assets in a foreign currency), the part of the change in value reported in Other comprehensive income is transferred to and included in the cost of the asset or liability.

If the conditions for hedging are no longer met, the accumulated changes in value that were reported in Other comprehensive income are transferred to the income statement/balance sheet in the later period when the hedged item affects the income statement/balance sheet. Changes in value from the day on which the conditions for hedging ceased to be met are recognised directly in profit or loss. If

the hedged transaction is no longer expected to occur, the hedges accumulated changes in value are immediately transferred from Other comprehensive income to the income statement.

Hedges of fair value
For hedges of fair value, hedge accounting is applied in cases where the hedge pertains to an item that is normally stated at amortised cost. In such cases, hedge accounting entails that changes in fair value of the hedged item relating to the hedged risk are recognised in profit or loss when they occur. The carrying amount of the hedged item is adjusted with these changes.

If a hedge no longer meets the criteria for hedge accounting, the adjustment of the carrying amount of the hedged item for which the effective interest method is used will be allocated over the remaining term in the income statement.

A hedge of fair value is primarily used in cases where interest rate swaps are used to replace borrowing at a fixed interest rate with a floating interest rate.

Hedges of net investments in foreign operations
For derivative instruments and loans in foreign currencies that constitute hedge instruments in hedging of net investments in foreign operations, the effective part of the change in value is reported in Other comprehensive income while the ineffective part is recognised directly in profit or loss. The changes in value reported in Other comprehensive income are transferred to the income statement at the later date when the foreign activity is divested.

Hedging of net investments is primarily used when forward exchange rate contracts and loans in foreign currencies are used to hedge the currency risk of the company's investments in foreign subsidiaries.

Intangible assets: non-current
Capitalised development costs
Development costs resulting from the application of research findings or other knowledge to produce new or improved products or processes are reported as an asset on the balance sheet from the time when the product or process is expected to become technically and commercially viable and the company has sufficient resources to complete the development work and subsequently use or sell the intangible assets. The reported value includes costs for materials, direct costs for salaries and indirect costs, all of which can be attributed to the asset. Other development costs are recognised in profit or loss as expenses as they arise. On the balance sheet, development costs are reported at cost less accumulated amortisation and any impairment losses.

Research costs with the purpose of obtaining new scientific or technical knowledge are reported as expenses as they arise.

Goodwill
Goodwill represents the difference between the cost of a business combination and the fair value at the point of acquisition of acquired assets, assumed liabilities and contingent liabilities. The difference is the cost of goodwill.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested at least annually for impairment. Goodwill that arises on acquisition of associated companies or joint ventures is included in the carrying amount of Participations in associated companies and joint ventures.

Other intangible assets non-current
Other intangible assets non-current such as concessions, patents, licences, trademarks and similar rights as well as renting rights, mining rights and similar rights acquired by the Group are reported at cost less accumulated amortisation and impairment losses.

Principles for amortisation
Amortisation of intangible assets non-current other than goodwill is reported on a straight-line basis in the income statement over the estimated useful life of the asset, provided the useful life not is indefinite. Estimated useful lives are unchanged compared with a year ago and are further described in Note 23 to the consolidated accounts, Intangible assets: non-current. Assessments of the residual value and useful life of an asset are conducted at least annually.

Property, plant and equipment
Owned assets
Property, plant and equipment are reported as assets on the balance sheet if it is likely that there will be future financial benefit for the company and the cost of the asset can be calculated in a reliable manner.

Assets reported as property, plant and equipment are land and buildings, plant and machinery as well as equipment, tools and fixtures and fittings. These assets are valued at cost less accumulated depreciation and impairment losses.

Cost includes the purchase price and costs directly attributable to putting the asset in place and in a suitable condition for use in accordance with the management's intention of the acquisition. Examples of directly attributable expenses included in cost are delivery and handling, installation, land registration and consulting services. Borrowing costs directly attributable to investment projects in property, plant and equipment, which take a substantial period of time to complete, are included in the cost of the asset during the construction period.

In the nuclear power operations in Germany (impaired during 2011) and Sweden, cost at the time of acquisition includes a calculated present value for estimated costs for dismantling and removing the plant and restoring the site where the plant is located. Similarly, for mining operations in Germany, for example, cost at the time of the acquisition includes a calculated present value for estimated costs for restoring undertakings.

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

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

Leasing
Leases are classified as either finance or operating leases. A finance lease exists when the economic risks and benefits associated with ownership are, in essence, transferred to the lessee; if this is not the case, it is classified as an operating lease.

Leased assets
Assets leased under finance leases are reported as assets on the consolidated balance sheet. The commitment to pay future leasing charges is reported as a non-current or current liability. The leased assets are depreciated on a straight-line basis over the shorter of the leasing period or useful life, while the leasing payments are reported as interest and amortisation of the debts.

Operating leases normally entail recognition of the leasing charge as an expense on a straight-line basis over the leasing period.

Assets leased out
Assets that are leased out under finance leases are not reported as property, plant and equipment, since the risks associated with ownership are transferred to the lessee. Instead, a financial receivable is entered for the future minimum lease payments.

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

Subsequent costs
Subsequent costs for property, plant and equipment are only added to the acquisition cost if it is likely that there will be future financial benefits associated with the asset for the company and the cost can be calculated in a reliable manner. All other subsequent costs are reported as expenses in the period when they arise.

What is decisive for the assessment when a subsequent cost is added to the acquisition cost is whether the cost concerns the replacement of identified components, or parts of them, whereby such costs are capitalised. Also in cases where new components are created, the cost is added to the cost of the asset. Any undepreciated reported values of replaced components, or parts of components, are retired and carried as an expense in connection with the replacement. Repairs and maintenance are expensed as incurred.

Depreciation principles
Depreciation is reported on a straight-line basis in the income statement over the estimated useful life of the asset except for depreciation related to the German nuclear power plants (impaired during 2011). The Group applies component depreciation, which means that the components' estimated useful life provides the basis for the straight-line depreciation. Estimated useful life for the Swedish nuclear power plants Ringhals 3 and 4 and Forsmark 1, 2 and 3 has been extended to 60 years from the previous 50 years. The estimated useful life for all other property, plant and equipment is unchanged compared with the preceding year. Estimated useful life is described further in Note 24 to the consolidated accounts, Property, plant and equipment. Assessments of the residual value and useful life of an asset are conducted annually.

Land and water rights are not subject to depreciation.

Investment property
Investment property is property held in order to earn rental income or an increase in value or a combination of these two objectives.

Investment property is reported on the balance sheet at cost less accumulated depreciation and impairment losses. Depreciation is done on a straight-line basis, and an assessment of residual value and useful life of an asset is conducted annually.

Biological assets
By biological assets is meant so-called energy forests that Vattenfall grows – following harvest and thereafter reported as inventory – for use as biofuel in own plants.

Biological assets are reported on the balance sheet as current assets or non-current assets and are measured at fair value less costs to sell.

Inventories
Nuclear fuel, fossil fuels, emission allowances and certificates held for trading, and materials and spare parts

Inventories (except for inventories held for trading) are valued at the lower of their cost and net realisable value. Net realisable value is the estimated sales

price in operating activities, less estimated costs for completion and to bring about a sale.

The consumption of nuclear fuel is calculated as a depletion of the energy content of the fuel rods, and is based on the cost of each batch of fuel loaded into the core.

The cost of inventories is estimated – depending on the type of inventory – either through application of the first in, first out (FIFO) method or through the application of the weighted average cost formula. Both methods include costs that arose on acquisition of the inventory items.

Inventories held for trading are valued at fair value less costs to sell. See Note 32 to the consolidated accounts, Inventories.

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

Intangible assets: current

Emission allowances held for own use

Since 2005, a trading system applies in the EU (the Emission Trading Scheme – ETS) with the purpose of reducing emissions of the greenhouse gas carbon dioxide. Within the framework of this system, some concerned plants have received, without payment or for prices below fair value, so-called emission allowances (European Union Allowances – EUAs) from the authorities in each country. Sales and purchases of emission allowances are conducted on designated exchanges, where plants that have a greater need for emission allowances than their free-of-charge or subsidised allocation are required to purchase allowances to cover their remaining need and thereby settle their obligations.

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

Starting with the third trading period (2013–2020) there is no free-of-charge or subsidised allocation of emission allowances for the power generation sector, meaning that all power generators must purchase all of their emission allowances. In sectors other than power generation, for example, heat generation, free-of-charge allocations will be available during a transition period, however with decreasing levels in the coming years during the transition period.

Purchased emission allowances held for own use are reported as intangible assets under current assets at cost less accumulated impairment losses, while emission allowances that have been received free of charge from the respective countries' authorities are stated at a value of SEK nil. As carbon dioxide is emitted, an obligation arises to deliver emission allowances (EUAs, CERs, ERUs) to the authorities in the respective countries. An expense and a liability are recognised in cases where the emission allowances that were received free of charge do not cover this obligation. This liability is valued in the amount at which it is expected to be settled.

Certificates held for own use

With the aim to increase renewable energy sources for electricity generation, Sweden and UK, among other countries, have so-called electricity certificate systems. Plants included in these systems receive, free of charge from the authorities in the respective countries, certificates in pace with their generation of electricity qualifying for certificates.

Accumulated certificates, which are received free of charge, are reported as an intangible asset under current assets at fair value when obtained. The corresponding amount is recognised as revenue under Net sales. Purchased certificates held for own use are reported at cost less accumulated impairment losses.

When electricity is sold, an obligation arises to deliver certificates to the authorities in the respective countries. This obligation is reported as an expense and as a liability. The liability is valued at the amount at which it is expected to be settled.

Impairment losses

Impairment of non-financial assets

General principles

Assessments are made throughout the year for any indication that an asset may have decreased in value. If there is an indication of this kind, the asset's recoverable amount is estimated. For goodwill and other intangible assets with an indefinite useful life and for intangible assets that are still not ready for use, the recoverable amount is calculated at least annually or as soon there is an indication that an asset has decreased in value.

If the essentially independent cash flow for an individual asset cannot be established for the assessment of any need for impairment, the assets must be grouped at the lowest level where it is possible to identify the essentially independent cash flow (a so-called cash-generating unit). An impairment loss is reported when an asset or cash-generating unit's reported value exceeds the recoverable amount. Any impairment loss is recognised in profit or loss.

Impairment of assets attributable to a cash-generating unit is allocated primarily to goodwill. Thereafter, a proportional impairment loss is conducted of other assets that are part of the unit.

Calculation of the recoverable amount

The recoverable amount is the higher of fair value less costs to sell and value in use. When calculating value in use, the future cash flow is discounted by a discounting factor that takes into consideration risk-free interest and the risk associated with the specific asset. For an asset that does not generate cash flow independently of other assets, the recoverable amount is calculated for the cash-generating unit to which the asset belongs.

Reversal of impairment losses

Impairment of goodwill is never reversed. Impairment of other assets is reversed if a change has occurred in the assumptions that formed the basis for the calculation of the recoverable amount. An impairment loss is reversed only if the asset's carrying amount after reversal does not exceed the carrying amount that the asset would have had if the impairment loss had not been recognised.

Impairment of financial assets

General principles

On each reporting occasion, an assessment is made to determine if there is objective evidence that a financial asset has become impaired. Objective evidence consists in part of observable conditions that have a negative impact on the ability to recover the cost of the asset, and in part of a significant or prolonged decrease in the fair value of an investment in a financial asset that is classified as an available-for-sale financial asset.

Vattenfall classifies trade receivables as doubtful when – after a missed or significantly late payment and individual assessment of the debtor's financial conditions – a need to recognise impairment can be considered to exist. Impairment is determined on the basis of historical experience of customer losses for similar receivables. Impaired trade receivables are reported at the present value of anticipated future cash flows. When determining any need to recognise impairment, the existence of any credit insurance and other forms of security is also taken into account.

Listed shareholdings that are classified as an available-for-sale financial asset are considered to be in need of impairment and are impaired if the fair value falls below cost by a significant amount, or when the decrease in value has become prolonged over time.

Reversal of impairment

Impairment of financial assets reported at amortised cost is reversed if a subsequent increase in the recoverable amount can objectively be attributed to an event that occurred after the impairment was recognised.

Impairment of listed shareholdings that are classified as available-for-sale financial assets, which was previously reported in the income statement, is not reversed through profit or loss but in Other comprehensive income.

Employee benefits

Defined contribution pension plans

Defined contribution pension plans are post-employment benefit plans according to which fixed fees are paid to a separate legal entity. There is no legal or constructive obligation to pay additional fees if the legal entity does not have sufficient assets to pay all benefits to the employees. Fees for defined contribution pension plans are reported as an expense in the income statement in the period they apply to.

Defined benefit pension plans

Defined benefit pension plans consist of other post-employment benefit plans than defined contribution pension plans. The Group's defined benefit pension obligations are calculated separately for each plan in accordance with the Projected Unit Credit Method by calculating employees' current and past service cost. Estimated future salary adjustments are taken into consideration as well as taxes levied on pension costs, for example, the Swedish "särskild löneskatt". The net obligation comprises the discounted present value of the total earned future salaries less the fair value of any plan assets. The discount rate consists of the interest rate on the balance sheet date of high quality corporate bonds with lifetimes that corresponds to the Group's pension obligations. When there is no deep market in corporate bonds of this kind, the market rate yield on government bonds with an equivalent lifetime should be used instead. When the calculation leads to an asset for the Group, the recognised value of the asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Items related to the earnings of defined benefit pensions and interest on the net of defined benefit plans assets and liabilities are recognised in the income statement. When benefits in a plan are improved, the proportion of the increased benefit attributable to the employees' past service cost is reported as an expense in the income statement, as well as gains and losses arising on settlement of a pension liability.

Remeasurements recognised in Other comprehensive income consist of actuarial gains and losses and the difference between the actual and expected return on pension assets and are recognised in Other comprehensive income under the heading "Items that will not be reclassified to profit or loss". Actuarial gains and

losses arise from the effects of changes in actuarial assumptions and from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred). When the calculation leads to an asset for the Group, the reported value of the asset is limited to the present value of future repayments from the plan or reduced future payments to the plan.

Other provisions than pension provisions
A provision is reported on the balance sheet when the Group has a legal or constructive obligation as a result of an event and it is probable that an outflow of financial resources will be required to regulate the obligation and a reliable estimate of the amount can be made. Where the effect of the time when payment is made is material, provisions are estimated by discounting the anticipated future cash flow at an interest rate before tax that reflects current market estimates of time value of money. The discount rate does not reflect such risks that are taken into consideration in the estimated future cash flow.

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

Provisions are also reported for onerous contracts, that is, where unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Income taxes
Income tax comprises current tax and deferred tax. Income tax is reported in the income statement except when the underlying transaction is reported in Other comprehensive income or in equity, whereby also the associated tax effect is reported in Other comprehensive income and equity, respectively.

Current tax is tax to be paid or received for the current year, with the application of the tax rates that are established or, established in practice as of the balance sheet date. Adjustments of tax paid attributable to previous periods are also included in this.

Deferred tax is calculated in accordance with the balance sheet method on the basis of temporary differences between the reported and taxable values of assets and liabilities. The following temporary differences are not taken into account: temporary differences that arises with the initial recognition of goodwill and temporary differences on initial recognition of assets and liabilities that are not business combinations and at the time of the transaction do not affect either reported or taxable profit. Further, such temporary differences attributable to shares or participations in subsidiaries or associated companies that are not expected to be reversed in the foreseeable future are not taken into account either. The valuation of deferred tax is based on how the reported value of assets or liabilities is expected to be realised or settled. Deferred tax is calculated in accordance with the tax rates and tax rules that have been established or have been established in practice by the balance sheet date.

Deferred tax assets concerning non-deductible temporary differences and tax-loss carryforwards are only reported to the extent that it will be possible for these to be used. The value of deferred tax assets is reduced when it is no longer considered likely that they can be used.

Note 4 Important estimations and assessments in the preparation of the financial statements

Preparation of the financial statements in accordance with IFRS requires the company's executive management and Board of Directors to make estimations and assessments as well as to make assumptions that affect application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimations and assessments are based on historic experience and other factors that seem reasonable under current conditions. The results of these estimations and assessments are then used to establish the reported values of assets and liabilities that are not otherwise clearly documented from other sources. The final outcome may deviate from the results of these estimations and assessments. The estimations and assessments are revised on a regular basis. The effects of changes in estimations are reported in the period in which the changes were made if the changes affected this period only or in the period the changes were made and future periods if the changes affect both the current period and future periods. Important estimations and assessments are described below.

Impairment testing for intangible assets and property, plant and equipment
The Group has substantial values reported on the balance sheet regarding intangible assets and property, plant and equipment. These are tested for impairment in accordance with the accounting policies described in Note 3 to the consolidated accounts, Accounting policies. The recoverable amount for cash-generating units is determined by calculating the value in use or fair value less costs to sell. For these calculations, certain estimations must be made regarding future cash flows along with other adequate assumptions regarding the required rate of return, for example. See also Note 23 to the consolidated accounts, Intangible assets.
For 2014 the Group reported impairment losses of SEK 23,808 million (30,147). These impairment losses are described in more detail in Note 14 to the consolidated accounts, Impairment losses and reversed impairment losses.

The largest impairment losses in terms of amount in 2014 pertain to production assets, SEK 11,472 million (21,966), mainly in Germany and the Netherlands, and goodwill, SEK 11,163 million (6,925), mainly related to Trading in the Netherlands.

Pension provisions
The value of pension obligations for defined benefit pension plans is determined through actuarial computations that are based on assumptions about the discount rate, the expected return on plan assets, future salary increases, inflation and demographic conditions. Every change in these assumptions affects the calculated value of pension obligations.

For pension provisions in Sweden, the discount rate was lowered to 2.5% from 4.0% in the preceding year. For Sweden, through 2009 the judgement was made that in the absence of an effective market for high quality corporate bonds, the interest rate for government bonds was used instead as the discount rate. As from 2010, the judgement has been made that the discount rate should be based on mortgage bonds with high credit ratings, the market for which is large and liquid. In Germany, where the discount rate is based on high quality corporate bonds, the discount rate was lowered to 2.0% from 3.5% in the preceding year.

For further information on pension provisions, see Note 41 to the consolidated accounts, Pension provisions.

Provisions for future expenses for nuclear operations
Provisions for future expenses for nuclear operations, which pertain to future obligations for handling the decommissioning of Vattenfall's nuclear power plants in Sweden and Germany as well as for handling nuclear waste, are based on long-term cash flow estimations with respect to future expenses. These long-term cash flow estimations mainly pertain to technical plans, estimations on the amount of the expenses, when in time these are expected to fall due, and the discount rate. In many cases, these cash flow estimations must be approved by the pertinent authorities.

For provisions for future expenses for nuclear operations in Sweden, the discount rate is unchanged at 4.0% (4.0%), compared with the preceding year. The corresponding discount rate in Germany was lowered to 4.0% from 4.75% in the preceding year.

For further information on provisions for future expenses for nuclear operations, see Note 42 to the consolidated accounts, Other interest-bearing provisions.

Other provisions than pension provisions and provisions for future expenses of nuclear power operations
For other types of provisions, such as provisions for future expenses for mining, gas and wind operations and other environmental measures/undertakings, and for personnel-related provisions for non-pension purposes, provisions for tax and legal disputes, or other provisions, the following discount rates are used: Sweden 3.75% (3.75%), Germany 1.5%–4.0% (4.25%–4.75%), Netherlands 1.5% (2.0%), Denmark 4.0% (4.0%) and the UK 4.0% (4.25%).

For further information on these provisions, see Note 42 to the consolidated accounts, Other interest-bearing provisions.

Income taxes and deferred taxes
On its balance sheet, Vattenfall reports deferred tax assets and liabilities that are expected to be realised in future periods. In calculating these deferred taxes, certain assumptions and estimations must be made regarding future tax consequences pertaining to the difference between assets and liabilities reported on the balance sheet and their corresponding tax values.

The estimations also take into account the fact that future earnings for the Group's units will correspond to previously reported earnings, that applicable tax laws and tax rates will be unchanged in the countries in which the Group is active, and that applicable rules for exercising tax loss carryforwards will not be changed.

The Group also reports future expenses arising out of ongoing tax audits or tax disputes under Provisions. The outcome of these may deviate from the estimations made by Vattenfall.

For further information on taxes, see Note 19 to the consolidated accounts, Taxes.

Valuation of embedded derivatives
A limited number of Vattenfall's long-term electricity contracts include specific pricing clauses. For example, the price in an electricity contract may have couplings to the price trend for commodities and indirectly also to exchange rate movements, since the commodity prices in question are quoted in foreign currency. In such contracts, the clauses entail that the contracts contain embedded derivatives. In valuations of these contracts containing embedded derivatives, the company's executive management must make certain estimations and assessments which could have a significant impact on Vattenfall's earnings and financial positions.

See also Note 47 to the consolidated accounts, Financial instruments per category and related effects on income.

Assets held for sale

According to IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations,* an entity should classify an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For that to be the case, certain criteria must be fulfilled. The asset must be available for immediate sale in its present condition subject to usual and customary terms. Further, the sale must be highly probable. The last-mentioned criterion means that a plan for the disposal must have been prepared and approved at the appropriate level of management, an active program for the disposal must have been initiated, and the asset must be marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to be completed within one year from the date of classification.

See also Note 39 to the consolidated accounts, Assets held for sale.

Determining control and influence over companies owned by Vattenfall AB

A subsidiary is defined as a company that is controlled by the Vattenfall Group. A subsidiary is controlled by Vattenfall when Vattenfall has influence over the investment, is exposed to or is entitled to a variable return from its involvement in the investment, and can exercise its influence over the investment in order to affect its return. Most of Vattenfall's subsidiaries are 100%-owned and are thereby considered to be controlled by the Vattenfall Group. In those cases where Vattenfall owns less than 100% of the investment, an individual assessment is made to determine if Vattenfall has control or not and if the criteria for classification as a subsidiary are met in general. The adoption of IFRS 10 – *Consolidated Financial Statements* starting in 2014 had not entailed any change in which companies are consolidated as subsidiaries. Note 26 provides an account of large companies that are recognised as subsidiaries.

Joint arrangements classified as a joint operation are arrangements over which two or more parties have control and have rights to the assets and obligations for the liabilities relating to the arrangement. Through adoption of IFRS 11 – *Joint Arrangements* in 2014, starting in 2014 Vattenfall's ownership in the Krümmel nuclear power plant in Germany, which was previously reported as an associated company in accordance with the equity method, should be reported as a joint operation, entailing recognition of Vattenfall's share of assets and liabilities held or incurred jointly, revenue from the sale of the output of the joint operation, and Vattenfall's share of expenses incurred from the joint operation.

Joint arrangements classified as a joint venture are arrangements over which two or more parties have joint control and have rights to the net assets of the investment. Vattenfall's investments in V2 Plug-In Hybrid Vehicle Partnership HB and NordzeeWind C.V. are reported as joint ventures. The adoption of IFRS 11 – *Joint Arrangements* has not entailed any material change in which companies are reported as joint ventures.

Associated companies are companies over which the Vattenfall Group has significant influence, but not control or joint control with other owners over their operational and financial management, usually through holdings of between 20% and 50% of the number of votes.

Note 5 Acquired and divested operations

	Fair value	
Acquired operations	2014	2013
Intangible assets: non-current	—	51
Trade receivables and other receivables	1	1
Cash and cash equivalents	35	—
Deferred tax liabilities	—	-11
Trade payables and other liabilities	-35	—
Total net assets	**1**	**41**
Acquisition of non-controlling interests	9	—
Total purchase consideration = Cash flow for the year	**10**	**41**

Acquisitions/investments in associated companies and other shares and participations amounted to SEK -222 million (-15). See Notes 27, Participation in associated companies and joint arrangements and 28, Other shares and participations to the consolidated accounts.

	Carrying amount	
Divested operations	2014	2013
Intangible assets: non-current	20	—
Property, plant and equipment	5,902	3
Participations in associated companies and joint ventures	2	97
Deferred tax assets	91	—
Other non-current assets	2,269	57
Inventories	79	—
Trade receivables and other receivables	1,087	31
Cash and cash equivalents	513	16
Provisions	-1,312	—
Deferred tax liabilities	-361	—
Trade payables and other liabilities	-1,707	-7
Total net assets	**6,583**	**197**
Proceeds from sales/Cash flow for the year	**8,875**	**271**
Net of proceeds received in previous years and provision for price adjustments	706	—
Capital gain/loss recognised in the income statement	**2,998**	**74**

Divestments in 2014

Divestments in 2014 consist mainly of the sale of the majority interest of 74.9% in the electricity grid company Stromnetz Hamburg GmbH, the sale of the 85.5% majority shareholding in Müllverwertung Borsigstraße GmbH, a waste incineration plant in Hamburg, and the divestment of the minority shareholding in the Polish energy company Enea S.A.

Divestments in 2013

Divestments in 2013 consist of the associated companies EHA Energie Handels Gesellschaft mbH & Co. KG and Preem Gas AB, three smaller subsidiaries, and holdings of other shares and participations.

Note 6 Exchange rates

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

		Average rate		Balance sheet date rate	
	Currency	2014	2013	31 Dec.2014	31 Dec.2013
Euro Countries	EUR	9.1004	8.6625	9.3930	8.8591
Denmark	DKK	1.2207	1.1615	1.2616	1.1877
Norway	NOK	1.0848	1.1081	1.0388	1.0593
Poland	PLN	2.1715	2.0615	2.1981	2.1325
UK	GBP	11.3091	10.2250	12.0593	10.6262
USA	USD	6.8837	6.5144	7.7366	6.4238

Note 7 Net sales

	2014	2013
Sale of goods (electricity, heat, gas, etc.)	171,022	179,307
Rendering of services	10,207	7,473
Excise taxes (included in the above)	-15,284	-14,527
Net sales	**165,945**	**172,253**

Vattenfall did not have transactions in 2014 or 2013 with a single external customer where revenues amounted to more than 10% of the Group's total net sales.

Note 8 Operating segments

On 1 January 2014 Vattenfall implemented a new geographical organisational structure in which Vattenfall's operations were divided into two regions and operating segments – Nordic and Continental/UK. The regions consist of several Business Units.

Areas of responsibility for the operating segments
The Nordic region was responsible for operations in the Nordic countries and was set up in such a way as to enable Vattenfall to continue being a major actor in the Nordic electricity market and achieve the company's goal to offer customers energy-efficient and sustainable energy solutions and to accelerate growth in renewable energy, mainly in wind power.

The Continental/UK region was responsible for operations in Germany, the Netherlands and the UK. The region conducted its operations in such a way as to achieve the company's strategic, financial and sustainabilty objectives, among other things with respect to faster growth in renewable energy, mainly wind power.

Financial steering key performance indicators for the Nordic and the Continental/UK region are return on capital employed, underlying operating profit and external operating expenses. The steering key performance indicators are calculated using financial information based on IFRS as used for external reporting.

Staff Functions and Shared Service Centres
A number of Group-wide Staff Functions direct, administrate and support the business activities. The Staff Functions are centrally placed within the organisation as a whole and at the regional and Business Unit levels. Shared Service Centres (Shared Services) focus on transaction-related processes and are an integral part of Vattenfall's business activities. Shared Services are led with a focus on efficiency and utilisation of scale economies. Staff Functions and Shared Services are reported under the heading "Other".

New organisation 2015
On 15 January 2015 Vattenfall announced a new organisation. See Note 56 to the consolidated accounts, Events after the balance sheet date.

	External net sales		Internal net sales		Total net sales	
	2014	2013	2014	2013	2014	2013
Nordic	49 217	52 266	2 757	3 699	51 974	55 965
– of which, Generation	7 413	7 579	23 580	26 753	30 993	34 332
– of which, Distribution	9 024	9 157	549	562	9 573	9 719
– of which, Sales	21 050	23 819	767	956	21 817	24 775
– of which, Other operations	26 808	30 903	11 393	9 250	38 201	40 153
– of which, Eliminations[1]	- 15 078	- 19 192	- 33 532	- 33 822	- 48 610	- 53 014
Continental/UK	116 630	119 818	4 003	4 464	120 633	124 282
– of which, Generation	19 649	19 547	42 525	48 339	62 174	67 886
– of which, Distribution	5 149	6 232	4 060	6 447	9 209	12 679
– of which, Sales	66 973	69 990	864	1 343	67 837	71 333
– of which, Other operations	24 851	24 049	56 668	55 154	81 519	79 203
– of which, Eliminations	8	—	- 100 114	- 106 819	- 100 106	- 106 819
Other[2]	92	169	3 265	3 247	3 357	3 416
Eliminations	6	—	- 10 025	- 11 410	- 10 019	- 11 410
Total	165 945	172 253	—	—	165 945	172 253

	Operating profit before depreciation, amortisation and impairment losses (EBITDA)		Underlying operating profit before depreciation, amortisation and impairment losses (EBITDA)	
	2014	2013	2014	2013
Nordic	18 914	21 727	18 643	21 485
– of which, Generation	12 858	16 393	12 848	16 392
– of which, Distribution	5 275	5 056	5 275	5 054
– of which, Sales	1 200	1 211	1 165	1 207
– of which, Other operations	- 387	- 749	- 613	- 986
– of which, Eliminations	- 32	- 184	- 32	- 182
Continental/UK	19 304	22 454	25 085	26 759
– of which, Generation	15 475	18 655	21 105	21 067
– of which, Distribution	2 008	2 955	2 137	3 000
– of which, Sales	1 246	1 897	1 600	1 930
– of which, Other operations	575	- 1 053	243	762
Other[2]	2 866	- 627	- 171	- 484
Eliminations	- 46	—	1	—
Total	41 038	43 554	43 558	47 760

	Operating profit (EBIT)		Underlying operating profit	
	2014	2013	2014	2013
Nordic	10 961	15 534	12 040	15 371
– of which, Generation	7 596	12 579	8 937	12 578
– of which, Distribution	3 075	2 968	3 075	2 966
– of which, Sales	715	737	679	743
– of which, Other operations	- 393	- 566	- 618	- 734
– of which, Eliminations	- 32	- 184	- 33	- 182
Continental/UK	- 13 940	- 20 699	12 692	13 658
– of which, Generation	- 5 663	- 15 339	10 508	10 361
– of which, Distribution	1 231	1 933	1 361	1 978
– of which, Sales	103	740	747	939
– of which, Other operations	- 9 611	- 8 033	76	380
Other[2]	831	- 1 053	- 599	- 894
Eliminations	- 47	—	—	—
Operating profit (EBIT)	- 2 195	- 6 218	24 133	28 135
Financial income and expenses	- 6 045	- 9 037		
Profit before tax	- 8 240	- 15 255		

	Participations in the results of associated companies		Depreciation and amortisation		Impairment losses affecting operating profit (EBIT)	
	2014	2013	2014	2013	2014	2013
Nordic	- 1	2	6 603	6 303	1 350	79
Continental/UK	- 437	406	12 393	12 888	20 850	30 052
Other	—	—	428	434	1 608	16
Total	**- 438**	**408**	**19 424**	**19 625**	**23 808**	**30 147**

	Investments		Assets	
	2014	2013	2014	2013
Nordic	11 447	8 998	229 739	248 215
Continental/UK	18 334	18 838	304 820	318 977
Other	305	400	182 731	213 794
Eliminations	- 1 054	- 475	- 220 857 [3]	- 295 502 [3]
Total	**29 032**	**27 761**	**496 433**	**485 484**

1) Pertains to Tradings's sales to the Nordic electricity exchange. Vattenfall's sales organisation buys the corresponding electricity from the Nordic electricity exchange.
2) Other mainly includes all Staff Functions including Treasury activities and Shared Service Centers.
3) Chiefly concerns Treasury's liquid assets and financial receivables from other operating segments.

The result of the hedging activities carried out by the Asset Optimisation and Trading unit is reported under the item "Generation" for the respective segments. Asset Optimisation and Trading's other activities are reported under the item "Other activities" for the respective segments.

Heating activities are reported under the item "Sales" for the Nordic segment and under the item "Generation" for the Continental/UK segment.

Note 9 Information about geographical areas

	External net sales		Internal net sales		Total net sales	
	2014	2013	2014	2013	2014	2013
Sweden	45 891	48 551	4 231	3 971	50 122	52 522
Germany	86 517	85 374	47 159	50 239	133 676	135 613
Netherlands	27 808	31 585	52 471	49 585	80 279	81 170
Other countries[1]	9 006	10 614	1 474	3 713	10 480	14 327
Eliminations	- 3 277 [2]	- 3 871 [2]	- 105 335	- 107 508	- 108 612	- 111 379
Total	**165 945**	**172 253**	**—**	**—**	**165 945**	**172 253**

	Operating profit (EBIT)		Underlying operating profit		Intangible assets: non-current, property, plant and equipment and investment property	
	2014	2013	2014	2013	2014	2013
Sweden	10 532	14 075	11 598	14 042	113 006	109 936
Germany	693	3 457	10 955	13 303	117 522	118 224
Netherlands	- 13 145	- 21 364	797	82	39 601	52 543
Other countries[1]	- 275	- 2 386	783	708	21 224	20 221
Total	**- 2 195**	**- 6 218**	**24 133**	**28 135**	**291 353**	**300 924**

1) Chiefly concerns Trading, Treasury operations and other Staff Functions. Also includes operations in the UK.
2) Pertains to sales from Swedish companies to the Nordic electricity exchange. Vattenfall's sales organisations in other Nordic countries buy the corresponding electricity from the Nordic elecricity exchange.

Note 10 Cost of products sold

Cost of products sold include production taxes and duties of SEK 5,484 million (6,197) and property taxes of SEK 3,010 million (3,048).

Note 11 Other operating income

Capital gain from divestment of shares amounted to SEK 3, 054 million (4). Other operating income consists of capital gains from sales of non-current assets, certificates, operationally derived exchange rate gains SEK 395 million (995) rental income, government grants SEK 258 million (262), and insurance compensation.

Note 12 Other operating expenses

Other operating expenses consist primarily of capital losses from sales of non-current assets SEK 137 million (78), certificates, operationally derived exchange rate losses SEK 1,838 million (516), and close-down and certain restructuring costs.

Note 13 Depreciation and amortisation

Depreciation of property, plant and equipment and of investment property and amortisation of non-current intangible assets in the income statement are broken down as follows:

	2014	2013
Cost of products sold	18,860	18,750
Selling expenses	325	348
Administrative expenses	198	484
Research and development costs	33	35
Other operating expenses (investment property)	8	8
Total	**19,424**	**19,625**

Amortisation of non-current intangible assets is included in Cost of products sold above in the amount of SEK 1,161 million (1,295), Selling expenses in the amount of SEK 56 million (58) and Administrative expenses in the amount of SEK 32 million (61).

Note 14 Impairment losses and reversed impairment losses

Impairment losses of non-current intangible assets, property, plant and equipment, financial non-current assets and investment property in the income statement are broken down as follows:

	2014	2013
Cost of products sold	23,538	29,593
Administrative expenses	115	—
Research and development costs	—	77
Participations in the result of associated companies	155	477
Total	23,808	30,147

During 2014 and 2013 no impairment losses of non-current intangible assets, property, plant and equipment or investment property were reversed in the income statement.

Impairment losses 2014:

	Goodwill	Intangible assets	Property, plant and equipment	Associated companies	Effect on Operating profit	Effect on taxes	Total impairment
Continental/UK							
Generation	1 068	1 050	8 268	155	10 541	- 2 539	8 002
– of which, German plants	—	—	5 688	—	5 688	- 1 698	3 990
– of which, fossil based assets in the Netherlands	—	446	2 194	—	2 640	- 660	1 980
– of which, renewables	454	499	237	155	1 345	- 154	1 191
– of which, other assets	614	105	149	—	868	- 27	841
Sales	—	—	289	—	289	- 72	217
– of which, other assets	—	—	289	—	289	- 72	217
Other	10 020	—	—	—	10 020	—	10 020
– of which, Trading	10 020	—	—	—	10 020	—	10 020
Total	11 088	1 050	8 557	155	20 850	- 2 611	18 239
Nordic							
Generation	75	7	1 268	—	1 350	- 281	1 069
– of which, renewables	75	7	1 268	—	1 350	- 281	1 069
Other	—	—	1 608	—	1 608	- 495	1 113
– of which, other assets	—	—	1 608	—	1 608	- 495	1 113
Total	11 163	1 057	11 433	155	23 808	- 3 387	20 421
Of which, assets in the Netherlands[1]	10 634	551	3 361	—	14 546	- 978	13 568
Of which, assets in Germany	—	—	6 669	155	6 824	- 2 001	4 823
Of which, assets in the Nordic countries	75	7	1 305	—	1 387	- 289	1 098
Of which, assets in the UK	454	499	98	—	1 051	- 119	932
Total	11 163	1 057	11 433	155	23 808	- 3 387	20 421

1) Including Nuon-owned companies in Germany.

Cont. Note 14 Impairment losses and reversed impairment losses

Vattenfall has conducted impairment testing by calculating the value in use of the cash-generating units. The structure of the cash-generating units, which represent the smallest group of identifiable assets that generate continuous cash inflows that are largely independent of the cash flows from other assets or groups of assets, is based on the Business Unit structure of the Group. As a result of the change in Vattenfall's organisational structure as from 2014, the segments and structure of the cash-generating units have been changed correspondingly.

Vattenfall closely monitors market developments on a continuous basis and their impact on operations. In the annual impairment testing carried out during the third quarter of 2014, continued falling wholesale electricity prices and further deteriorations in margins for electricity generation were noted. Electricity prices and margins are now at historically low levels, and Vattenfall sees no signs of a recovery in the foreseeable future. Lower liquidity and fewer market actors have led to a decrease in business opportunities and earnings capacity in the trading operations. The anticipated profitability of the new Moorburg coal-fired plant in Hamburg, which is expected to be fully commissioned shortly, has fallen significantly – a result of lower price forecasts and technical problems in the construction of the plant, which led to delays and higher costs. For these reasons, substantial impairment losses have been recognised for 2014. In the preceding year, impairment testing was conducted during the second quarter.

Impairment losses charged against operating profit in 2014 amounted to SEK 23,808 million (30,147). Of these, SEK 20,850 million (30,052) are attributable to the Continental/UK operating segment, SEK 1,350 million (79) are attributable to the Nordic operating segment, and SEK 1,608 million (16) are attributable to Other.

The impairment losses charged against operating profit were partly offset by a positive tax effect of SEK 3,387 million (5,300).

The following, major impairment losses in 2014 are included in the above:

Continental/UK
Impairment losses in the Continental/UK operating segment amounted to SEK 20,850 million, of which impairment losses in the Generation cash-generating unit amounted to SEK 10,541 million. The latter amount includes impairment losses of SEK 5,688 million for the Moorburg coal-fired plant in Germany and SEK 2,640 million for fossil-based plants in the Netherlands. Impairment in the Trading cash-generating unit amounted to SEK 10,020 million.

Nordic
Impairment losses in the Nordic operating segment amounted to SEK 1,350 million – all in the cash-generating unit Generation, attributable to wind power plants.

Other
Impairment losses of SEK 1,608 million relating to assets classified as held for sale were recognised for "Other".

Impairment process
The main assumptions that company management has used in calculating projections of future cash flows in Generation's cash-generating units both in the Continental/UK operating segment and in the Nordic operating segment are based on forecasts of the useful life of the respective assets. The projected cash flows are based on market prices and on Vattenfall's long-term market outlook. The long-term market outlook is based on internal and external input parameters and is benchmarked against externally available price projections. Based on the price assumptions, the dispatch of the power plants is calculated, taking technical, economic and legal constraints into consideration. Technical flexibility of the assets, i.e., the ability to adapt generation to changes in spot market prices, has been taken into account.

Cash flow projections of other cash-generating units in Generation are based on the business plan for the coming five years, after which their residual value is taken into account, based on a growth factor of 0.0%–1.0% (1%). Future cash flows have been discounted to value in use using a discount rate of 5.4%– 6.3% (5.4%–5.8%) after tax (corresponding to 6.6%-9.4% before tax) for regulated business and 6.5%–7.0% (6.2%–6.8%) after tax (corresponding to 7.3%-12.7% before tax) for non-regulated business.

The sensitivity analysis has been calculated with regards to major value drivers. The discount rate is amongst the most important drivers. An increase in the discount rate of 0.5 percentage points would give rise to a need to recognise an additional impairment loss of SEK 3.0 billion. Margins for the generation assets represent another major value driver. These are mainly the clean spark spread for gas-fired power plants and the clean dark spread for hard coal-fired power plants. Those spreads include electricity prices as well as the respective cost for fuel and CO_2 certificates to produce the electricity, considering fuel type and efficiency factors. A reduction of 5% in future electricity prices and unchanged cost for fuel and CO_2 certificates would lead to a reduction in the value of fossil-based assets in Germany and the Netherlands between 12% and 34%, depending of the type of asset. This would lead to additional impairment of approximately SEK 8 billion.

Note 15 Operating costs according to type

	2014	2013
Personnel costs	23,874	23,701
Depreciation and amortisation	19,424	19,625
Impairment losses of non-current assets	23,808	30,147
Other operating costs incl. input commodities	105,193	107,638
Total	172,299	181,111

Note 16 Financial income

	2014	2013
Dividends	21	87
Interest income attributable to investments, etc.	772	916
Return from the Swedish Nuclear Waste Fund	962	363
Exchange rate differences, net	234	27
Net change in value from remeasurement of derivatives	569	—
Net change in value from reassessment of other financial assets	6	—
Capital gains from divestments of shares and participations	26	23
Total	2,590	1,416

Note 17 Financial expenses

	2014	2013
Interest expenses attributable to loans, etc.	3,832	4,833
Interest expenses for the net of pension liabilities and plan assets	1,240	1,170
Interest effects attributable to provisions	3,491	3,267
Net change in value from remeasurement of derivatives	—	612
Net change in value from remeasurement of other financial assets	—	79
Impairment losses for shares and participations	37	492
Capital losses from divestments of shares and participations	35	—
Total	8,635	10,453

Note 18 Ineffectiveness of hedges

	2014	2013
Ineffectiveness of fair value hedges	-632	-140
Ineffectiveness of cash flow hedges	315	216
Total	-317	76

Ineffectiveness of fair value hedges is distributed as follows:

	2014	2013
Gains(+)/losses(-) from hedging instruments	-3,235	1,986
Gains(+)/losses(-) from hedged items	2,603	-2,126
Total	-632	-140

Note 19 Income tax expense

Profit before tax amounted to:

	2014	2013
Sweden	5,986	6,983
Other countries	-14,226	-22,238
Total	-8,240	-15,255

The reported income tax is broken down as follows:

	2014	2013
Current tax		
Current taxes pertaining to the period:		
Sweden[1]	1,197	3,027
Other countries	2,551	2,654
Adjustment of current tax for prior periods:		
Sweden	412	-78
Other countries	-305	-368
Total	3,855	5,235
Deferred tax		
Sweden	26	-1,152
Other countries	-3,837	-5,795
Total	-3,811	-6,947
Total income tax expense	44	-1,712

1) Of which, SEK 369 million (2,572) has a cash flow effect.

The difference between the nominal Swedish tax rate and the effective tax rate is explained as follows:

%	2014	2013
Swedish income tax rate at 31 December	22.0	22.0
Difference in tax rate in foreign operations	5.4	4.1
Tax adjustment for previous periods	2.6	1.2
Revaluation of previously non-valued losses and other temporary differences	4.8	-0.1
Tax-loss carryforwards from current year that are not valued	-5.2	-4.5
Capital gains	12.8	-0.1
Participations in the results of associated companies	-1.8	1.5
Non-deductible impairment losses[1]	-34.8	-13.6
Changed tax rates excl. Sweden	-0.1	0.8
Non-deductible interest	-2.6	-1.5
Other non-deductible expenses	-4.3	-0.8
Non-taxable income	0.7	2.2
Effective tax rate	-0.5	11.2

1) See Note 14 to the consolidated accounts, Impairment losses and reversed impairment losses.

Accumulated tax-loss carryforwards are broken down as follows:

	2014	2013
Sweden	10	21
Other countries	7,169	2,452
Total	7,179	2,473

The tax-loss carryforwards fall due as follows:

	2014
2015	138
2016–2019	226
2020 and beyond	611
No time limit	6,204
Total	7,179

Tax-loss carryforwards not included in the computation of deferred tax represent a tax value of SEK 628 million (152).

A non-current tax asset for current tax has arisen following changed legislation in Germany (December 2006) which entails that a tax credit received during the years 2002–2005 pertaining to previously abolished rules regulating tax on dividends, can now be recovered without conditions for further distribution. The released tax credit will be paid out during the years 2009–2017. The non-current part is represented in the balance sheet by a discounted value.

Balance sheet reconciliation of current tax[1]	2014	2013
Balance brought forward	530	342
Translation differences	-13	12
Interest- and discounting effects on non-current tax items	-9	-537
Change via income statement	3,855	5,235
Tax effect through equity[2]	-2,132	-456
Taxes paid, net	-3,168	-4,090
Reclassification to other receivables	—	24
Balance carried forward	-937	530

1) Including tax liabilities reported under provision for tax disputes.

2) Of which, equity hedge SEK - 965 million (- 598) and SEK -1 304 million (0) refer to positive outcome in Sweden regarding reassessment previous years.

	2014					
Balance sheet reconciliation of deferred tax	Balance brought forward	Translation differences	Acquisitions, disposals and assets held for sale	Changes via income statement	Changes via other comprehensive income	Balance carried forward
Non-current assets	34,913	684	-714	-2,046	—	32,837
Current assets	928	-30	-86	1,600	—	2,412
Provisions	-12,498	-284	186	-1,170	-2,587	-16,353
Other non-current liabilities	1,378	-38	256	-1,212	—	384
Current liabilities	-1,006	7	-61	-797	-774	-2,631
Cash flow hedges	2,342	101	—	—	-184	2,259
Tax losses carried forward	-384	-53	—	-186	—	-623
Total	25,673	387	-419	-3,811	-3,545	18,285

	2013					
Balance sheet reconciliation of deferred tax	Balance brought forward	Translation differences	Acquisitions, disposals and assets held for sale	Changes via income statement	Changes via other comprehensive income	Balance carried forward
Non-current assets	39,736	431	155	-5,409	—	34,913
Current assets	4,055	-51	—	-3,076	—	928
Provisions	-11,346 [1]	-181	—	-502	-469	-12,498
Other non-current liabilities	2,784	-23	—	-1,383	—	1,378
Current liabilities	-3,001	7	-12	2,000	—	-1,006
Cash flow hedges	1,560	46	—	—	736	2,342
Tax losses carried forward	-1,800	-19	12	1,423	—	-384
Total	31,988 [1]	210	155	-6,947	267	25,673

1) The amount has been recalculated by SEK -137 million compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Note 20 Non-controlling interests

	2014	2013
Share in profit before tax	124	151
Share in income tax expense	-230	-26
Total	-106	125

Note 21 Leasing

Leasing expenses

Machinery and equipment leased by the Group through finance leasing and reported as property, plant and equipment comprises:

	2014	2013
Cost	165	1,196
Accumulated depreciation according to plan	-164	-571
Total	1	625

Future payment commitments, as of 31 December 2014, for leasing contracts and rental contracts are broken down as follows:

	Finance leasing, nominal	Finance leasing, present value	Operating leasing
2015	73	69	1,034
2016	75	69	612
2017	69	60	531
2018	70	58	337
2019	71	56	218
2020 and beyond	524	401	470
Total	882	713	3,202

The current year's leasing expenses for Group assets amounted to SEK 1,087 million (1,180).

Leasing revenues

Certain Group companies own and operate power facilities on behalf of customers. Revenues from customers are broken down into two components – a fixed component to cover capital expenses and a variable component based on the quantity delivered.

Facilities are classified in accordance with standard leasing principles, based on the fixed revenue component.

On 31 December 2014, cost of assets reported under operating leases amounted to SEK 2,892 million (3,022). Accumulated depreciation amounted to SEK 1,545 million (1,599) and accumulated impairment losses amounted to SEK 305 million (30).

Future payments for this type of facility are broken down as follows:

	Finance leasing	Operating leasing
2015	—	439
2016	—	398
2017	—	369
2018	—	308
2019	—	278
2020 and beyond	—	956
Total	—	2,748

Note 22 Auditors' fees

	2014	2013
Annual audit assignment		
EY	42	44
PwC	—	1
Total	42	45
Audit-related activities besides the annual audit assignment		
EY	3	10
PwC	—	—
Total	3	10
Tax consulting		
EY	3	5
PwC	—	3
Total	3	8
Other assignments		
EY	6	12
PwC	—	5
Total	6	17

Note 23 Intangible assets: non-current

	2014					
	Development costs not yet capitalised	Capitalised development costs	Goodwill	Concessions and similar rights with finite useful lives	Renting rights, mining rights and similar rights with finite useful lives	Total
Cost						
Cost brought forward	47	2,016	39,135	15,456	3,972	**60,626**
Investments	3	26	—	212	51	**292**
Advance payments capitalised	—	—	—	2	—	**2**
Transfer from development costs not yet capitalised	-8	-3	—	-7	7	**-11**
Divestments/Disposals	—	—	—	-13	—	**-13**
Reclassifications	-38	56	—	-18	—	**—**
Divested companies	—	-75	—	-53	—	**-128**
Translation differences	—	82	2,409	926	188	**3,605**
Accumulated cost carried forward	**4**	**2,102**	**41,544**	**16,505**	**4,218**	**64,373**
Accumulated amortisation according to plan[1]						
Amortisation brought forward	—	-1,739	—	-7,926	-2,365	**-12,030**
Amortisation for the year	—	-104	—	-966	-179	**-1,249**
Divestments/disposals	—	—	—	12	—	**12**
Reclassifications	—	79	—	45	—	**124**
Divested companies	—	60	—	48	—	**108**
Translation differences	—	-80	—	-429	-135	**-644**
Accumulated amortisation carried forward	**—**	**-1,784**	**—**	**-9,216**	**-2,679**	**-13,679**
Impairment losses						
Impairment losses brought forward	—	-115	-15,783	-820	-595	**-17,313**
Impairment losses for the year	—	—	-11,163	-1,050	-7	**-12,220**
Reclassifications	—	-78	—	-45	140	**17**
Translation differences	—	—	-1,347	-113	-138	**-1,598**
Accumulated impairment	**—**	**-193**	**-28,293**	**-2,028**	**-600**	**-31,114**
Residual value according to plan carried forward	**4**	**125**	**13,251**	**5,261**	**939**	**19,580**
Advance payments to suppliers						6
Total						**19,586**

Cont. Note 23 Intangible assets: non-current

	2013					
	Development costs not yet capitalised	Capitalised development costs	Goodwill	Concessions and similar rights with finite useful lives	Renting rights, mining rights and similar rights with finite useful lives	Total
Cost						
Cost brought forward	50	2,008	37,932	14,876	3,879	58,745 [2]
Acquired companies	—	—	—	51	—	51
Investments	1	24	—	123	1	149
Advance payments capitalised	—	—	—	2	—	2
Transfer from development costs not yet capitalised	-1	4	—	2	—	5
Divestments/Disposals	-3	-30	—	-38	-8	-79
Reclassifications	—	-35	—	45	-1	9
Assets held for sale	—	—	—	-13	—	-13
Translation differences	—	45	1,203	408	101	1,757
Accumulated cost carried forward	**47**	**2,016**	**39,135**	**15,456**	**3,972**	**60,626**
Accumulated amortisation according to plan[1]						
Amortisation brought forward	—	-1,619	—	-6,603	-2,147	-10,369 [2]
Amortisation for the year	—	-110	—	-1,146	-159	-1,415
Divestments/disposals	—	30	—	11	7	48
Reclassifications	—	—	—	-1	1	—
Assets held for sale	—	—	—	12	—	12
Translation differences	—	-40	—	-199	-67	-306
Accumulated amortisation carried forward	**—**	**-1,739**	**—**	**-7,926**	**-2,365**	**-12,030**
Impairment losses						
Impairment losses brought forward	—	-115	-8,438	-254	-526	-9,333 [2]
Impairment losses for the year	—	—	-6,925	-556	-69	-7,550
Reclassifications	—	—	—	5	—	5
Translation differences	—	—	-420	-15	—	-435
Accumulated impairment	**—**	**-115**	**-15,783**	**-820**	**-595**	**-17,313**
Residual value according to plan carried forward	**47**	**162**	**23,352**	**6,710**	**1,012**	**31,283**
Advance payments to suppliers						2
Total						**31,285**

1) Estimated useful life is 3–4 years for capitalised development costs, 3–30 years for concessions etc., and 3–50 years for renting rights, mining rights etc.

2) Cost brought forward, amortisation brought forward and impairment brought forward has been recalculated with SEK 85 million, SEK 82 million respectively SEK 3 million compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Contractual commitments for acquisitions of non-current intangible assets amounted to SEK 16 million (20) as per 31 December 2014.

Goodwill

Goodwill is allocated to the Continental/UK operating segment, in the amount of SEK 13,251 million (23,277), and to the Nordic operating segment, in the amount of SEK 0 million (75). In the Continental/UK operating segment, SEK 675 million (10,390) is allocated to the cash-generating unit Trading, SEK 12,576 (12,461) million to Sales and SEK 0 million (426) to Wind. In the Nordic operating segment, SEK 75 million was allocated to the cash-generating unit Wind last year.

Goodwill is not subject to amortisation, but is tested annually for impairment. Impairment testing has been conducted through calculation of the value in use for the Group's Business Units, which is the basis for determining the cash-generating units. Impairment testing was conducted during the third quarter of 2014. See also Note 14 to the consolidated accounts, Impairment losses and reversed impairment losses. Earnings performance for Vattenfall's operating segments is shown in Note 8 to the consolidated accounts, Operating segments.

Note 24 Property, plant and equipment

	2014				
	Land and buildings [1]	Plants and other technical installations	Equipment, tools and fixtures and fittings	Construction in progress [2]	Total
Cost					
Cost brought forward[3]	69,585	465,843	14,366	45,570	**595,364**
Investments[4]	244	3,483	579	23,845	**28,151**
Reversed investments	—	—	—	-77	**-77**
Advance payments capitalised	—	71	—	2,842	**2,913**
Capitalised/reversed future expenses for decommissioning, restoration, etc.	172	1,095	—	99	**1,366**
Transfer from construction in progress	1,756	12,363	279	-14,387	**11**
Divestments/disposals	-775	-6,333	-430	-76	**-7,614**
Other reclassifications	545	9,562	178	-10,745	**-460**
Assets held for sale	-937	-1,014	—	—	**-1,951**
Divested companies	-1,753	-16,262	-445	-532	**-18,992**
Translation differences	2,535	19,888	713	2,332	**25,468**
Accumulated cost carried forward	**71,372**	**488,696**	**15,240**	**48,871**	624,179
Accumulated depreciation according to plan[5]					
Depreciation brought forward	-31,584	-253,466	-10,209	—	**-295,259**
Depreciation for the year	-1,358	-16,387	-922	—	**-18,667**
Divestments/Disposals	359	4,034	381	—	**4,774**
Other reclassifications	7	668	6	—	**681**
Assets held for sale	473	58	—	—	**531**
Divested companies	1,115	11,576	399	—	**13,090**
Translation differences	-1,379	-10,943	-509	—	**-12,831**
Accumulated depreciation carried forward	**-32,367**	**-264,460**	**-10,854**	**—**	-307,681
Impairment losses					
Impairment losses brought forward	-3,216	-28,249	-416	-2,648	**-34,529**
Impairment losses for the year	-140	-5,219	-277	-5,909	**-11,545**
Divestments/disposals	33	646	4	—	**683**
Other reclassifications	40	-96	-7	387	**324**
Translation differences	-179	-1,783	-32	-324	**-2,318**
Accumulated impairment losses carried forward	**-3,462**	**-34,701**	**-728**	**-8,494**	-47,385
Residual value according to plan carried forward	**35,543**	**189,535**	**3,658**	**40,377**	269,113
Advance payments to suppliers					**2,193**
Total					271,306

Cont. Note 24 Property, plant and equipment

	2013				
	Land and buildings [1]	Plants and other technical installations	Equipment, tools and fixtures and fittings	Construction in progress [2]	Total
Cost					
Cost brought forward[3]	65,615	432,629	13,005	58,127	569,376 [6]
Investments[4]	625	2,809	1,266	20,170	24,870
Advance payments capitalised	—	170	1	914	1,085
Capitalised/reversed future expenses for decommissioning, restoration, etc.	145	2,159	—	—	2,304
Transfer from construction in progress	1,504	9,324	227	-11,055	—
Divestments/disposals	-129	-2,322	-391	-446	-3,288
Other reclassifications	533	23,033	26	-23,341	251
Assets held for sale	-28	-11,260	-108	—	-11,396
Divested companies	—	—	-12	—	-12
Translation differences	1,320	9,301	352	1,201	12,174
Accumulated cost carried forward	69,585	465,843	14,366	45,570	595,364
Accumulated depreciation according to plan[5]					
Depreciation brought forward	-29,568	-240,183	-9,178	—	-278,929 [6]
Depreciation for the year	-1,420	-15,529	-1,253	—	-18,202
Divestments/Disposals	97	2,084	367	—	2,548
Other reclassifications	6	-33	25	—	-2
Assets held for sale	16	5,410	72	—	5,498
Divested companies	—	—	9	—	9
Translation differences	-715	-5,215	-251	—	-6,181
Accumulated depreciation carried forward	-31,584	-253,466	-10,209	—	-295,259
Impairment losses					
Impairment losses brought forward	-1,526	-8,695	-143	-3,765	-14,129 [6]
Impairment losses for the year	-1,617	-16,034	-266	-4,049	-21,966
Divestments/disposals	—	126	1	279	406
Assets held for sale	—	2,365	—	—	2,365
Other reclassifications	—	-5,355	—	4,976	-379
Translation differences	-73	-656	-8	-89	-826
Accumulated impairment losses carried forward	-3,216	-28,249	-416	-2,648	-34,529 [6]
Residual value according to plan carried forward	34,785	184,128	3,741	42,922	265,576
Advance payments to suppliers					3,584
Total					269,160

1) Cost for land and buildings includes cost of land and water rights amounting to SEK 14,567 million (14,455), which are not subject to depreciation.
2) Interest during the construction period has been reported as an asset in the amount of SEK 1,016 million (1,248) for the year. The average interest rate for 2014 was 3.39% for borrowings in SEK and 3.69% for borrowings in EUR.
3) Government grants received, balance brought forward, amount to SEK 6,527 million (6,325). Accumulated interest reported as an asset totalling SEK 7,135 million (6,119) is included in cost of buildings.
4) Government grants received during the year amounted to SEK 105 million (212).
5) Estimated useful life is 5-40 years for hydro power installations, 5-60 years for nuclear power installations, 5-50 years for other combined heat and power installations, 20-35 years for wind power installations, 5-35 years for electricity distribution lines, 5-20 years for mining operations, 5-10 years for office equipment and 25-50 years for office and warehouse buildings and workshops.
6) Cost brought forward, amortisation brought forward and impairment brought forward has been recalculated in the amount of SEK 7,486 million, SEK 6,201 million and SEK 1,285 million, respectively, compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

At 31 December 2014, contractual commitments for the acquisition of property, plant and equipment amounted to SEK 27,032 million (23,818).

Note 25 Investment property

	2014	2013
Cost		
Cost brought forward	1,427	1,407
Divestments/disposals	-136	-25
Reclassifications	-12	—
Translation differences	81	45
Accumulated cost carried forward	1,360	1,427
Accumulated depreciation according to plan[1]		
Depreciation brought forward	-412	-394
Depreciation for the year	-8	-8
Divestments/disposals	38	3
Translation differences	-24	-13
Accumulated depreciation carried forward	-406	-412
Impairment losses		
Impairment losses brought forward	-537	-524
Divestments/disposals	68	6
Reclassifications	5	—
Translation differences	-29	-18
Accumulated impairment losses carried forward	-493	-536
Residual value according to plan carried forward	461	479
Estimated fair value	532	562

1) The estimated useful life for investment property ranges from 25–50 years.

Cont. Note 25 Investment property

Investment property encompasses properties located in Berlin, Hamburg and eastern Germany. The estimated fair value has been defined as the price that would be received to sell an asset in an orderly transaction between participants at the measurement date. The fair value calculations have mainly been made by Vattenfall's own assessors. Determination of fair value for investment properties is done through a multiple method using local, comparable rents as observable data. This valuation method entails a categorisation if Level 3 in the fair value hierarchy. See Note 3 to the consolidated accounts, Accounting policies.

Rental income from external customers amounted to SEK 76 million (73). Direct costs for the concerned properties amounted to SEK 203 million (146), of which SEK 119 million (67) pertains to properties that did not generate rental income.

At 31 December 2014, contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or improvements amounted to SEK 9 million (12).

Note 26 Shares and participations owned by the Parent Company Vattenfall AB and other Group companies

Shares and participations owned by Parent Company Vattenfall AB

	Corporate Identity Number	Registered office	Number of shares 2014	Participation in % 2014	Carrying amount 2014	Carrying amount 2013
Sweden						
Borås Elhandel AB	556613-7765	Borås	1,000	100	100	100
Chlorout AB	556840-9253	Stockholm	500	100	—	—
Forsaströms Kraft AB	556010-0819	Åtvidaberg	400,000	100	48	48
Forsmarks Kraftgrupp AB	556174-8525	Östhammar	198,000	66	198	198
Försäkrings AB Vattenfall Insurance	516401-8391	Stockholm	200,000	100	200	200
Gotlands Energi AB	556008-2157	Gotland	112,500	75	13	13
Haparanda Värmeverk AB	556241-9209	Haparanda	200	50	1	1
Produktionsbalans PBA AB	556425-8134	Stockholm	4,800	100	5	5
Ringhals AB	556558-7036	Varberg	248,572	70	379	379
Svensk Kärnbränslehantering AB	556175-2014	Stockholm	360	36 [1]	—	—
Vattenfall Biomass Liberia AB	556809-8809	Stockholm	5,000	100	—	—
Vattenfall Business Services Nordic AB	556439-0614	Stockholm	100	100	130	130
Vattenfall Elanläggningar AB	556257-5661	Solna	1,000	100	1	1
Vattenfall Eldistribution AB	556417-0800	Solna	8,000	100	11	11
Vattenfall France Holding AB	556815-4214	Stockholm	30,500	100	11	11
Vattenfall Inlandskraft AB	556528-2562	Jokkmokk	3,000	100	4	4
Vattenfall Kundservice AB	556529-7065	Stockholm	100,000	100	30	30
Vattenfall Nuclear Fuel AB	556440-2609	Stockholm	100	100	96	96
Vattenfall PHEV Holding AB	556785-9383	Stockholm	100	100	—	—
Vattenfall Power Consultant AB	556383-5619	Stockholm	12,500	100	15	15
Vattenfall Power Management AB	556573-5940	Stockholm	6,570	100	12	12
Vattenfall Procurement International AB	556923-6671	Solna	500	100	—	—
Vattenfall Research & Development AB	556390-5891	Älvkarleby	14,000	100	17	17
Vattenfall Services Nordic AB	556417-0859	Stockholm	26,000	100	19	19
Vattenfall Vattenkraft AB	556810-1520	Stockholm	1,000	100	1	1
Vattenfall Vindkraft AB	556731-0866	Stockholm	1,000	100	3,000	3,000
Vattenfall VätterEl AB	556528-3180	Motala	100	100	291	291
Västerbergslagens Energi AB	556565-6856	Ludvika	14,674	51	15	15
Övertorneå Värmeverk AB	556241-9191	Övertorneå	200	50	2	2
Denmark						
Vattenfall A/S	213 11 332	Copenhagen	10,040,000	100	2,357	2,357
Vattenfall Energy Trading A/S	310 811 81	Copenhagen	500	100	49	49
Finland						
Vattenfall Sähkömyynti Oy	1842073-2	Helsinki	85	100	5	5
Germany						
Vattenfall GmbH	(HRB) 124048	Berlin	2	100	64,066	64,066
Poland						
Vattenfall IT Services Poland Sp.z.o.o	0000402391	Gliwice	58,000	100	12	12
Vattenfall Energy Trading Sp.z.o.o	0000233066	Warsaw	80,000	100	9	9
Netherlands						
N.V. Nuon Energy	33292246	Amsterdam	108,068,026	79 [2]	47,231	61,824
Other countries						
Aegir Wave Power Ltd, Scotland	SC367232	Edinburgh	33,594	77	9	9
Nautimus Ltd, UK	5532528	Grantham	1	100	4	4
Tonn Power Ltd, Ireland	E0461126	Maynooth	51	51	—	—
Vattenfall Reinsurance S.A., Luxembourg	(B) 49528	Luxembourg	13,000	100	111	111
Total					**118,452**	**133,045**

1) The Group owns a further 30% via Forsmarks Kraftgrupp AB.

2) The remaining 21% will be acquired in July 2015, in accordance with the original agreement.

Cont. Note 26 Shares and participations owned by the Parent Company Vattenfall AB and other Group companies

Larger shareholdings owned by other Group companies than the Parent Company Vattenfall AB
When calculating the participation percentages, consideration is taken for the non-controlling interests in the respective companies.

	Registered office	Participation in % 2014
Sweden		
Barsebäck Kraft AB	Kävlinge	70
Vattenfall Indalsälven AB	Bispgården	74
Vattenfall Lilla Luleälven AB	Stockholm	100
Denmark		
Vattenfall Vindkraft A/S	Esbjerg	100
Vattenfall Vindkraft Nørrekær Enge A/S	Esbjerg	98
Finland		
Pamilo Oy	Uimaharju	100
Germany		
DanTysk Offshore Wind GmbH	Hamburg	51
Fernheizwerk Neukölln AG	Berlin	81
Kernkraftwerk Brunsbüttel GmbH & Co. oHG	Hamburg	67
Kraftwerke Schwarze Pumpe GmbH	Spremberg	100
MVR Müllverwertung Rugenberger Damm GmbH & Co. KG	Hamburg	55
Nuon Energie und Service GmbH	Heinsberg	100
Nuon Epe Gasspeicher GmbH	Heinsberg	100
Vattenfall Europe Business Services GmbH	Hamburg	100
Stromnetz Berlin GmbH	Berlin	100
Vattenfall Europe Generation AG	Cottbus	100
Vattenfall Europe Information Services	Hamburg	100
Vattenfall Europe Kundenservice GmbH	Hamburg	100
Vattenfall Europe Mining AG	Cottbus	100
Vattenfall Eurpoe Metering GmbH	Hamburg	100
Vattenfall Europe Netzservice GmbH	Berlin	100
Vattenfall Europe New Energy GmbH	Hamburg	100
Vattenfall Europe Nuclear Energy GmbH	Hamburg	100
Vattenfall Europe Sales GmbH	Hamburg	100
Vattenfall Europe Windkraft GmbH	Hamburg	100
Vattenfall Europe Wärme AG	Berlin	100
Vattenfall Wärme Hamburg GmbH	Hamburg	75
Vattenall Energy Trading GmbH	Hamburg	100
Netherlands		
Emmtec Services B.V.	Emmen	100
Feenstra Isolatie B.V.	Veendam	100
Feenstra Installatie Service B.V.	Amsterdam	100
Feenstra N.V.	Amsterdam	100
Feenstra Verwarming B.V	Lelystad.	100
N.V. Nuon Duurzame Energie	Arnhem	100
N.V. Nuon Energy Sourcing	Amsterdam	100
N.V. Nuon Sales	Amsterdam	100
N.V. Nuon Sales Nederland	Amsterdam	100
N.V. Nuon Warmte	Amsterdam	100
Nuon Epe Gas Service B.V.	Amsterdam	100
Nuon Power Generation B.V	Utrecht.	100
Nuon Power Projects I B.V.	Amsterdam	100
Nuon Renewables NSW I B.V.	Amsterdam	100
Nuon Storage B.V.	Amsterdam	100
Vattenfall Energy Trading Netherlands N.V.	Amsterdam	100
Zuidlob B.V.	Ede	100
UK		
Eclipse Energy UK Plc	Grantham	100
Kentish Flats Ltd	London	100
Nuon UK Ltd	Cornwall	100
Pen Y Cymoedd Wind Farm Ltd.	Cornwall	100
Swinford Wind Farm Ltd.	Cornwall	100
Thanet Offshore Wind Ltd	London	100
Vattenfall Wind Power Ltd	Hexham	100

Subsidiaries with material non-controlling ownership interests

Forsmarks Kraftgrupp

Forsmarks Kraftgrupp conducts nuclear power operations from three nuclear reactors in Östhammar municipality, Uppsala County.

Forsmarks Kraftgrupp is owned by Vattenfall AB (66.0%) together with Mellansvensk Kraftgrupp AB (25.5%) – with Fortum as the largest owner – and E.ON Kärnkraft Sverige AB (8.5%). Forsmarks Kraftgrupp is reported as a Group company in the Vattenfall Group since Vattenfall has control over Forsmarks Kraftgrupp according to IFRS 10.

Sales of the electric power that is generated are made on a pro rata basis to the part owners on a cost plus basis, pursuant to a consortium agreement. The consortium agreement entails, further, that the part owners are responsible for the company's funding on a pro rata basis, and that the company's operations shall in principle not generate any profit.

Generation in 2014 amounted to 25.3 TWh (25.2), and the average energy availability for Forsmark was 88.9% (89.5%).

Ringhals

Ringhals conducts nuclear power operations from four nuclear reactors on the Swedish west coast in Varberg municipality.

Ringhals is owned by Vattenfall AB (70.4%) and E.ON Kärnkraft Sverige AB (29.6%). Ringhals is reported as a Group company in the Vattenfall Group since Vattenfall has control over Ringhals according to IFRS 10.

Sales of the electric power that is generated are made on a pro rata basis to the part owners on a cost plus basis, pursuant to a consortium agreement. The consortium agreement entails, further, that the part owners are responsible for the company's funding on a pro rata basis, and that the company's operations shall in principle not generate any profit.

Generation in 2014 amounted to 24.6 TWh (26.7), and the average energy availability for Ringhals was 77.3% (83.4%).

Vattenfall Wärme Hamburg

Vattenfall owns 74.9% of the shares in Vattenfall Wärme Hamburg, based in Hamburg, Germany. The other part-owner, the City of Hamburg, has a veto right in decisions that require a 75.0%majority. The veto right does not limit Vattenfall's control over the company's continuing operations according to IFRS 10.

Since there is a profit-and-loss transfer agreement in place between the company and Vattenfall GmbH, the City of Hamburg does not have a profit participation in the annual result, but receives an annual guaranteed fixed dividend. If Vattenfall GmbH decides to terminate the profit-and-loss transfer agreement, the City of Hamburg has the right to sell its shares back to Vattenfall. In addition, the City of Hamburg has a right to purchase Vattenfall's 74.9% shareholding' with effect in 2019.

Nuon Energy

Vattenfall owns 79.0% of the shares in N.V. Nuon Energy. The other part-owners, mainly Dutch municipalities and regions, have a veto right on certain minority protection issues and have the right to board representation as long as Vattenfall's ownership is less than 80% of the company. Vattenfall has a majority representation on the board. The minority owners' veto right and board representation does not limit Vattenfall's control over the company's operations according to IFRS 10.

The other part-owners do not have a right to the company's profits, but receive a guaranteed fixed dividend. Pursuant to an agreement, Vattenfall is to acquire the remaining 21.0% of the shares in July 2015 for an agreed-upon purchase price of EUR 2,071.3 million.

Cont. Note 26 Shares and participations owned by the Parent Company Vattenfall AB and other Group companies

Following is condensed financial information for Forsmarks Kraftgrupp, Ringhals, and Vattenfall Wärme Hamburg:

	2014			2013		
	Forsmarks Kraftgrupp	Ringhals	Vattenfall Wärme Hamburg	Forsmarks Kraftgrupp	Ringhals	Vattenfall Wärme Hamburg
Income statements in summary						
Net sales	6,590	9,019	2,821	6,588	8,997	3,018
Profit for the year	377	688	-142	97	447	-112
– of which allocated to non-controlling interests	128	203	—	33	132	—
Balance sheets in summary						
Non-current assets	43,874	54,356	3,826	42,059	44,771	3,606
– of which, receivables on group companies	5,144	7,301	—	4,740	50	15
– of which, receivables on non-controlling interests	2,531	3,044	—	2,298	2,655	—
Current assets	4,507	5,425	2,839	4,611	11,895	2,631
– of which, receivables on group companies	533	744	2,667	237	7,353	2,306
– of which, receivables on non-controlling interests	108	—	—	—	—	—
Total assets	**48,381**	**59,781**	**6,665**	**46,670**	**56,666**	**6,237**
Equity	8,524	10,801	2,634	8,110	10,035	2,972
– of which, allocated to non-controlling interests	2,898	3,193	661	2,758	2,967	746
Liabilities	39,857	48,980	4,031	38,560	46,631	3,265
–of which, liabilities to group companies	10,589	14,505	275	10,341	13,797	284
– of which, liabilities to non-controlling interests	5,416	5,955	—	5,081	5,579	—
Total equity and liabilities	**48,381**	**59,781**	**6,665**	**46,670**	**56,666**	**6,237**
Statement of cash flows in summary						
Cash flow from operating activities	340	1,282	407	-350	587	432
Cash flow from investing activities	-1,286	-2,652	-264	-1,371	-1,902	-184
Cash flow from financing activities	960	1,424	16	1,314	1,485	1
– of which, dividend paid to group companies	—	7	—	—	3	—
– of which, dividend paid to non-controlling interests	—	2	—	—	1	—
Cash flow for the year	14	54	159	-407	170	249

Note 27 Participations in associated companies and joint arrangements

	2014	2013
Balance brought forward	8,391	8,183 [1]
New share issues and shareholders' contributions	9	17
Withdrawals/repaid shareholders contributions	-253	-85
Divested companies	-2	-97
Impairment losses	-155	-477
Other changes	-101	-33
Profit participations and dividends	-555	553
Translation differences	431	330
Balance carried forward	**7,765**	**8,391**

1) The amount has been recalculated by SEK -3,437 million compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Cont. Note 27 Participations in associated companies and joint arrangements

Shares and participations owned by the Parent Company Vattenfall AB or by other Group companies

	Corporate Identity Number	Registered office	Participation in % 2014	Carrying amount Group 2014	Carrying amount Group 2013	Carrying amount Parent Company 2014	Carrying amount Parent Company 2013
Associated companies and joint ventures owned by the Parent Company Vattenfall AB							
Sweden							
Taggen Vindpark Elnät AB	556701-3981	Gothenburg	50	—	—	—	—
Norway							
Northconnect KS	996625001	Kristiansand	23	4	3	—	12
Northconnect AS	995878550	Kristiansand	25	2	1	—	2
Associated companies and joint ventures owned by other Group companies than the Parent Company Vattenfall AB							
Sweden							
V² Plug-In Hybrid Vehicle Partnership HB	969741-9175	Gothenburg	50	609	756	—	—
UK							
East Anglia Offshore Wind Ltd	06990367	Hexham	50	—	—	—	—
Germany							
DOTI Deutsche Offshore Testfeld und Infrastruktur GmbH & Co. KG	A 200395	Oldenburg	26	294	453	—	—
GASAG Berliner Gaswerke AG	HRB 965	Berlin	32	3,189	3,212	—	—
Kernkraftwerk Brokdorf GmbH & Co. oHG	HRA 99143	Hamburg	20	2,226	2,284	—	—
Kernkraftwerk Stade GmbH & Co. oHG	HRA 99146	Hamburg	33	661	970	—	—
Netherlands							
B.V. NEA	09018339	Dodewaard	23	14	13	—	—
C.V. De Horn	34227063	Amsterdam	42	2	2	—	—
C.V. Groettocht	37085868	Amsterdam	50	11	9	—	—
C.V. Oudelandertocht	37085867	Amsterdam	50	12	14	—	—
C.V. Waardtocht	37085866	Amsterdam	50	7	7	—	—
C.V. Waterkaaptocht	37085865	Amsterdam	50	15	14	—	—
C.V. Windpoort	34122462	Heemskerk	40	8	6	—	—
NoordzeeWind C.V.	34195602	Oegstgeest	50	675	620	—	—
V.O.F. Windpark Oom Kees	09210903	Ede	13	2	1	—	—
Wagendorp C.V.	37073928	Middenmeer	25	—	2	—	—
Westpoort Warmte B.V.	34121626	Amsterdam	50	25	18	—	—
Windpark Willem-Annapolder B.V.	22049359	Ede	33	4	3	—	—
V.O.F. Noordpier Wind	51173441	Heemskerk	50	5	3	—	—
Total				**7,765**	**8,391**	**—**	**14**

Financial information pertaining to associated companies of material significance for Vattenfall:

	GASAG Berliner Gaswerke AG 2014	GASAG Berliner Gaswerke AG 2013	Kernkraftwerk Brokdorf GmbH & Co. oHG 2014	Kernkraftwerk Brokdorf GmbH & Co. oHG 2013
Net sales	10,000	11,282	5,151	7,029
Profit or loss after tax for continuing operations	300	531	-683	1,905
Profit or loss after tax for discontinued operations	—	—	—	—
Other comprehensive income	-359	168	—	—
Total comprehensive income	-59	699	-683	1,905
Current assets	4,161	4,622	30,627	26,088
Non-current assets	16,867	15,786	6,644	3,340
Current liabilities	3,874	3,086	4,160	2,498
Non-current liabilities	10,534	10,434	20,645	14,075
Paid dividend to Vattenfall AB	165	85	—	—
Contingent liabilities	128	117	—	—

GASAG Berliner Gaswerke AG is an energy service provider based in Berlin, Germany. The business activities of the GASAG Group involve the transportation, distribution and sale of natural gas, heat, electricity and water, the operation of storage facilities and other gas-related activities. Vattenfall own 31.58% of the shares in GASAG.

Kernkraftwerk Brokdorf GmbH & Co. KG is based in Brokdorf near Hamburg, Germany. The purpose of the company is to operate a nuclear power plant. Vattenfall owns 20.0% of the shares in Brokdorf.

Cont. Note 27 Participations in associated companies and joint arrangements

Financial information pertaining to other associated companies:

	2014	2013
Profit or loss after tax for continuing operations	-315	-138
Profit or loss after tax for discontinued operations	—	—
Other comprehensive income	—	—
Total comprehensive income	-315	-138

Financial information related to joint ventures:

	2014	2013
Profit or loss after tax for continuing operations	157	98
Profit or loss after tax for discontinued operations	—	—
Other comprehensive income	—	—
Total comprehensive income	157	98

As described in Note 3 to the consolidated accounts, Accounting policies under the heading New IFRSs and interpretations effective as of 2014, new accounting rules apply as of 2014 according to IFRS 11 — *Joint Arrangements*. Under IFRS 11, the Krümmel nuclear power plant in Germany, which is 50%-owned by Vattenfall, will be classified as a "joint operation". This leads to a change from application of the equity method to recognition of Vattenfall's share in the assets, liabilities as well as revenues and expenses in Krümmel which have had the following significant impact on Vattenfall's financial statements:

	31 December 2013		
	As reported previously	Adjustments	After adjustments
Balance sheet:			
Participations in associated companies and joint arrangements	12 076	- 3 685	8 391
Other non-current receivables	6 587	99	6 686
Inventories	18 448	148	18 596
Trade receivables and other receivables	32 042	2 408	34 450
Total assets	486 426	- 942	485 484
Interest-bearing liabilities (non-current)	98 004	- 7 630	90 374
Interest-bearing provisions (non-current)	69 282	7 271	76 553
Deferred tax liabilities	31 285	366	31 651
Trade payables and other liabilities	31 908	- 1 906	30 002
Interest-bearing provisions (current)	5 429	707	6 136
Interest-bearing liabilities (current)	27 456	- 177	27 279
Total equity and liabilities	486 426	- 942	485 484
Capital employed	297 178	- 3 472	293 706
Capital employed, average	303 000	- 257	302 743
Net debt	106 912	- 7 914	98 998
Adjusted net debt	162 597	- 7	162 590
Income statement:			
Net sales	171 684	569	172 253
Cost of products sold	- 158 693	124	- 158 569
Participation in the results of associated companies	784	- 376	408
Operating profit (EBIT)	- 6 453	235	- 6 218
Financial income and expenses	- 8 758	- 279	- 9 037
Income tax expense	1 668	44	1 712
Profit for the period	- 13 543	—	- 13 543

Note 28 Other shares and participations

	2014	2013
Balance brought forward	2,699	2,980
Investments	3	72
New share issues and shareholders' contributions	47	38
Divested companies	-2,261	-57
Impairment losses	-219	-341
Translation differences	15	7
Balance carried forward	**284**	**2,699**

		Carrying amount Group		Carrying amount Parent Company	
	Participation in % 2014	2014	2013	2014	2013
Shares and participations owned by the Parent Company Vattenfall AB					
Enea S.A., Poland	—	—	2,390	—	2,390
NREP Logistics AB, Sweden	—	—	26	—	26
Other companies	—	6	5	5	4
Shares and participations owned by other Group companies than the Parent Company Vattenfall AB					
Germany					
Fernkälte Geschäftsstadt Nord GbR	10	2	23	—	—
GNS Gesellschaft für Nuklear-Service GmbH	6	24	30	—	—
Other companies	—	23	—	—	—
Netherlands					
Cuculus GmbH	17	25	24	—	—
Electrisk Verzekeringsmaatschappij	21	24	22	—	—
Locamation Control systems B.V.	39	69	24	—	—
Topell Energy B.V.	14	32	29	—	—
Tri-O-Gen Group B.V.	19	25	26	—	—
Other companies	—	25	71	—	—
Other countries/companies					
Elini	13	29	29	—	—
Total		**284**	**2,699**	**5**	**2,420**

Note 29 Share in the Swedish Nuclear Waste Fund

	2014	2013
Balance brought forward	30,600	29,954
Payments	1,175	1,157
Disbursements	-753	-874
Returns	962	363
Balance carried forward	**31,984**	**30,600**

According to the Swedish Nuclear Activities Act (1984:3), any organisation in Sweden with a permit to own or run a nuclear installation is obliged to dismantle the plant in a safe manner, to manage spent fuel and other radioactive waste and to conduct necessary research and development. The permit holder shall also finance this dismantling, etc.

The financing of future fees for spent nuclear fuel, etc., is currently ensured by the Act on the Financing of Future Expenses of Spent Nuclear Fuel, etc. Pursuant to this law, the reactor owner is required to continue to pay a generation-based fee to the board of the Swedish Nuclear Waste Fund, which manages paid-in funds. The fund reimburses the owner of the reactor for expenses as the owner's obligations pursuant to the Swedish Nuclear Activities Act are fulfilled. According to agreements between the Swedish state, Vattenfall AB and E.ON Sverige AB, fund assets for Ringhals AB shall be managed by Vattenfall AB and fund assets for Barsebäck Kraft AB by E.ON Kärnkraft Sverige AB.

On 31 December 2014, the fair value of the Vattenfall Group's share of the Swedish Nuclear Waste Fund was SEK 34,569 million (30,836).

As stated in Note 42, other interest-bearing provisions, to the consolidated accounts, provisions for future expenses for decommissioning, etc. within Swedish nuclear power operations amount to SEK 41,217 million (40,118).

Contingent liabilities attributable to the Swedish Nuclear Waste Fund are described in Note 51 to the consolidated accounts, Contingent liabilities.

Note 30 Derivative assets and derivative liabilities

	Non-current portion, maturity 1–5 years		Non-current portion, maturity >5 years		Total non-current portion		Current portion		Total	
Derivative assets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Financial contracts	3,192	2,533	9,510	5,074	12,702	7,607	2,116	1,365	**14,818**	**8,972**
Commodity and commodity-related contracts	5,396	8,384	268	248	5,664	8,632	11,226	9,602	**16,890**	**18,234**
Total	**8,588**	**10,917**	**9,778**	**5,322**	**18,366**	**16,239**	**13,342**	**10,967**	**31,708**	**27,206**

	Non-current portion, maturity 1–5 years		Non-current portion, maturity >5 years		Total non-current portion		Current portion		Total	
Derivative liabilities	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Financial contracts	3,031	2,334	5,895	4,822	8,926	7,156	1,294	1,514	**10,220**	**8,670**
Commodity and commodity-related contracts	2,829	2,578	5	—	2,834	2,578	3,771	2,766	**6,605**	**5,344**
Total	**5,860**	**4,912**	**5,900**	**4,822**	**11,760**	**9,734**	**5,065**	**4,280**	**16,825**	**14,014**

Note 31 Other non-current receivables

	Receivables from associated companies		Other receivables		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Balance brought forward	22	18	6,664	5,330 [1]	**6,686**	**5,348**
New receivables	37	5	5,062	1,061	**5,099**	**1,066**
Payments received	-24	-1	-120	-122	**-144**	**-123**
Impairment losses	—	—	—	-304	**—**	**-304**
Assets held for sale	—	—	-1	-1,418	**-1**	**-1,418**
Reclassifications	-8	—	-3,288	2,076	**-3,296**	**2,076**
Translation differences	—	—	63	41	**63**	**41**
Balance carried forward	**27**	**22**	**8,380**	**6,664**	**8,407**	**6,686**
Breakdown of non-current receivables:						
Non-current interest-bearing receivables	27	22	1,154	1,080	**1,181**	**1,102**
Non-current noninterest-bearing receivables	—	—	7,226	5,584	**7,226**	**5,584**
Total	**27**	**22**	**8,380**	**6,664**	**8,407**	**6,686**

1) The amount has been recalculated by SEK 99 million compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Note 32 Inventories

	2014	2013
Inventories held for own use		
Nuclear fuel	7,845	8,464
Materials and spare parts	3,823	3,526
Fossil fuel	2,569	2,229
Other	1,055	628
Total	**15,292**	**14,847**
Inventories held for trading		
Fossil fuel	2,205	2,031
Emission allowances/certificates	975	1,718
Biomass	30	—
Total	**3,210**	**3,749**
Total inventories	**18,502**	**18,596**

Inventories recognised as an expense in 2014 amount to SEK 44,641 million (40,522). Impairment losses for inventory for own use amounted to SEK 28 million (58) during the year. Reversed impairment amounted to SEK 18 million (3).

Parts of inventories are held for trading. These inventories are measured at fair value. For emission allowances that are held for trading, fair value is a quoted price (Level 1).

For other commodities fair value measurement is derived from an observable market price (API#2 for coal), which means a categorisation into Level 2 of the fair value hierarchy. See Note 3 to the consolidated accounts, Accounting policies.

Note 33 Intangible assets: current

Attributable to emission allowances and certificates held for own use.

	Emission allowances		Certificates		Total	
	2014	2013	2014	2013	2014	2013
Balance brought forward	7,377	5,818 [1]	158	269	**7,535**	**6,087**
Purchases	3,304	6,114	321	528	**3,625**	**6,642**
Received free of charge	—	—	201	211	**201**	**211**
Sold	-293	-2,884	-300	-235	**-593**	**-3,119**
Redeemed	-6,019	-1,803	-183	-581	**-6,202**	**-2,384**
Disposals	—	-3	-29	-34	**-29**	**-37**
Reclassification to inventories	—	-83	—	—	**—**	-83
Translation differences	348	218	—	—	**348**	**218**
Balance carried forward	**4,717**	**7,377**	**168**	**158**	**4,885**	**7,535**

1) The amount has been recalculated by SEK 4 million compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

Note 34 Trade receivables and other receivables

	2014	2013
Accounts receivable – trade	25,014	29,520
Receivables from associated companies	30	25
Other receivables	6,173	4,905
Total	**31,217**	**34,450**

Age analysis
The collection period is normally between 10 and 30 days

	2014			2013		
	Receivables, gross	Impaired receivables	Receivables, net	Receivables, gross	Impaired receivables	Receivables, net
Accounts receivable - trade						
Not due	20,831	24	**20,807**	24,551	26	**24,525**
Past due 1–30 days	1,759	21	**1,738**	1,762	39	**1,723**
Past due 31–90 days	610	41	**569**	671	38	**633**
Past due >90 days	3,269	1,369	**1,900**	3,828	1,189	**2,639**
Total	**26,469**	**1,455**	**25,014**	**30,812**	**1,292**	**29,520**
Receivables from associated companies						
Not due	28	—	**28**	14	—	**14**
Past due 1–30 days	2	—	**2**	5	—	**5**
Past due 31–90 days	—	—	**—**	2	—	**2**
Past due >90 days	—	—	**—**	4	—	**4**
Total	**30**	**—**	**30**	**25**	**—**	**25**
Other receivables						
Not due	5,035	2	**5,033**	4,859	2	**4,857**
Past due 1–30 days	237	21	**216**	41	2	**39**
Past due 31–90 days	153	30	**123**	5	1	**4**
Past due >90 days	851	50	**801**	33	28	**5**
Total	**6,276**	**103**	**6,173**	**4,938**	**33**	**4,905**

Impaired receivables as above:

	2014	2013
Balance brought forward	1,325	980
Provision for impairment losses	556	587
Impairment losses	-323	-269
Reversed impairment losses	-44	-13
Reclassifications	1	15
Divested companies	-33	-1
Translation differences	76	26
Balance carried forward	**1,558**	**1,325**

Note 35 Advance payments paid

	2014	2013
Margin calls paid, energy trading	2,150	2,368
Other advance payments	467	397
Total	**2,617**	**2,765**

A margin call is a marginal security (collateral) that Vattenfall pays its counter-party, i.e., to the holder of a derivative position to cover the counterpart's credit risk, either bilaterally via OTC or through an exchange. In Vattenfall's business activities, margin calls occur in energy trading and in the treasury operations.

Margin calls paid within energy trading are recognised on the balance sheet as advance payments received and are thereby recognised in the statement of cash flows as cash flows from changes in operating assets. Margin calls paid within financing activities are recognised as short-term investments (Note 37 to the consolidated accounts, Short-term investments) and are thereby reported in the statement of cash flows as cash flows from financing activities.

Note 36 Prepaid expenses and accrued income

	2014	2013
Prepaid insurance premiums	68	198
Prepaid expenses, other	553	415
Prepaid expenses and accrued income, electricity	2,367	2,618
Accrued income, other	2,634	3,054
Total	**5,622**	**6,285**

Note 37 Short-term investments

	2014	2013
Interest-bearing investments	29,735	9,775
Margin calls, financing activities	3,050	1,685
Total	**32,785**	**11,460**

Note 38 Cash and cash equivalents

	2014	2013
Cash and bank balances	11,839	15,749
Cash equivalents	444	52
Total	**12,283**	**15,801**

Note 39 Assets held for sale

Refers to combined heat and power assets in the Netherlands and Denmark as well as waste incineration plants in Germany.

	2014	2013
Property, plant and equipment	3,928	3,160
Other non-current assets	572	1,602
Trade receivables and other receivables	217	51
Cash and cash equivalents	—	1
Total assets	**4,717**	**4,814**
Other interest-bearing provisions	783	1,038
Deferred tax liabilities	559	16
Trade payables and other liabilities	379	1,858
Total liabilities	**1,721**	**2,912**

Note 40 Interest-bearing liabilities and related financial derivatives

Interest-bearing liabilities include Hybrid Capital and other interest-bearing liabilities - mainly bond issues and liabilities pertaining to acquisitions of Group companies.

In June 2005, Vattenfall issued Hybrid Capital. Hybrid Capital has a perpetual maturity and is junior to all of Vattenfall's unsubordinated debt instruments. There is no redemption requirement, although the intention is to repay the loan in 2015. For this reason, Hybrid Capital is reclassified as current liability. The interest is fixed for the initial ten-year period, after which a floating rate is applied. The interest is conditional upon, among other things, Vattenfall's means of paying dividends to owners and the key ratio "Interest Coverage Trigger Ratio" amounting to at least 2.5.

Hybrid Capital is reported as follows:

	2014	2013
Balance brought forward	8,835	8,543
Discount allocation	16	16
Translation differences	534	276
Balance carried forward	**9,385**	**8,835**

The Interest Coverage Trigger Ratio key ratio is calculated as follows:

	2014	2013
Funds from operations (FFO)	32,131	31,888
Interest paid	3,074	4,086
FFO plus interest paid (a)	**35,205**	**35,974**
Interest expenses (b)	3,832	4,833
Interest Coverage Trigger Ratio (a/b)	**9.19**	**7.44**

Reported values for Hybrid Capital and other interest-bearing liabilities are specified as follows:

	Non-current portion maturity 1-5 years		Non-current portion maturity >5 years		Total non-current portion		Current portion		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Bond issues	27,575	17,899	35,084	39,787	**62,659**	**57,686**	2,064	13,807	**64,723**	**71,493**
Commercial paper	—	—	—	—	**—**	**—**	4,791	4,464	**4,791**	**4,464**
Liabilities to credit institutions	2,112	1,269	349	69	**2,461**	**1,338**	486	814	**2,947**	**2,152**
Liabilities pertaining to acquisitions of subsidiaries[1]	—	17,892	—	—	**—**	**17,892**	19,293	—	**19,293**	**17,892**
Liabilities to owners of non-controlling interests	159	173	11,468	11,325	**11,627**	**11,498**	757	927	**12,384**	**12,425**
Liabilities to associated companies	—	365	—	—	**—**	**365**	2,617	1,341	**2,617**	**1,706**
Other liabilities	1,272	1,358	788	237	**2,060**	**1,595**	7,728[2]	5,926 [2]	**9,788**	**7,521**
Total interest-bearing liabilities excluding Hybrid Capital	**31,118**	**38,956**	**47,689**	**51,418**	**78,807**	**90,374**	**37,736**	**27,279**	**116,543**	**117,653**
Hybrid Capital	—	8,835	—	—	**—**	**8,835**	9,385	—	**9,385**	**8,835**
Total interest-bearing liabilities	**31,118**	**47,791**	**47,689**	**51,418**	**78,807**	**99,209**	**47,121**	**27,279**	**125,928**	**126,488**
Derivatives (swaps) attributable to the above interest-bearing liabilities above	-507	-430	-3,607	250	**-4,114**	**-180**	-616	-64	**-4,730**	**-244**

1) According to agreement, the liability pertaining to the acquisition of the remaining 21% of the shares in N.V. Nuon Energy, SEK 19,293 million, is to be paid in July 2015.
2) Of which, margin calls within financing activities SEK 7,013 million (2,176).

Note 40 Interest-bearing liabilities and related financial derivatives

The following bonds are issued by Vattenfall. The table shows the largest issues made. No new issues were made in 2013 or 2014.

Type	Issued	Currency	Nominal amount	Coupon %	Maturity
Euro Medium Term Note	2009	EUR	1,100	5.250	2016
Euro Medium Term Note	2003	EUR	500	5.000	2018
Euro Medium Term Note	2008	EUR	650	6.750	2019
Euro Medium Term Note	2009	GBP	350	6.125	2019
Euro Medium Term Note	2009	EUR	1,100	6.250	2021
Euro Medium Term Note	2004	EUR	500	5.375	2024
Euro Medium Term Note	2009	GBP	1,000	6.875	2039

Undiscounted future cash flows (including interest payments on the interest-bearing liabilities mentioned above, as well as including trade payables and taking into account future cash flows for derivatives) are shown in the table below, i.e., all financial instruments with contractual payments on 31 December. Floating interest cash flows with future interest fixing dates are estimated based on observable interest rate curves at year end. All future cash flows in foreign currency are translated to SEK using the rate on the balance sheet date for the annual accounts.

	Non-current portion maturity 1-5 years		Non-current portion maturity > 5 years		Total non-current portion		Current portion		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Interest-bearing liabilities	42,111	68,167	65,284	71,775	**107,395**	**139,942**	51,421	28,756	**158,816**	**168,698**
Derivatives (swaps)	-2,390	-2,592	-10,388	-7,928	**-12,778**	**-10,520**	-1,343	-1,383	**-14,121**	**-11,903**
Trade payables and other financial liabilities	1,558	1,539	4,198	4,461	**5,756**	**6,000**	30,641	30,002	**36,397**	**36,002**
Total	**41,279**	**67,114**	**59,094**	**68,308**	**100,373**	**135,422**	**80,719**	**57,375**	**181,092**	**192,797**

Note 41 Pension provisions

General

Vattenfall's pension obligations in the Group's Swedish and German companies are predominantly defined benefit pension obligations. The concerned pension plans are primarily retirement pensions, disability pensions and family pensions. The assets in these funds (the plan assets) are reported at fair value. There are also pension plans in these and other countries that are defined contribution plans.

Swedish pension plans

The Swedish pension plans supplement the Swedish social insurance system and are the result of agreements between employer and employee organisations. Almost all of Vattenfall's employees in Sweden are covered by a pension plan that is primarily a defined benefit plan, known as ITP-Vattenfall. This pension plan guarantees employees a pension based on a percentage of their salary. These benefits are secured through provisions on the balance sheet.

Certain of Vattenfall's obligations in the ITP plan (such as spousal benefits and disability pensions) are secured through an insurance policy from Alecta (a Swedish mutual insurance company). According to a statement (UFR 10) issued by the Swedish Financial Reporting Board, this plan is a multi-employer defined benefit plan. As in previous years, Vattenfall has not had access to such information to make it possible to report this plan as a defined benefit plan. This year's share of the total savings premium in Alecta is 0.36726%, while Vattenfall's share of the total number of actively insured in Alecta is 1.25039%. Alecta's surplus can be distributed among the policyholders and/or the insureds. At the end of 2014, Alecta's surplus in the form of its so-called collective funding amounted to 143% (148%). Collective funding consists of the fair value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's actuarial calculation assumptions.

German pension plans

The pension plans in Germany are based on collective agreements in line with market terms and conditions. Substantial defined benefit plans exist in Germany.

Two pension plans exist, both secured through Pensionskasse der Bewag, a mutual insurance company. Obligations are secured through funds paid in by Vattenfall and its employees. One plan has been classified as a defined contribution plan and is reported as such since the benefit is based on paid-in premiums and Pensionskasse der Bewag's financial position. For employees who began their employment before 1 January 1984, there is a supplementary agreement providing employees working until retirement age with a pension equal to up to 80% of the salary on which the pension is based. Half of the statutory pension and the entire benefit from Pensionskasse der Bewag, including surpluses, are credited to the guaranteed amount. Vattenfall's obligations encompass the entire pension obligation. The plan assets attributable to personnel hired before 1 January 1984 are reported as plan assets at fair value. Pensionskasse der Bewag's operations are supervised by a regulatory authority. The assets of Pensionskasse are investment funds that are not listed on the stock exchange. The fair value is determined by the repurchase price.

In addition, Vattenfall has pension obligations for employees in Hamburg that mainly consist of the company's obligations to personnel employed before 1 April 1991 and who have been employed for at least 10 years. The sum of the retirement pension, statutory pension and pensions from third parties normally amounts to a maximum of 65% of pensionable salary.

Dutch pension plans

In the Netherlands Vattenfall has the majority of the pension obligations secured through the ABP pension fund and the "Metaal en Techniek" pension fund.

In 2013 an amendment was made in IAS 19 – *Employee Benefits* with regards to the classification requirements for pension plans. This amendment has resulted in a change in classification of the multi-employer plans in the Netherlands from defined benefit to defined contribution. The change in classification does not impact the financial performance of the Group as these were already accounted for as defined contribution plans in earlier years under the multi-employer scheme exemption.

The ABP and "Metaal en Techniek" plans are thus as of 2013 classified and reported as defined contribution plans.

Defined benefit pension plans

	2014				
		Germany			
	Sweden	Plan Berlin	Plan Hamburg	Other	Total
Present value of unfunded obligations	11,511	505[1]	25,280	1	**37,297**
Present value of fully or partly funded obligations	—	17,255[1]	321	—	**17,576**
Present value of obligations	**11,511**	**17,760**	**25,601**	**1**	**54,873**
Fair value of plan assets	—	9,308	267	—	**9,575**
Net defined benefit liability	**11,511**	**8,452**	**25,334**	**1**	**45,298**

	2013				
		Germany			
	Sweden	Plan Berlin	Plan Hamburg	Other	Total
Present value of unfunded obligations	9,291	443 [1]	22,102	42	**31,878**
Present value of fully or partly funded obligations	54	12,315 [1]	157	136	**12,662**
Present value of obligations	**9,345**	**12,758**	**22,259**	**178**	**44,540**
Fair value of plan assets	—	8,805	157	101	**9,063**
Net defined benefit liability	**9,345**	**3,953**	**22,102**	**77**	**35,477**

1) In order to have a better overview of completely unfunded obligations, the present value of partly funded obligations has been separated from obligations that are unfunded. The amounts for 2013 have been adjusted accordingly.

Cont. Note 41 Pension provisions

Change in net defined benefit liability

	2014	2013
Balance brought forward	35,477	30,584
Benefits paid by the plan	-1,793	1,103 [1]
Total pension cost	1,878	1,818
Contributions by employer	-28	-30
Remeasurement	9,130	1,200
Divested companies	-1,139	—
Translation differences	1,773	802
Balance carried forward	**45,298**	**35,477**

1) Claims paid include payments from Vattenfall's Pension Foundation to Vattenfall AB and its subsidiaries. These payments do not reduce the obligation.

Changes in obligations

	2014	2013
Balance brought forward	44,540	42,650
Benefits paid by the plan	-2,265	-2,059
Service cost	638	640
Settlements	—	-192
Contributions by plan participants	5	5
Actuarial gains(-) or losses(+) due to changes in financial assumptions	8,948	494
Actuarial gains(-) or losses(+) due to changes in demographic assumptions	40	—
Actuarial gains(-) or losses(+) due to plan experience	240	365
Current interest expense	1,558	1,548
Divested companies	-1,148	—
Translation differences	2,317	1,089
Balance carried forward	**54,873**	**44,540**

Changes in plan assets

	2014	2013
Balance brought forward	9,063	12,066
Benefits paid by the plan	-472	-3,162
Contributions by employer	28	30
Contributions by plan participants	5	5
Interest income	318	378
Settlements	—	-200
Difference between interest and actual return	98	-341
Divested companies	-9	—
Translation differences	544	287
Balance carried forward	**9,575**	**9,063**

Plan assets consist of the following

	2014	2013
Shares and participations	2,261	1,502
Interest-bearing instruments	5,977	6,116
Property	858	801
Other	479	644
Total	**9,575**	**9,063**

Payments for contributions to defined benefit plans during 2015 are estimated at SEK 406 million.

Pension costs

	2014	2013
Defined benefit plans:		
Current service cost	599	634
Interest expenses	1,558	1,548
Interest income	-318	-378
Past service cost	39	14
Total cost for defined benefit plans	**1,878**	**1,818**
Cost for defined contribution plans	870	840
Total pension costs	**2,748**	**2,658**

Pension costs are reported on the following lines in the income statement:

	2014	2013
Cost of products sold	1,376	1,361
Selling expenses	28	27
Administrative expenses	104	100
Financial expenses	1,240	1,170
Total pension costs	**2,748**	**2,658**

In calculating pension obligations, the following actuarial assumptions have been made (%):

	Sweden		Germany	
	2014	2013	2014	2013
Discount rate	2.5	4.0	2.0	3.5
Future annual salary increases	3.0	3.0	2.5	2.5
Future annual pension increases	1.5	2.0	0.0-2.0	0.0-2.0

Sensitivity to key actuarial assumptions

	Sweden				Germany			
	2014		2013		2014		2013	
		%		%		%		%
Impact on the defined benefit obligationat 31 December of a:								
Increase by 50 basis points in the discount rate	-970	-8.7	-737	-7.9	-3,220	-7.2	-2,259	-6.5
Decrease by 50 basis points in the discount rate	1,056	9.2	828	8.8	3,641	8.1	2,531	7.2
Increase by 50 basis points in the annual pension increases	1,056	9.2	828	8.8	2,673	6	1,928	5.5
Decrease by 50 basis points in the annual pension increases	-970	-8.7	-737	-7.9	-2,443	-5.4	-1,784	5.1

At 31 December 2014 the weighted duration of pension obligations was 15.7 years for Germany and 17.6 years for Sweden.

Note 42 Other interest-bearing provisions

	Non-current portion		Current portion		Total	
	2014	2013	2014	2013	2014	2013
Provisions for future expenses of nuclear power operations	67,031	60,068	2,492	2,398	**69,523**	**62,466**
Provisions for future expenses of mining, gas and wind operations and other environmental measures/undertakings	12,870	10,370	1,626	1,390	**14,496**	**11,760**
Personnel-related provisions for non-pension purposes	1,787	1,898	1,559	1,673	**3,346**	**3,571**
Provisions for tax and legal disputes	1,161	1,115	785	412	**1,946**	**1,527**
Other provisions	3,638	3,102	320	263	**3,958**	**3,365**
Total	**86,487**	**76,553**	**6,782**	**6,136**	**93,269**	**82,689**

Discount rates used in the calculations of the provisions are described in Note 4 to the consolidated accounts, Important estimations and assessments in the preparation of the financial statements.

Provisions for future expenses of nuclear power operations:
Vattenfall's nuclear power producers in Sweden and Germany have a legal obligation upon the cessation of production to decommission and dismantle the nuclear power plants and to restore the plots of land where the plants were located. Further, this obligation also encompasses the safeguarding and final storage of spent radioactive fuel and other radioactive materials used by the plants. The provisions include future expenses for the management of low- and intermediate-level radioactive waste.

For the Swedish operations, current assumptions indicate that all provisions will result in disbursements later than 2030.

Current plans for the decommissioning of the German nuclear power operations entail that approximately 33% of the provisions will result in cash flows relatively evenly distributed over the period 2015–2019, a further approximately 35% over the period 2020–2040, and approximately 32% thereafter.

Provisions for future expenses of nuclear power operations (changes in 2014)	Sweden	Germany	Total
Balance brought forward	40,118	22,348	**62,466**
Provisions for the period	50	4,900	**4,950**
Interest effects	1,550	1,090	**2,640**
Revaluations versus non-current assets	536	—	**536**
Provisions used	-1,037	-1,521	**-2,558**
Translation differences	—	1,489	**1,489**
Balance carried forward	**41,217** [1]	**28,306** [2]	**69,523**

1) Of which, approximately 26% (26) pertains to the dismantling, etc. of nuclear power plants and approximately 74% (74) to the handling of spent radioactive fuel.
2) Of which, approximately 50% (66) pertains to the dismantling, etc. of nuclear power plants and approximately 50% (34) to the handling of spent radioactive fuel.

Provisions for future expenses of mining, gas and wind operations and other environmental measures/undertakings:
Provisions are made to restore sites and for other undertakings associated with the Group's permits to conduct lignite mining in Germany, and in the Netherlands for the dismantling and removal of assets and restoration of sites where the Group conducts gas operations. Provisions are also made for restoration of sites where the Group conducts wind operations and for environmental measures/undertakings within other activities carried out by the Group.

According to current estimations, approximately 71% of the provisions will result in cash outflows later than 2017. For 2015, disbursements corresponding to 11% of the provisions are estimated, while disbursements for the years 2016 and 2017 are estimated at 11% and 7% of the provisions, respectively.

Provisions for mining operations, etc. (changes in 2014)	
Balance brought forward	11,760
Provisions for the period	3,729
Interest effects	530
Revaluations versus non-current assets	396
Provisions used	-849
Provisions reversed	-2,061
Divested companies	-1
Assets held for sale	220
Translation differences	772
Balance carried forward	**14,496**

Personnel-related provisions for non-pension purposes:
Provisions are made for future costs pertaining to redundancy in the form of severance pay and other costs for giving notice to personnel.

Approximately 24% of the provisions that have been made are estimated to result in disbursements in 2015, a further approximately 41% during 2016–2019, and the remaining 35% thereafter.

Personnel-related provisions for non-pension purposes (changes in 2014)	
Balance brought forward	3,571
Provisions for the period	1,332
Interest effects	108
Provisions used	-1,467
Provisions reversed	-261
Divested companies	-112
Translation differences	175
Balance carried forward	**3,346**

Provisions for tax and legal disputes:
Provisions are made for possible future tax expenses due to ongoing tax audits and for ongoing legal disputes and actions. These include provisions related to ongoing legal actions concerning encroachment regarding cable laying on land in eastern Germany.

Approximately 93% of the provisions for tax and legal disputes are expected to result in disbursements in 2015–2017 and 7% thereafter.

Provisions for tax and legal disputes (changes in 2014)	
Balance brought forward	1,527
Provisions for the period	590
Interest effects	150
Provisions used	-121
Provisions reversed	-251
Divested companies	-52
Translation differences	103
Balance carried forward	**1,946**

Other provisions:
Other provisions include, among others, provisions for losses on contracts, restructuring and guarantee commitments.

Approximately 52% of these provisions are estimated to result in disbursements in 2015 and 2016, while the remaining approximately 18% are estimated to result in disbursements during the years 2017–2029, and 30% thereafter.

Other provisions (changes in 2014)	
Balance brought forward	3,365
Provisions for the period	511
Interest effects	54
Revaluations	500
Provisions used	-219
Provisions reversed	-415
Divested companies	-8
Translation differences	170
Balance carried forward	**3,958**

Note 43 Other noninterest-bearing liabilities (non-current)

Of total liabilities of SEK 5,756 million (6,000), SEK 4,198 million (4,4610 %) falls due after more than five years. Of the total liabilities, SEK 4,894 million (5,237) pertains to deferred income and SEK 862 million (763) to other liabilities.

Note 44 Trade payables and other liabilities

	2014	2013
Accounts payable - trade	19,564	18,039
Liabilities to associated companies	270	5,490
Other liabilities	10,807	6,473
Total	30,641	30,002

Note 45 Advance payments received

	2014	2013
Margin calls received, energy trading	2,371	3,289
Other advance payments	26	—
Total	2,397	3,289

A margin call is marginal security (collateral) that Vattenfall's counterparty pays to Vattenfall as the holder of a derivative position to cover Vattenfall's credit risk, either bilaterally via OTC or through an exchange. In Vattenfall's business activities, margin calls occur in energy trading and in the treasury operations.

Margin calls received within energy trading are recognised on the balance sheet as advance payments received and are thereby recognised in the statement of cash flows as cash flows from changes in operating liabilities while margin calls received within financing activities are recognised on the balance sheet as current interest-bearing liabilities (Note 40 to the consolidated accounts, Interest-bearing liabilities and related financial derivatives) and are thereby recognised in the statement of cash flows recognised as cash flows from financing activities.

Note 46 Accrued expenses and deferred income

	2014	2013
Accrued personnel-related costs	3,894	6,716
Accrued expenses, emission allowances	4,566	6,162
Accrued expenses, connection fees	70	94
Accrued nuclear power-related fees and taxes	167	193
Accrued interest expense	3,163	3,415
Other accrued expenses	2,621	995
Deferred income and accrued expenses, electricity	2,552	2,438
Other deferred income	373	735
Total	17,406	20,748

Note 47 Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income

Risks arising from financial instruments are described under the heading Risks and risk management on pages 66–72 in this Annual and sustainability report 2014.

	2014		2013	
Financial instruments by category:	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss				
Derivative assets	17,126	17,126	13,011	13,011
Short-term investments	29,735	29,735	9,774	9,774
Cash equivalents	444	444	52	52
Total	**47,305**	**47,305**	**22,837**	**22,837**
Derivative assets for hedging purposes for:				
Fair value hedges	4,850	4,850	1,954	1,954
– of which interest rate swaps	4,102	4,102	1,058	1,058
– of which cross-currency interest rate swaps	748	748	896	896
Cash flow hedges	9,732	9,732	12,241	12,241
– of which commodities and commodity-related contracts	9,700	9,700	12,208	12,208
– of which currency-forward contracts and other	32	32	33	33
Total	**14,582**	**14,582**	**14,195**	**14,195**
Loans and receivables				
Share in the Swedish Nuclear Waste Fund	31,984	34,569	30,600	30,836
Other non-current receivables	8,407	8,429	6,686	6,700
Trade receivables and other receivables	31,217	31,282	34,450	34,450
Advance payments paid	2,150	2,150	2,368	2,368
Short-term investments	3,050	3,049	1,685	1,685
Cash and bank balances	11,839	11,839	15,749	15,749
Total	**88,647**	**91,318**	**91,538**	**91,788**
Available-for-sale financial assets				
Other shares and participations carried at fair value	—	—	2,390	2,390
Other shares and participations carried at cost	284	284	309	309
Total	**284**	**284**	**2,699**	**2,699**
Financial liabilities at fair value through profit or loss				
Derivative liabilities	13,837	13,837	9,815	9,815
Total	**13,837**	**13,837**	**9,815**	**9,815**
Derivative liabilities for hedging purposes for:				
Fair value hedges	2	2	459	459
– of which interest rate swaps	1	1	329	329
– of which cross-currency interest rate swaps	1	1	130	130
Cash flow hedges	2,986	2,986	3,740	3,740
– of which commodities and commodity-related contracts	2,974	2,974	3,688	3,688
– of which currency-forward contracts and other	12	12	52	52
Total	**2,988**	**2,988**	**4,199**	**4,199**
Other financial liabilities				
Hybrid Capital	—	—	8,835	9,238
Other non-current interest-bearing liabilities	78,807	89,800	90,374	101,255
Other non-current noninterest-bearing liabilities	5,756	5,756	6,000	6,000
Hybrid Capital, current interest-bearing liability	9,385	9,551	—	—
Current interest-bearing liabilities	37,736	38,420	27,279	26,978
Trade payables and other liabilities	28,094	28,094	30,113	30,113
Advance payments received	2,371	2,371	3,289	3,289
Total	**162,149**	**173,992**	**165,890**	**176,873**

For assets and liabilities with a remaining maturity less than three months (e.g., cash and bank balances, trade receivables and other receivables and trade payables and other payables), fair value is considered to be equal to the carrying amount. For other shares and participations carried at cost, in the absence of fair value, cost is considered to be equal to the carrying amount. The fair value hierarchy is described in Note 3 to the consolidated accounts, Accounting policies.

Cont. Note 47 Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income

Offsetting financial assets and financial liabilities

Financial assets and liabilities that are subject to enforceable master netting arrangements and similar agreements:

				Related amounts not setoff on the balance sheet		
Assets 31 Dec. 2014	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities setoff on the balance sheet	Net amounts of financial assets presented on the balance sheet	Financial liabilities, not intended to be settled net [1]	Cash collateral received	Net amount
Derivatives, financial operations	14,818	—	14,818	7,136	7,010	672
Derivatives,commodity contracts	60,763	47,343	13,420	—	2,397	11,023
Total	**75,581**	**47,343**	**28,238**	**7,136**	**9,407**	**11,695**
Derivatives,not subject to offsetting	3,470	—	3,470	—	—	3,470
Total derivative assets			**31,708**			**15,165**

				Related amounts not setoff on the balance sheet		
Assets 31 Dec. 2013	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Financial liabilities, not intended to be settled net [1]	Cash collateral received	Net amount
Derivatives, financial operations	8,973	—	8,973	6,763	2,176	34
Derivatives,commodity contracts	44,010	27,547	16,463	—	3,108	13,355
Total	**52,983**	**27,547**	**25,436**	**6,763**	**5,284**	**13,389**
Derivatives,not subject to offsetting	1,770	—	1,770	—	—	1,770
Total derivative assets			**27,206**			**15,159**

				Related amounts not setoff on the balance sheet		
Liabilities 31 Dec. 2014	Gross amounts of recognised financiall iabilities	Gross amounts of recognised financial assets set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Financial assets, not intended to be settled net [1]	Cash collateral pledged	Net amount
Derivatives, financial operations	10,220	—	10,220	7,136	2,976	108
Derivatives,commodity contracts	51,994	47,343	4,651	—	2,109	2,542
Total	**62,214**	**47,343**	**14,871**	**7,136**	**5,085**	**2,650**
Derivatives,not subject to offsetting	1,954	—	1,954	—	—	1,954
Total derivative liabilities			**16,825**			**4,604**

				Related amounts not setoff on the balance sheet		
Liabilities 31 Dec. 2013	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets setoff on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Financial assets, not intended to be settled net [1]	Cash collateral pledged	Net amount
Derivatives, financial operations	8,669	—	8,669	6,763	1,685	221
Derivatives,commodity contracts	32,608	27,547	5,061	—	1,600	3,461
Total	**41,277**	**27,547**	**13,730**	**6,763**	**3,285**	**3,682**
Derivatives,not subject to offsetting	284	—	284	—	—	284
Total derivative liabilities			**14,014**			**3,966**

1) These items cannot be settled net as each transaction has a unique due date and they were not entered into with the purpose to be settled net. Settlement can be entailed only in case of default.

Cont. Note 47 Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income

Financial assets and liabilities that are measured at fair value on the balance sheet at 31 December 2014

	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	—	31,058	650	**31,708**
Short-term investments and cash equivalents	25,071	5,108	—	**30,179**
Total assets	**25,071**	**36,166**	**650**	**61,887**
Liabilities				
Derivative liabilities	—	16,155	670	16,825
Total liabilities	**—**	**16,155**	**670**	**16,825**

Financial assets and liabilities that are measured at fair value on the balance sheet at 31 December 2013

	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	—	25,829	1,377	**27,206**
Short-term investments and cash equivalents	8,045	1,781	—	**9,826**
Other shares and participations	2,389	—	—	**2,389**
Total assets	**10,434**	**27,610**	**1,377**	**39,421**
Liabilities				
Derivative liabilities	—	13,629	385	**14,014**
Total liabilities	**—**	**13,629**	**385**	**14,014**

Information about fair value of financial assets and liabilities which are, on the balance sheet at 31 December 2014, measured at amortised cost

	Level 1	Level 2	Total
Assets			
Share in the Swedish Nuclear Waste Fund	34,569	—	**34,569**
Other non-current receivables	—	8,429	**8,429**
Total assets	**34,569**	**8,429**	**42,998**
Liabilities			
Hybrid Capital	—	9,551	**9,551**
Other non-current interest-bearing liabilities	—	89,800	**89,800**
Current interest-bearing liabilities	—	38,420	**38,420**
Total liabilities	**—**	**137,771**	**137,771**

Information about fair value of financial assets and liabilities which are, on the balance sheet at 31 December 2013, measured at amortised cost

	Level 1	Level 2	Total
Assets			
Share in the Swedish Nuclear Waste Fund	30,836	—	**30,836**
Other non-current receivables	—	6,700	**6,700**
Total assets	**30,836**	**6,700**	**37,536**
Liabilities			
Hybrid Capital	—	9,238	**9,238**
Other non-current interest-bearing liabilities	—	101,255	**101,255**
Current interest-bearing liabilities	—	26,978	**26,978**
Total liabilities	**—**	**137,471**	**137,471**

Financial instruments at fair value through profit or loss, changes in Level 3 financial instruments

	Assets		Liabilities	
	2014	2013	2014	2013
Balance brought forward	1,377	2,129	385	2,266
Transfer into another level	—	-184	—	-1,085
Transfer from another level	4	228	—	10
Revaluations recognised in operating profit (EBIT)	-776	-834	254	-836
Settlements	—	—	—	—
Translation differences	45	38	31	30
Balance carried forward	**650**	**1,377**	**670**	**385**
Total revaluations for the period included in operating profit (EBIT) for assets and liabilities held at 31 December	389	655	117	-87

Cont. Note 47 Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income

Sensitivity analysis for electricity and fuel derivatives
The price of electricity is the main factor impacting the change in fair value recognised in other comprehensive income. Changes in fair value that are recognised in the income statement originate from the prices for gas and oil. The sensitivity analysis is based on volumes and market prices at year-end. The analysis pertains to profit before tax.

Fair valuation on the balance sheet date of 31 December 2014 of +/-10% would change the fair value of Vattenfall's electricity and fuel derivatives by SEK +/-5,972 million (+/-5,351) in other comprehensive income (hedge-accounted derivatives) and SEK +/-609 (+/-3,703) million in the income statement (non-hedge-accounted derivatives).

Sensitivity analysis for Level 3 contracts
For the determination of fair value of financial instruments, Vattenfall strives to use valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

Entity-specific estimates are based on internal valuation models that are subject to a defined process of validation, approval and monitoring. In the first step the model is designed by the business. The valuation model is then independently reviewed and approved by Vattenfall's risk organisation. If deemed necessary, adjustments are required and implemented. Afterwards, Vattenfall's risk organisation continuously monitors whether the application of the method is still appropriate. This is made by usage of several back-testing tools. In order to reduce valuation risks, the application of the model can be restricted to a limited scope.

TGSA:
TGSA (Troll[1] Gas Sales Agreement) is a large gas supply agreement (coal price-indexed) that extends further ahead in time than liquid trading in the gas market. Valuation of the agreement is against the market price, as long as a market price can be observed. Modelled prices are used for commodity deliveries beyond the market horizon or deliveries with uncommon terms and options. TGSA is hedged with OTC forward trades of underlying products. These trades are also marked against the same market and modelled prices. The modelled prices are benchmarked against reliable financial information obtained from the company Markit; this information is well-known and is used by many energy companies, offering a fair valuation of the portion of the large gas supply contract that cannot be valued against market prices (Level 3).

TGSA is also hedged with OTC forward trades of underlying products, which were also marked against modelled prices until 2012. In 2013, all OTC forward contracts have been transferred from Level 3 to Level 2 since, starting in 2013, the market price input can be observed and derived from the market.

The net value as per 31 December 2014 has been calculated at SEK +111 million (+634). The price of the coal price index used in the model (API#2) has a large impact on the modelled price. A change in this index of +/-5% would affect the total value by approximately SEK +/-6 million (+/-25).

1) Troll is a gas field in the North Sea west of Norway.

CDM:
Clean Development Mechanism (CDM) is a flexible mechanism under the Kyoto Protocol and overseen by the UNFCCC under which projects set up in developing countries to reduce CO_2 emissions can generate tradable carbon credits called CERs (Certified Emission Reductions). Once CERs are issued by the UNFCCC they can be used by companies and governments in industrialised nations as carbon offsets at home to meet their reduction targets, either under the EU ETS in the case of a company or under the Kyoto Protocol in case of countries. In terms of valuation of the CDM projects in Vattenfall's CDM portfolio, the non-observable input factor is an estimation of the volume of CERs that is expected to be delivered from each project annually. This estimation is derived from six defined Risk Adjustment Factors (RAFs) that have the same weighting. These project specific factors are calculated using the Carbon Valuation Tool developed by Point Carbon to quantify the risk by adjusting the volume based on these six risks and calculating the fair value based on these six risks adjusted volumes against the CER forward curve on the exchange (Inter Continental Exchange – ICE). The tool is based on Point Carbon's valuation methodology, which was developed in cooperation with several experienced market players. The valuation methodology is strictly empirical, and all risk parameters are extracted from Point Carbon's proprietary databases of CDM project data, which entails a correct valuation of the contracts. The results are validated based on monitoring reports for the respective CDM projects, which are publicly available on the website of the UNFCCC.

The net value as per 31 December 2014 has been calculated at SEK -3 million (-1). The fair value is mainly determined and correlated with the observable price of CER, meaning a higher price of CER leads to a higher value of the CDM contract and vice versa. A change in the modelled price of CERs of +/-5% would affect the total value by approximately SEK +/-3 million (+/-3).

Long-term electricity contracts:
Vattenfall has long-term electricity contracts with a customer extending until 2019 that include embedded derivatives in which the electricity price for the customer is coupled to the price development of aluminium and exchange rate movements of the Norwegian krone (NOK) in relation to the US dollar (USD). Reliable market quotations for aluminium are available for a period of 27 months forward in time. Vattenfall has estimated that the use of modelled prices provides reliable values for valuation of the period beyond 27 months, that is, the time horizon during which market quotations are not available until the contracts' expiration date. For modelling the prices, a Monte-Carlo simulation is used. Valuation is done on a monthly basis. The value of the embedded derivative is defined as the difference between the total contract value and the fair value of a fixed price agreement concluded at the same time and for same time horizon as the actual contract was concluded. Furthermore, changes in fair value are analysed every month by comparing changes in market price for aluminium and the USD/NOK exchange rate.

The value as per 31 December 2014 has been calculated at SEK +99 million (+142). The price of aluminium is the factor that has the greatest bearing on the modelled price. An increase of the price for aluminium leads to a higher fair value and vice versa. A change in the price of aluminium of +/-5% would affect the total value by approximately SEK +/-48 million (+/-90).

Virtual gas storage contracts:
A virtual gas storage contract is a contract, which allows Vattenfall to store gas without owning a gas storage facility. The virtual gas storage contracts include constraints to the maximum storage capacity and the maximum injection and withdrawal per day. The valuation of the contract is based on the storage, injections and withdrawal fees included in the contract, the expected spread between gas prices in the summer and winter which is observable and the optionality value, which is marked to model (Level 3). The valuation methodology is based on a backward estimation of the value of the contracts under different price and operational scenarios and a forward step that selects the optimal exercise. The price scenarios are based on simulating the forward prices until the beginning of their respective delivery periods and the simulation of the daily spot prices during the delivery period. The spot prices are simulated using the forward prices as a starting point. Finally, the spot volatility is calibrated using three years of historical data. The valuation models and calibration of the valuation models are approved and validated by Vattenfall's risk organisation.

The net value as per 31 December 2014 has been calculated at SEK 97 million (+58) and is most sensitive to the optionality volatility. A change in the value of the daily volatility of +/-5% would affect the total value by approximately +/-SEK 69 million (+/-31).

Gas swing contracts:
A gas swing contract is a contract which provides flexibility on the timing and amount of gas purchases. The contract is based on a price formula with a maximum and minimum annual and daily gas quantity. The valuation of the contract is based on observable price difference between the contract prices and indexes and the optional value, which is marked to model (Level 3). As well as with the Virtual gas storage contracts the valuation methodology is based on a backward estimation of the value of the contracts under different price and operational scenarios and a forward step that selects the optimal exercise. The price scenarios are based on simulating the forward prices until the beginning of their respective delivery periods and the simulation of the daily spot prices during the delivery period. The spot prices are simulated using the forward prices as a starting point. Finally, the spot volatility is calibrated using three years of historical data. The valuation models and calibration of the valuation models are approved and validated by Vattenfall's risk organisation.

The net value as per 31 December 2014 has been calculated at SEK -328 million (+159) and is most sensitive to the optionality volatility. A change in the value of the daily volatility of +/-5% would affect the total value by approximately -/+ SEK 8 million (+/-6).

Virtual Power Plants:
A Virtual Power Plant (VPP) is a form of power delivery contract providing the buyer with the option to optimise a fictitious power plant without the technical risks and operational procedures involved in running a real-life plant. VPPs are means of balancing out the fuel exposure of a company's portfolio and of extracting value through optimisation of the plant. The valuation of the contract is based on underlying commodities defined in the contract and a daily optionality value, which is marked to model (Level 3). The valuation methodology is based on a backward estimation of the value of the contracts under different price and operational scenarios and a forward step that selects the optimal exercise. The price scenarios are based on simulating the forward prices until the beginning of their respective delivery periods and the simulation of the daily spot prices during the delivery period. The spot prices are simulated using the forward prices as a starting point. Finally, the spot volatility is calibrated using three years of historical data. The valuation models and calibration of the valuation models are approved and validated by Vattenfall's risk organisation.

The net value as per 31 December 2014 has been calculated at SEK 4 million and is most sensitive to the optionality volatility. A change in the value of the daily volatility of +/-5% would affect the total value by approximately +/- SEK 0,2 million.

Cont. Note 47 Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income

Financial instruments: Effects on income by category
Net gains(+)/losses(-) and interest income and expenses for financial instruments recognised in the income statement:

	2014			2013		
	Net gains/ losses [1]	Interest income	Interest expenses	Net gains/ losses [1]	Interest income	Interest expenses
Derivative assets and derivative liabilities	5,024	186	-122	-3,026	406	-257
Available-for-sale financial assets	-25	—	—	-382	—	—
Loans and receivables	-184	1,116	—	756	505	—
Financial liabilities measured at amortised cost	-2,675	—	-3,624	1,541	—	-4,239
Total	2,140	1,302	-3,746	-1,111	911	-4,496

1) Exchange rate gains and losses are included in net gains/losses.

Note 48 Specifications of the cash flow statement

Other, incl. non-cash items

	2014	2013
Undistributed results from participation in associated companies	526	-461
Unrealised foreign exchange gains	2,632	-1,778
Unrealised foreign exchange losses	12	16
Unrealised changes in values related to derivatives	-4,610	3,388
Changes in fair values for inventories	-86	-434
Changes in interest receivables	-321	-196
Changes in interest liabilities	674	577
Changes in the Swedish Nuclear Waste Fund	-1,385	-646
Changes in provisions	5,765	404
Other	90	178
Total	3,297	1,048

Interest paid totalled SEK 3,074 million (4,086) and interest received totalled SEK 537 million (725). Dividends received totalled SEK 294 million (494).

Other investments in non-current assets

	2014	2013
Investments in intangible assets: non-current, including advance payments	-296	-154
Investments in property, plant and equipment, including advance payments	-28,948	-27,581
Total	-29,244	-27,735

Divestments

	2014	2013
Divestments of shares and participations	8,875	271
Divestments of intangible assets: non-current	—	-7
Divestments of property, plant and equipment	3,179	387
Total	12,054	651

Note 49 Specifications of equity

Share capital:
As of 31 December 2014 the registered share capital comprised 131,700,000 shares with a share quota value of SEK 50.

Reserve for hedges:
The reserve for hedges comprises mostly unrealised changes in values of commodity derivatives used to hedge future sales (cash flow hedges).

Translation reserve:
The translation reserve comprises all exchange rate differences arising from the translation of financial reports from non-Swedish operations that prepare their reports in a currency other than that in which the Group reports. Further, the translation reserve includes exchange rate differences arising from the reassessment of debts raised as hedges for net investments in non-Swedish operations.

Fair value reserve:
The fair value reserve comprises revaluations of financial instruments belonging to the category "available-for-sale financial assets".

The reserve for cash flow hedges is expected to affect the income statement and cash flow, respectively, in the periods indicated below:

	2014		2013	
	Cash flow	Income statement	Cash flow	Income statement
Within 1 year	3,320	5,028	5,495	4,152
Between 1–5 years	2,176	2,688	3,948	3,476
More than 5 years	12	12	380	380
	5,508	7,728	9,823	8,008
Other	-404	-67	-260	-11
Total	5,104	7,661	9,563	7,997

Amounts that have reduced the reserve for cash flow hedges are included in the following line items in the income statement:

	2014	2013
Net sales	7,466	8,620
Cost of products sold	-1,593	1,298
Other operating income	—	2
Other operating expenses	-2	—
Total	5,871	9,920

Amounts that have reduced the reserve for cash flow hedges are included in the following line items on the balance sheet:

	2014	2013
Property, plant and equipment	-3	-17
Inventories	-1	10
Total	-4	-7

Retained earnings including profit for the year:
Retained earnings including profit for the year include earned profits in the Parent Company and its subsidiaries, associated companies and joint ventures, and effects of remeasurements of defined benefit pension plans.

Cont. Note 49 Specifications of equity

Translation exposure of equity in other currencies than SEK

	Equity		Hedging after tax		Net exposure after tax		Average exposure after tax	
Original currency	2014	2013	2014	2013	2014	2013	2014	2013
EUR	117,229	124,266	55,796	65,830	61,433	58,436	61,975	65,045
DKK	1,516	2,146	—	—	1,516	2,146	1,883	3,397
GBP	18,345	15,034	4,963	2,881	13,382	12,153	13,143	11,491
Other currencies	134	128	—	—	134	128	130	94
Total	**137,224**	**141,574**	**60,759**	**68,711**	**76,465**	**72,863**	**77,131**	**80,027**

Note 50 Collateral

	2014	2013
Shares pledged to PRI Pensionsgaranti, as security for credit insurance in respect of pension obligations in Vattenfall's Swedish operations	7,696	7,318
Blocked bank funds as security for guarantees issued by bank	59	66
Blocked bank funds as security for trading on the Nordic electricity exchange and trading with emission allowances	657	1,328
Total	**8,412**	**8,712**

To fulfil the requirements for security in the derivative market, in its energy trading and financial operations Vattenfall has pledged security to counterparties for the negative fair value of derivative positions. As per 31 December 2014 this security amounted to SEK 2,150 million (2,368) for energy trading and SEK 3,050 million (1,685) for the financial operations. The amounts are reported as assets on the balance sheet under advance payments paid for the energy trading position (Note 35 to the consolidated accounts, Advance payments paid) and under short-term investments for the financial operations position (Note 37 to the consolidated accounts, Short-term investments). The counterparties are obligated to repay this security to Vattenfall in the event the negative fair value decreases.

In a similar manner, Vattenfall's counterparties in energy trading and the financial operations have pledged security to Vattenfall. Security received as per 31 December 2014 amounted to SEK 2,371 million (3,288) for energy trading and SEK 7,013 million (2,176) for the financial operations. The amounts are reported as liabilities on the balance sheet under advance payments received for the energy trading position (Note 45 to the consolidated accounts, Advance payments received) and interest-bearing liabilities (current) for the financial operations (Note 40 to the consolidated accounts, Interest-bearing liabilities and related financial derivatives).

Vattenfall AB has to the insurance company PRI Pensionsgaranti pledged shares in Vattenfall Eldistribution AB as security for the credit insurance that is required to fund the pensions.

Note 51 Contingent liabilities

As per 31 December 2014 contingent liabilities amounted to SEK 2,960 million (2,799). The contingent liabilities mainly consist of the following:

- Bank guarantees, mainly for Ringhals AB, Forsmarks Kraftgrupp AB, Vindkraft AB and Vattenfall A/S Thermal
- Parent Company guarantees - Vattenfall Wind Power Ltd., together with Scottish Power Renewables Ltd., takes part in developing up to 7,200 MW of wind capacity off the coast of East Anglia as part of The Crown Estate's Round Three wind programme, known as East Anglia Offshore Wind Ltd. For this Vattenfall AB has issued Parent Company guarantees
- Pending legal issues
- Pension commitments (not for subsidiaries)

In addition to the contingent liabilities mentioned above, Vattenfall has the following significant commitments.

In certain rivers, joint regulation facilities exist for several hydro power plants. The owners of the power plants have payment obligations for their share of these regulation costs. Vattenfall has an obligation to compensate certain owners of water rights, in rivers where hydro power stations are built, through the delivery of power. In 2014, such compensation deliveries amounted to 0.7 TWh (0.7), for a value of approximately SEK 220 million (265).

Under Swedish law, Vattenfall has strict and unlimited liability for third-party loss resulting from dam accidents. Together with other hydro power producers in the Nordic countries, Vattenfall has liability insurance that is limited to payment of a maximum of SEK 8,685 million in benefits for these types of claims.

In Germany, nuclear power operators have strict and unlimited liability to third parties. By law, nuclear power plants are required to have insurance or other financial guarantees for amounts up to EUR 2,500 million. Claims of up to EUR 256 million are covered by the German Mutual Atomic Energy Reinsurance Pool. The nuclear power plants and their German parent companies (in Vattenfall's case, Vattenfall GmbH) are liable for amounts in excess of this, in proportion to the ownership interests the respective parent companies have in the nuclear power plants. It is not until these resources are exhausted that a joint liability insurance agreement (Solidarvereinbarung) takes force between the owners of the German nuclear power plants (Vattenfall GmbH, E.ON, RWE and EnBW), for amounts up to EUR 2,500 million. Since the liability is unlimited, the nuclear power plants and their German parent companies are ultimately liable for losses that exceed this amount.

Vattenfall owns nuclear power plants in Germany together with other partners in the legal form oHG partnerships. The liability of partners in those partnerships is joint and several. Accounting is based on the assessment that the partnerships themselves as well as the partners are able to fulfil the legal and financial obligations of the partnerships. The total amount of the liabilities (including provisions) of the German nuclear companies as per 31 December 2014 is as follows:

	Share %	Total liabilities	Of which reported in Vattenfalls consolidated statements
Kernkraftwerk Brunsbüttel GmbH & Co. oHG	66.67	17,996	17,996
Kernkraftwerk Krümmel GmbH & Co. oHG	50.00	27,071	13,535
Kernkraftwerk Stade GmbH & Co. oHG	33.33	6,545	—
Kernkraftwerk Brokdorf GmbH & Co. oHG	20.00	24,805	—

Vattenfall accounts for the nuclear plants Stade and Brokdorf using the at equity method. Hence, the share in the liabilities is included in the at equity value, which reflects the partial net assets.

Atomic liability in Sweden is strict and limited to 300 million Special Drawing Rights (SDRs) (rate 11,3035), corresponding to SEK 3,391 million (3,007), which means that the companies that are owners of nuclear power plants are only liable for damage to the surrounding environment up to this amount. The obligatory atomic liability insurance for this amount is issued by the Nordic Atomic Insurance Pool and by the mutual insurance company ELINI (European Liability Insurance for the Nuclear Industry). As policyholders of the mutual insurance companies ELINI and EMANI (European Mutual Association for Nuclear Insurance), Vattenfall's Swedish nuclear power plants Forsmark and Ringhals have an obligation to cover any deficits in insurance reserves in these insurance companies.

According to the Swedish Act (2006:647) on the Financing of Future Expenses for Nuclear Waste Management, Sweden's nuclear power companies are required to pledge security to the Swedish state (the Swedish Nuclear Waste Fund) as a guarantee that sufficient funds exist to cover the future costs of nuclear waste management. The security is pledged in the form of guarantee commitments to the owners of the nuclear power companies. In a decision made on 22 December 2011, the Swedish government set new guarantee amounts for the years 2012–2014. As security for the subsidiaries Forsmarks Kraftgrupp AB and Ringhals AB, the Parent Company Vattenfall AB has made guarantee commitments for a combined value of SEK 12,025 million (12,025). Two types of guarantees have been issued. The first guarantee – so-called Financing Security, totalling SEK 6,821 million – is intended to cover the requisite need for fees that have been decided on but not yet been paid in during the so-called earnings period (25 years of operation). The second guarantee, amounting to SEK 5,204 million, pertains to future cost increases stemming from unforeseen events (so-called Complementary Security). The amounts for both of these types of security have been determined based on a probability-based risk analysis in which the former amount has been determined as such that there is a 50% probability that it, together with currently funded amounts (the median value), will provide full cost coverage. The latter amount essentially consists of the supplement that would be required if the corresponding probability was 90%. See also Note 29 to the consolidated accounts, Share in the Swedish Nuclear Waste Fund and Note 42 on Provisions.

In 2009 Vattenfall AB, together with its subsidiary SKB (the Swedish Nuclear Fuel and Waste Management Company) and the other part-owners of that company, signed a long-term co-operation agreement with the Östhammar and Oskarshamn municipalities. The agreement covers the period 2010 to approximately 2025 and regulates development efforts in association with the implementation of the Swedish nuclear waste programme. Through development initiatives

Cont. Note 51 Contingent liabilities

in areas such as training, enterprise and infrastructure, over time the parties will generate value-added worth SEK 1,500 million to SEK 2,000 million. The parties are to finance the development efforts in proportion to their ownership interests. The Vattenfall Group's ownership interest is 56%. Implementation of the efforts is being carried out across two periods: a period before all necessary permits have been received (Period 1), and a period during implementation and operation of the facilities (Period 2). In 2014 Vattenfall reported a provision of SEK 88 million (91) for its share of Period 1 activities.

As a consequence of the Group's continuing business activities, companies in the Group become parties to legal processes. In addition, disputes arise in the Group's operations that do not lead to legal processes. Vattenfall's management assesses these legal processes and disputes on a regular basis and makes provisions in cases where it believes an obligation exists and this can be judged with a reasonable degree of certainty. For legal processes or disputes where at present it cannot be determined whether an obligation exists or where for other reasons it is not possible to calculate the amount of a possible provision with a reasonable degree of certainty, management makes the overall judgement that there is no risk for material impact on the Group's result of operations or financial position. As part of the Group's business activities, in addition to the contingent liabilities stated here, guarantees are made for the fulfilment of various contractual obligations.

Note 52 Commitments under consortium agreements

Power plants are often built on a joint venture basis. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership, and each owner is liable, regardless of output, for an equivalent proportion of all the joint venture's costs.

Vattenfall's investments in heating companies and other businesses often entail a liability for costs in proportion to its share of ownership.

Note 53 Number of employees and personnel costs

	2014			2013		
Number of employees at 31 Dec., full-time equivalents	Men	Women	Total	Men	Women	Total
Sweden	6,629	2,241	**8,870**	6,662	2,240	**8,902**
Denmark	387	75	**462**	483	83	**566**
Germany	12,642	3,516	**16,158**	13,369	3,885	**17,254**
Netherlands	3,323	1,046	**4,369**	3,600	1,155	**4,755**
UK	111	58	**169**	105	60	**165**
Other countries	106	47	**153**	115	62	**177**
Total	**23,198**	**6,983**	**30,181**	**24,334**	**7,485**	**31,819**

	2014			2013		
Average number of employees during the year, full-time equivalents	Men	Women	Total	Men	Women	Total
Sweden	6,639	2,233	**8,872**	6,677	2,285	**8,962**
Denmark	388	75	**463**	526	94	**620**
Germany	12,919	3,686	**16,605**	13,516	3,993	**17,509**
Netherlands	3,464	1,098	**4,562**	3,743	1,205	**4,948**
UK	109	57	**166**	103	60	**163**
Other countries	107	52	**159**	112	60	**172**
Total	**23,626**	**7,201**	**30,827**	**24,677**	**7,697**	**32,374**

Personnel costs	2014	2013
Salaries and other remuneration	18,267	18,067
Social security costs[1]	5,607	5,634
Total	**23,874**	**23,701**

1) Pension costs are specified in Note 41 to the consolidated accounts, Pension provisions.

Benefits to board members of Vattenfall AB and senior executives of the Vattenfall Group.

	2014			2013		
SEK thousands	Directors'fees and base salary including vacation pay	Other remuneration and benefits	Pension and severance costs	Directors'fees and base salary including vacation pay	Other remuneration and benefits	Pension and severance costs
Board of Directors						
Lars G Nordström, Chairman of the Board	685	—	—	666	—	—
Eli Arnstad, board member	385	—	—	373	—	—
Fredrik Arp, board member from 28 April 2014	217	—	—	—	—	—
Gunilla Berg, board member	400	—	—	391	—	—
Håkan Buskhe, board member	325	—	—	325	—	—
Håkan Erixon, board member	345	—	—	370	—	—
Jenny Lahrin, board member	—	—	—	—	—	—
Åsa Söderström Jerring, board member	365	—	—	—	—	—
Employee representatives	—	—	—	—	—	—
Former board members[1]	—	—	—	245	—	—
Total, Board of Directors	**2,722**	**—**	**—**	**2,370**	**—**	**—**

SEK thousands	2014 Directors'fees and base salary including vacation pay	2014 Other remuneration and benefits	2014 Pension and severance costs	2013 Directors'fees and base salary including vacation pay	2013 Other remuneration and benefits	2013 Pension and severance costs
Executive Group Management						
Magnus Hall, President and CEO from 1 October 2014	4,363	64	1,409	—	—	—
Øystein Løseth, President and CEO until 30 September 2014	14,359	357	4,204	13,882	402	4,101
Ingrid Bonde, CFO and Deputy CEO	7,180	—	2,103	6,859 [2]	—	2,001
Tuomo Hatakka, Senior Executive Vice President, Head of Region Continental/UK	11,231	23	2,503	10,427	26	2,382
Torbjörn Wahlborg, Senior Executive Vice President, Head of Region Nordic	6,899	57	2,037	6,669	56	1,988
Stefan Dohler, Head of Asset Optimisation and Trading	6,535	92	1,503	6,067	88	1,335
Olof Gertz, Head of Staff Function Human Resources until 2 December 2014	3,822	76	10,332[3]	4,145	73	1,234
Anne Gynnerstedt, Head of Staff Function Legal & CEO Office and Secretary of the Board	4,568	45	1,361	4,699	—	1,327
Other senior executives						
Kerstin Ahlfont, Head of Finance, Region Nordic	3,098	3	874	—	—	—
Anders Dahl, Head of Operations Support and Deputy Head of Region Nordic[4]	5,076	48	1,507	5,303	47	1,506
Martijn Hagens, Head of Business Unit Heat Region Continental/UK, Chief Operating Officer Nuon Energy	4,095	890	755	—	—	—
Eva Halldén, Head of Ringhals, Head of Forsmark from 26 February 2014	2,784	74	811	2,210 [5]	175	663
Tessel Jarigsma, Head of Business Unit Sales, Region Continental/UK, N.V. Nuon Energy	3,003	555	540	—	—	—
Stefan Persson, Head of Forsmark until 9 February 2014	1,197	38	377	2,045 [6]	55	614
Helmar Rendez, Head of Business Unit Distribution, Region Continental/UK	4,601	596	1,380	4,293	613	1,288
Peter Smink, Head of Finance, Region Continental/UK[4]	5,727	107	1,037	5,263	100	1,050
Hartmuth Zeiss, Head of Business Unit Lignite Mining & Generation, Region Continental/UK, Vattenfall Europe Mining AG	5,416	189	1,110	5,028	180	1,031
Former senior executives[1]	—	—	—	11,213	169	2,680
Total Executive Group Managementand senior executives	**93,954**	**3,214**	**33,843**	**88,103**	**1,984**	**23,200**
Total Board of Directors, Executive Group Management and other senior executives	**96,676**	**3,214**	**33,843**	**90,473**	**1,984**	**23,200**

1) See Vattenfall's 2013 Annual and sustainability report, pages 102–103.
2) SEK 38 thousand pertains to retroactive salary in accordance with the Comapny car policy that applied in 2012.
3) Of this total, SEK 9,167 thousand pertains to costs for terminated employment. Olof Gertz is receiving severance pay for a maximum period of 18 months, amounting to SEK 6,290 thousand. Recruitment of his successor is under way. Costs for an internally appointed interim successor are not reported, since the interim successor is not a senior executive.
4) Member of the Executive Group Managment in 2013. See Vattenfall's 2013 Annual and sustainability report, pages 102-103.
5) Total remuneration includes SEK 158 thousand pertaining to a quality bonus from 2012.
6) Total remuneration includes SEK 53 thousand pertaining to a quality bonus from 2012.

Board of Directors

The 2014 Annual General Meeting resolved that directors' fees for the period until the end of the next Annual General Meeting shall amount to SEK 580 thousand for the Chairman and SEK 280 thousand for each of the other AGM-elected directors.

In addition, it was resolved that for service on the Remuneration Committee, the Audit Committee, the Safety and Risk Committee, and the External Relations and Ethics Committee, a fee of SEK 60 thousand shall be paid to the respective committee chairs and SEK 45 thousand to the other committee members.

The directors' fees set by the 2014 Annual General Meeting are unchanged compared with the directors' fees set by the 2011-2013 Annual General Meetings. No directors' fees are paid to board members who are employed by the Swedish Government Offices or to employee representatives. The fees paid to each individual board member are shown in the table on page 123. The board members' respective committee assignments are described in the Corporate Governance section on pages 52–65.

President and Chief Executive Officer

Magnus Hall, (born 1959) was hired on 1 September 2014 and took office as President and CEO of Vattenfall AB on 1 October 2014. In 2014 Mr Hall received a total salary of SEK 4,363 thousand. In total in 2014 he received a company car benefit worth SEK 35 thousand, an annual pass for train travel with SJ worth SEK 20 thousand, and a garage parking spot in Stockholm worth SEK 9 thousand. Mr Hall has no variable salary component in his employment as President and CEO of Vattenfall AB.

Magnus Hall has a defined contribution pension solution. The premium for 2014 was SEK 1,409 thousand, which corresponds to 30% of his 2014 salary excluding benefits during the period. Mr Hall's term of employment is until further notice, with a mutual notice period of six months. In the event Vattenfall serves notice, Mr Hall is entitled to a maximum of 18 months' severance pay after the notice period, but not longer than until his retirement. The amount of the severance pay shall be based on the fixed salary that applied at the time the notice was served. In the event Mr Hall accepts new employment or earns income from other business activities, the severance pay shall be reduced by an amount corresponding to the new income or other benefit received during the period in question. Severance pay is to be paid out monthly.

Øystein Løseth (born 1958) was hired 12 April 2010 as President and CEO of Vattenfall AB. His assignment as President and CEO ended on 30 September 2014, in conjunction with Magnus Hall's taking of office. However Mr Løseth is still employed by Vattenfall AB through 31 March 2015. In his employment as President and CEO of Vattenfall AB in 2014, Øystein Løseth received a salary of SEK 14,359 thousand. In addition, he received a housing benefit worth SEK 244 thousand, a car benefit worth SEK 25 thousand, and cost-free travel home to Oslo worth SEK 88 thousand. Mr Løseth has not had a variable salary component in his employment as President and CEO of Vattenfall AB. Mr Løseth has a defined contribution pension solution. The premium for 2014 amounted to SEK 4,204 thousand, which corresponds to 30% of his 2014 salary excluding benefits.

Other senior executives

Salaries and other remuneration

For other members of the Executive Group Management – a total of 6 individuals (8) – the sum of salaries and other remuneration for 2014, including the value of company cars and other benefits, was SEK 40,528 thousand. For other persons defined as senior executives by Vattenfall, who are not members of the Executive Group Management – a total of 9 individuals (7) – the sum of salaries and other remuneration for 2014, including the value of company cars and other benefits, was SEK 37,497 thousand.

Cont. Note 53 Number of employees and personnel costs

Retirement benefits
Ingrid Bonde, Tuomo Hatakka, Torbjörn Wahlborg, Stefan Dohler, Anders Dahl, Olof Gertz, Anne Gynnerstedt, Kerstin Ahlfont, Eva Halldén, Stefan Persson, Helmar Rendez and Hartmuth Zeiss all have defined contribution pension solutions. Martijn Hagens, Tessel Jarigsma, and Peter Smink have pension solutions under collective agreements in the Netherlands. All pensions for these executives are in compliance with the Swedish government's guidelines.

Terms of notice on the part of the company
According to the government's guidelines, the notice period for a senior executive in the event the company serves notice shall not exceed six months. In addition, severance pay equivalent to a maximum of 18 months' salary is payable thereafter. In the event the individual in question accepts new employment or receives income from other business activities, the severance pay shall be reduced by an amount corresponding to the new income or benefit received during the time in question. The severance pay is paid out monthly. All senior executives have severance terms that are in compliance with the government's guidelines.

Incentive programmes
The members of the Executive Group Management and other senior executives do not receive any variable salary component.

Note 54 Gender distribution among senior executives

	Women, %		Men, %	
	2014	2013	2014	2013
Gender distribution among board members	36	40	64	60
Gender distribution among other senior executives	22	22	78	78

Note 55 Related party disclosures

Vattenfall AB is 100%-owned by the Swedish state. The Vattenfall Group's products and services are offered to the state, state authorities and state companies in competition with other vendors under generally accepted commercial terms. In a similar manner, Vattenfall AB and its Group companies purchase products and services from state authorities and companies at market prices and otherwise under generally accepted commercial terms. No significant share of the Vattenfall Group's net sales, purchasing or earnings is attributable to the Swedish state or any of its authorities or companies.

Disclosures of transactions with key persons in executive positions in the company are shown in Note 53 to the consolidated accounts, Number of employees and personnel costs.

Disclosures of transactions with major associated companies in 2014 and associated receivables and liabilities as per 31 December 2014 are described below.

Kernkraftwerk Brokdorf GmbH & Co. oHG
This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 1,087 million (1,407). Operating revenue from the company amounted to SEK 2 million (1). Vattenfall's interest expense to the company amounted to SEK 24 million (9). Trade liabilities and loan liabilities amounted to SEK 150 million (700) and SEK 2,081 million (1,016), respectively.

Kernkraftwerk Stade GmbH & Co. oHG
This is a nuclear power plant that is being decommissioned. Vattenfall's revenue from the company amounted to SEK 0 million, (0) while expenses to the company amounted to SEK 210 million (569). Vattenfall's interest expense to the company amounted to SEK 6 million (1). Trade liabilities and loan liabilities amounted to SEK 116 million (569) and SEK 536 million (148), respectively.

GASAG Berliner Gaswerke AG
The company sells, distributes and stores natural gas in the Berlin area. Vattenfall received SEK 31 million (87) in operating revenue from the company, and purchases from the company totalled SEK 10 million (15). Trade receivables and trade liabilities amounted to SEK 0 million (2). Vattenfall's part of contingent liabilities of the company amounted to SEK 132 million (118).

DOTI Deutsche Offshore Testfeldt und Infrastructure GmbH KG
DOTI conducts planning work and operates an offshore wind power test facility. Operating revenue from the company amounted to SEK 0 million (0). Purchases from the company amounted to SEK -1 million (63). Operating liabilities amounted to SEK 0 million (0)

Note 56 Events after the balance sheet date

New organisation and changes in Executive Group Management
On 15 January 2015 Vattenfall announced a new organisation and new executive management team. Effective 1 April 2015 the current regional structure will be replaced by six cross-border Business Areas. These are:

- Heat — All heat operations including all thermal operations except for the lignite operations which are in a separate unit, Mining & Generation
- Wind — All wind power operations
- Customers & Solutions — Sales to end customers
- Generation — All hydro and nuclear power operations
- Markets — Corresponds to the current Business Division Asset Optimisation and Trading
- Distribution[1] — Distribution operations in Sweden and Germany

The lignite operations are in a separate unit, Mining & Generation.

The heads of the new Business Areas will form the new Executive Group Management (EGM), together with the heads of the four Staff Functions. The head of the Distribution Business Area will not be a member of the EGM, as its operations are regulated by the Swedish Electricity Act and are therefore separated from Vattenfall's other operations.

- Magnus Hall, President and CEO
- Ingrid Bonde, CFO, Head of Staff Function Finance and Deputy CEO
- Kerstin Ahlfont, Head of Staff Function Human Resources
- Anne Gynnerstedt, General Counsel, Head of Staff Function Legal & CEO Office
- Andreas Regnell, Head of Staff Function Strategic Development
- Tuomo Hatakka, Head of Business Area Heat and Mining & Generation
- Gunnar Groebler, Head of Business Area Wind
- Martijn Hagens, Head of Business Area Customers & Solutions
- Torbjörn Wahlborg, Head of Business Area Generation
- Stefan Dohler, Head of Business Area Markets

Vattenfall issues hybrid bonds
On 12 March 2015, Vattenfall launched hybrid bonds of SEK 6 billion and EUR 1 billion (approx. SEK 15 billion combined) in order to refinance the existing hybrid bond of EUR 1 billion, issued in 2005. The excess amount will be used for general corporate purposes.

1) The electricity distribution operations are regulated by the Swedish Electricity Act and the German Energy Industry Act (Energiewirtschaftsgesetz), and are unbundled from Vattenfall's other operations.

Parent Company Vattenfall AB

Condensed review of 2014
A condensed income statement and balance sheet for the Parent Company are presented below.

- Net sales amounted to SEK 31,676 million (37,197).
- Profit before appropriations and tax was SEK -12,884 million (-5,213).
- Earnings were affected by the following:
  - Impairment loss of SEK 14,593 million (23,631) for the shareholding in N.V. Nuon Energy as a consequence of the Group's impairment of assets in the Netherlands. Most of the impairment losses are attributable to deteriorated business opportunities and reduced earning capacity for the trading business. See Note 14 to the consolidated accounts.
  - Dividends of SEK 679 million.
  - Capital gain of SEK 84 million from the sale of the entire shareholding in Kalix Fjärrvärme AB.
  - Capital loss of SEK 216 million from the sale of the entire shareholding in Enea S.A.
  - Tax income of SEK 1,272 million has been accounted for, pertaining to an adjustment of previous years' exchange rate effects.
- The balance sheet total was SEK 267,526 million (269,944).
- Investments during the period amounted to SEK 461 million (465).
- Cash and cash equivalents, and short-term investments amounted to SEK 35,059 million (16,840).

Parent Company income statement

Amounts in SEK million, 1 January–31 December	Note	2014	2013
Net sales	4, 5	31,676	37,197
Cost of products sold	6	-22,470	-25,464
Gross profit		**9,206**	**11,733**
Selling expenses		-832	-674
Administrative expenses		-1,601	-1,694
Research and development costs		-193	-277
Other operating income	7	535	934
Other operating expenses	8	-2,145	-1,160
Operating profit	9, 10, 18, 19	**4,970**	**8,862**
Result from participations in subsidiaries	11	-13,830	-13,424
Result from participations in associated companies	12	—	6
Result from other shares and participations	13	-213	-569
Other financial income	14	1,075	4,603
Other financial expenses	15	-4,886	-4,691
Profit before appropriations and tax		**-12,884**	**-5,213**
Appropriations	16	418	-4,068
Profit before tax		**-12,466**	**-9,281**
Income tax expense	17	748	-1,687
Profit for the year		**-11,718**	**-10,968**

Parent Company statement of comprehensive income

Amounts in SEK million, 1 January–31 December	Note	2014	2013
Profit for the year		-11,718	-10,968
Total other comprehensive income		—	—
Total comprehensive income for the year		**-11,718**	**-10,968**

Parent Company balance sheet

Amounts in SEK million	Note	31 December 2014	31 December 2013
Assets			
Non-current assets			
Intangible assets: non-current	20	118	138
Property, plant and equipment	21	4,128	4,238
Shares and participations	22	118,473	135,479
Other non-current receivables	23	90,478	92,276
Total non-current assets		**213,197**	**232,131**
Current assets			
Inventories	24	385	437
Intangible assets: current	25	68	86
Current receivables	26	18,055	20,450
Current tax assets	17	762	—
Short-term investments	27	26,724	7,697
Cash and cash equivalents	28	8,335	9,143
Total current assets		**54,329**	**37,813**
Total assets		**267,526**	**269,944**
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital (131,700,000 shares with a share quota value of SEK 50)		6,585	6,585
Statutory reserve		1,286	1,286
Non-restricted equity			
Retained earnings		55,454	66,422
Profit for the year		-11,718	-10,968
Total equity		**51,607**	**63,325**
Untaxed reserves	16	**16,227**	**17,124**
Provisions	29	**4,278**	**4,241**
Non-current liabilities			
Hybrid capital	30	—	8,835
Other interest-bearing liabilities	30	63,962	83,874
Deferred tax liabilities	17	165	187
Other noninterest-bearing liabilities	31	36,421	33,096
Total non-current liabilities		**100,548**	**125,992**
Current liabilities			
Hybrid capital	30	9,385	—
Other interest-bearing liabilities	30	78,379	52,596
Current tax liabilities	17	—	213
Other noninterest-bearing liabilities	32	7,102	6,453
Total current liabilities		**94,866**	**59,262**
Total equity, provisions and liabilities		**267,526**	**269,944**
Collateral	34	375	400
Contingent liabilities	35	42,437	43,436
Commitments under consortium agreements	36	—	—

Parent Company cash flow statement

Amounts in SEK million, 1 January–31 December	Note	2014	2013
Operating activities			
Profit before tax		-12,466	-9,281
Reversal of depreciation, amortisation and impairment losses		15,110	25,700
Tax paid		-249	-2,083
Capital gains/losses, net		129	-6
Other, incl. non-cash items	40	4,569	4,781
Funds from operations (FFO)		**7,093**	**19,111**
Changes in inventories		52	16
Changes in operating receivables		5,705	-2,808
Changes in operating liabilities		-235	-2,290
Cash flow from changes in operating assets and operating liabilities		**5,522**	**-5,082**
Cash flow from operating activities		**12,615**	**14,029**
Investing activities			
Investments in subsidiaries		—	-1
Investments in associated companies and other shares and participations		-2	-70
Other investments in non-current assets		-459	-394
Total investments		**-461**	**-465**
Divestments		2,358	62
Cash flow from investing activities		**1,897**	**-403**
Cash flow before financing activities		**14,512**	**13,626**
Financing activities			
Changes in short-term investments		-19,027	16,838
Loans raised, external		20,501	6,782
Amortisation of debt pertaining to acquisitions of subsidiaries		—	-10,257
Amortisation of other debts		-17,119	-27,223
Dividend paid to owner		—	-6,774
Payment from Vattenfall's Pension Foundation		19	1,939
Group contributions received/paid		306	1,554
Cash flow from financing activities		**-15,320**	**-17,141**
Cash flow for the year		**-808**	**-3,515**
Cash and cash equivalents			
Cash and cash equivalents at start of year		9,143	12,658
Cash flow for the year		-808	-3,515
Cash and cash equivalents at end of year		**8,335**	**9,143**

Parent Company statement of changes in equity

Amount in SEK million	Share capital	Statutory reserve	Non-restricted equity	Total
Balance brought forward 2013	6,585	1,286	73,196	81,067
Dividend paid to owner	—	—	-6,774	-6,774
Profit for the year	—	—	-10,968	-10,968
Balance carried forward 2013	**6,585**	**1,286**	**55,454**	**63,325**
Dividend paid to owners	—	—	—	—
Profit for the year	—	—	-11,718	-11,718
Balance carried forward 2014	**6,585**	**1,286**	**43,736**	**51,607**

As of 31 December 2014 the registered share capital comprised 131,700,000 shares with a share quota value of SEK 50.

Notes to the Parent Company accounts

Amounts in SEK million unless indicated otherwise.

Note 1 Company information

Vattenfall AB's 2014 Annual Report was approved in accordance with a decision by the Board of Directors on 17 March 2015. Vattenfall AB (publ) with corporate identity number 556036-2138, the Parent Company of the Vattenfall Group, is a limited liability company with its registered office in Solna, Sweden with the address SE-169 92 Stockholm, Sweden.

The balance sheet and income statement of the Parent Company included in the Annual Report will be submitted at the Annual General Meeting (AGM) on 27 April 2015.

Note 2 Accounting policies

General

The Parent Company Vattenfall AB's accounts are prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 – Accounting for Legal Entities, issued by the Swedish Financial Reporting Board (RFR). RFR 2 entails that Vattenfall AB should apply all standards and interpretations issued by IASB and IFRIC as endorsed by the European Commission for application within the EU. This should be done as far as possible within the framework of the Swedish Annual Accounts Act by taking into consideration the relationship between accounting and taxation.

Vattenfall AB has applied the exemption rule regarding IAS 39 according to RFR 2, which entails that financial instruments are reported at cost.

New and amended accounting standards effective as of 2015 are expected to have no or minimal impact on Vattenfall AB's financial statements.

The accounting policies applied are stated in the applicable parts of Note 3 to the consolidated accounts with the following amendments for the Parent Company Vattenfall AB.

Depreciation and amortisation

As in the consolidated accounts, depreciation and amortisation are based on cost and are applied on a straight-line basis over the estimated useful life of the asset in question. In addition, certain accelerated depreciation/amortisation (the difference between depreciation/amortisation according to plan and depreciation/amortisation for tax purposes) in the Parent Company is reported under Appropriations and Untaxed reserves, respectively.

Pension provisions

Pension obligations in the Parent Company are calculated in accordance with generally accepted Swedish actuarial principles and are recognised according to the Act on Safeguarding of Pension Obligations, ("Tryggandelagen").

Foreign currency

The Parent Company applies hedge accounting for assets in a foreign currency effectively hedged by loans in a foreign currency. Effects of changes in exchange rates are not recognised for loans raised for the financing of foreign subsidiaries, associated companies and joint arrangements. Nonmonetary assets acquired in a foreign currency are recognised at the exchange rate at the time of the acquisition. The loans raised in connection with the acquisition of N.V. Nuon Energy are hedged, as in the consolidated accounts, from the date of the acquisition, 1 July 2009.

Other assets and liabilities in foreign currencies are recognised at the exchange rates of the balance sheet date.

Realised exchange rate effects

Realised exchange rate effects that are attributable to loans used to hedge investments in foreign currency are not recognised through profit or loss, but as a change in the reported cost of the shares. The policy concerning unrealised effects of such loans follows what is stated under foreign currency and is not reported.

Income taxes

Tax legislation in Sweden allows companies to defer tax payments by making provisions to untaxed reserves. In the Parent Company, untaxed reserves are reported as a separate item on the balance sheet that includes deferred tax. In the Parent Company's income statement, provisions to untaxed reserves and dissolution of untaxed reserves are reported under the heading Appropriations.

Note 3 Exchange rates

See Note 6 to the consolidated accounts.

Note 4 Net sales

	2014	2013
Sales including excise taxes:		
– sale of goods (electricity, heat, etc.)	32,887	38,980
– rendering of services	1,450	1,131
Excise taxes	-2,661	-2,914
Total	31,676	37,197

Net sales per geographical area	2014	2013
Nordic	27,899	33,867
Continental/UK	3,751	3,328
Other	26	2
Total	31,676	37,197

Net sales for products and services	2014	2013
Electricity generation	9,047	13,816
Trading	4,245	2,913
Energy sales	14,827	17,127
Heat	2,160	2,355
Other	1,397	986
Total	31,676	37,197

Note 5 Intra Group transactions

Of the Parent Company's total income from sales and total purchase costs, transactions with subsidiaries account for 21% (18%) of sales and 61% (54%) of purchase costs.

Note 6 Cost of products sold

Direct costs include production taxes and duties of SEK 26 million (49) and property taxes of SEK -34 million (3). In 2014 Vattenfall received a repayment of SEK 37 million in property tax.

Note 7 Other operating income

Other operating income consists primarily of intra Group invoiced services, insurance compensation and operationally derived foreign exchange gains.

Note 8 Other operating expenses

Other operating expenses consist primarily of intra Group invoiced services, operationally derived exchange rate losses and depreciation.

Note 9 Depreciation and amortisation

Amortisation of intangible non-current assets and depreciation of property, plant and equipment in the income statement are broken down as follows:

	2014	2013
Other operating expenses	513	526
Selling expenses	3	6
Administrative expenses	1	1
Total	517	533

Amortisation of intangible non-current assets is included above in Other operating expenses with the amount of SEK 79 million (90).

Note 10 Impairment losses

Impairment of intangible non-current assets and of property, plant and equipment in the income statement is broken down as follows:

	2014	2013
Other operating expenses	—	10
Research and development costs	—	69
Total	—	79

Note 11 Result from participations in subsidiaries

	2014	2013
Dividends	679	10,970
Impairment losses[1]	-14,593	-24,465
Reversed impairment losses	—	71
Capital gains/losses on divestments	84	—
Total	-13,830	-13,424

1) See Note 22 to the Parent Company accounts, Shares and participations.

Note 12 Result from participations in associated companies

	2014	2013
Capital gains/losses on divestments	—	6
Total	—	6

Note 13 Result from other shares and participations

	2014	2013
Dividends	—	52
Impairment of shares in Enea S.A.	—	-621
Capital gains/losses on divestments	-213	—
Total	-213	-569

Note 14 Other financial income

	2014	2013
Interest income from subsidiaries	1,669	2,625
Other interest income	-232	192
Foreign exchange gains and losses, net	-362	1,786
Total	1,075	4,603

Note 15 Other financial expenses

	2014	2013
Interest expenses to subsidiaries	111	137
Other interest expenses	4,775	4,554
Total	4,886	4,691

Note 16 Appropriations and untaxed reserves

Appropriations	2014	2013
Group contributions paid	-2,784	-4,573
Group contributions received	2,305	2,443
Provision/dissolution of untaxed reserves, net	897	-1,938
Total	418	-4,068

Untaxed reserves	Balance brought forward	Provision(+)/ dissolution(-)	Balance carried forward
Accelerated depreciation	2,339	-47	2,292
2010 Tax allocation reserve	2,992	—	2,992
2011 Tax allocation reserve	4,153	—	4,153
2012 Tax allocation reserve	2,600	-678	1,922
2013 Tax allocation reserve	1,466	-147	1,319
2014 Tax allocation reserve	3,574	-615	2,959
2015 Tax allocation reserve	—	590	590
Total	17,124	-897	16,227

Note 17 Income tax expense

The reported tax income/tax expense is broken down as follows:

	2014	2013
Current tax	-726	2,298
Deferred tax	-22	-611
Total	-748	1,687

Current tax attributable to previous years amounts to SEK -1,002 million (62). The tax effect of the standard tax interest on tax allocation reserves amounts to SEK 44 million (30).

The difference between the nominal Swedish tax rate and the effective tax rate is explained as follows:

(%)	2014	2013
Swedish income tax rate at 31 December	22.0	22.0
Current tax adjustment attributable to previous years	8.0	0.7
Deferred tax adjustment attributable to previous years	-0.1	0.1
Capital gains, non-taxable	-0.2	—
Non-taxable income	3.7	26.3
Impairment losses, non-deductible[1]	-25.8	-65.1
Non-deductible interest	-1.5	-2.1
Other non-deductible expenses	-0.1	-0.1
Effective tax rate in Sweden	6.0	-18.2

Cont. Note 17 Income tax expense

1) Chiefly concerns non-deductible impairment losses for shares in N.V. Nuon Energy.

	Balance brought forward		Changes via income statement		Balance carried forward	
Balance sheet reconciliation – Deferred tax	2014	2013	2014	2013	2014	2013
Non-current assets	-2	-2	—	—	-2	-2
Current assets	6	62	-45	-56	-39	6
Provisions	-148	-52	14	-96	-134	-148
Other non-current liabilities	183	579	78	-396	261	183
Current liabilities	148	212	-69	-64	79	148
Total	187	799	-22	-612	165	187

Note 18 Leasing

Leasing expenses

Future payment commitments, as of 31 December 2014 for leasing contracts and rental contracts are broken down as follows:

	Finance leases	Operating leases
2015	—	23
2016	—	22
2017	—	16
2018	—	9
2019	—	3
2020 and beyond	—	2
Total	—	75

Leasing expenses for the year amounted to SEK 23 million (22).

Leasing revenues

Vattenfall AB owns and operates energy facilities on behalf of customers. Revenues from customers are broken down into two components – a fixed component to cover capital expenses and a variable component based on the quantity delivered.

Facilities are classified in accordance with standard leasing principles, based on the fixed revenue component.

On 31 December 2014, the cost of assets reported under Operating leases amounted to SEK 481 million (563). Accumulated depreciation amounted to SEK 208 million (268), and accumulated impairment losses amounted to SEK 30 million (30).

Future payments for this type of facility are broken down as follows:

	Finance leases	Operating leases
2015	—	1
2016	—	1
2017	—	1
2018	—	1
2019	—	—
2020 and beyond	—	—
Total	—	4

Note 19 Auditors' fees

	2014	2013
Annual audit assignment		
EY	8	7
Total	8	7
Auditing activities besides the annual audit assignment		
EY	—	—
Total	—	—
Tax consulting		
EY	—	—
Others	2	—
Total	2	—
Other assignments		
EY	—	—
Total	—	—

Note 20 Intangible assets: non-current

	2014				
	Capitalised development costs	Goodwill	Concessions and similar rights	Renting and similar rights	Total
Cost					
Cost brought forward	304	13	868	95	**1,280**
Investments	—	—	59	—	**59**
Divestments/disposals	—	—	-1	—	**-1**
Accumulated cost carried forward	**304**	**13**	**926**	**95**	**1,338**
Accumulated amortisation according to plan					
Amortisation brought forward	-185	-13	-732	-27	**-957**
Amortisation for the year	-1	—	-78	—	**-79**
Divestments/disposals	—	—	1	—	**1**
Accumulated amortisation carried forward	**-186**	**-13**	**-809**	**-27**	**-1,035**
Impairment losses					
Impairment losses brought forward	-116	—	-1	-68	**-185**
Accumulated impairment losses carried forward	**-116**	**—**	**-1**	**-68**	**-185**
Carrying amount	**2**	**—**	**116**	**—**	**118**

	2013				
	Capitalised development costs	Goodwill	Concessions and similar rights	Renting and similar rights	Total
Cost					
Cost brought forward	301	13	836	95	**1,245**
Investments	—	—	32	—	**32**
Transfer from construction in progress	3	—	—	—	**3**
Accumulated cost carried forward	**304**	**13**	**868**	**95**	**1,280**
Accumulated amortisation according to plan					
Amortisation brought forward	-185	-13	-642	-27	**-867**
Amortisation for the year	—	—	-90	—	**-90**
Accumulated amortisation carried forward	**-185**	**-13**	**-732**	**-27**	**-957**
Impairment losses					
Impairment losses brought forward	-116	—	—	—	**-116**
Impairment losses for the year	—	—	-1	-68	**-69**
Accumulated impairment losses carried forward	**-116**	**—**	**-1**	**-68**	**-185**
Carrying amount	**3**	**—**	**135**	**—**	**138**

At 31 December 2014 there were no contractual commitments for the acquisition of non-current intangible assets.

Note 21 Property, plant and equipment

	2014				
	Land and buildings	Plant and machinery and other technical installations	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
Cost brought forward	1,271	7,579	384	344	9,578
Investments	—	—	70	330	400
Transfer from construction in progress	13	262	3	-278	—
Divestments/disposals	-29	-223	-10	—	-262
Reclassifications	-30	30	—	—	—
Accumulated cost carried forward	**1,225**	**7,648**	**447**	**396**	**9,716**
Accumulated depreciation according to plan					
Depreciation brought forward	-705	-4,437	-191	—	-5,333
Depreciation for the year	-30	-311	-97	—	-438
Divestments/disposals	17	161	8	—	186
Reclassifications	41	-41	—	—	—
Accumulated depreciation carried forward	**-677**	**-4,628**	**-280**	**—**	**-5,585**
Impairment losses					
Impairment losses brought forward	9	-16	—	—	-7
Impairment losses for the year	—	—	—	—	—
Divestments/disposals	2	2	—	—	4
Reclassifications	-12	12	—	—	—
Impairment losses carried forward	**-1**	**-2**	**—**	**—**	**-3**
Residual value according to plan carried forward	**547**	**3,018**	**167**	**396**	**4,128**
Accumulated accelerated depreciation	—	-2,292	—	—	-2,292
Carrying amount	**547**	**726**	**167**	**396**	**1,836**

	2013				
	Land and buildings	Plant and machinery and other technical installations	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
Cost brought forward	1,270	7,293	334	384	9,281
Investments	—	—	59	303	362
Transfer from construction in progress	15	325	—	-343	-3
Divestments/disposals	-2	-50	-9	—	-61
Reclassifications	-12	11	—	—	-1
Accumulated cost carried forward	**1,271**	**7,579**	**384**	**344**	**9,578**
Accumulated depreciation according to plan					
Depreciation brought forward	-680	-4,166	-99	—	-4,945
Depreciation for the year	-31	-311	-101	—	-443
Divestments/disposals	2	44	9	—	55
Reclassifications	4	-4	—	—	—
Accumulated depreciation carried forward	**-705**	**-4,437**	**-191**	**—**	**-5,333**
Impairment losses					
Impairment losses brought forward	11	-8	—	—	3
Impairment losses for the year	-2	-8	—	—	-10
Impairment losses carried forward	**9**	**-16**	**—**	**—**	**-7**
Residual value according to plan carried forward	**575**	**3,126**	**193**	**344**	**4,238**
Accumulated accelerated depreciation	—	-2,339	—	—	-2,339
Carrying amount	**575**	**787**	**193**	**344**	**1,899**

At 31 December 2014 there were no contractual commitments for the acquisition of property, plant and equipment.

Note 22 Shares and participations

	2014				2013			
	Participations in subsidiaries	Participations in associated companies	Other shares and participations	Total	Participations in subsidiaries	Participations in associated companies	Other shares and participations	Total
Balance brought forward	133,045	14	2,420	135,479	159,920	20	3,016	162,956
Investments/acquisitions	—	—	—	—	1	—	70	71
Shareholder contributions	—	2	—	2	—	—	—	—
Reversed capital contributions	—	—	—	—	-71	—	—	-71
Divestments	—	—	-2,415	-2,415	—	-6	-45	-51
Purchase price adjustment	—	—	—	—	-2,411	—	—	-2,411
Impairment losses	-14,593[1]	—	—	-14,593	-24,465	—	-621	-25,086
Reversed impairment losses	—	—	—	—	71	—	—	71
Balance carried forward	**118,452**	**16**	**5**	**118,473**	**133,045**	**14**	**2,420**	**135,479**

1) Pertains to impairment losses (non-deductible for tax purposes) for shares in N.V. Nuon Energy.

For a breakdown of the Parent Company's shares and participations in subsidiaries, associated companies and other shares and participations, see Notes 26–28 to the consolidated accounts.

Note 23 Other non-current receivables

	2014				2013			
	Receivables from subsidiaries	Receivables from associated companies	Other receivables	Total	Receivables from subsidiaries	Receivables from associated companies	Other receivables	Total
Balance brought forward	91,397	11	868	**92,276**	79,214	8	637	**79,859**
New receivables	199	13	14	**226**	121,624	3	339	**121,966**
Payments received	—	—	-111	**-111**	-109,838	—	-108	**-109,946**
Foreign exchange gains/losses	213	—	38	**251**	397	—	—	**397**
Reclassification between non-current and current receivables	-2,133	—	-31	**-2,164**	—	—	—	**—**
Balance carried forward	**89,676**	**24**	**778**	**90,478**	**91,397**	**11**	**868**	**92,276**

Note 24 Inventories

	2014	2013
Biofuels	93	120
Fossil fuels	247	265
Materials and spare parts	45	52
Total	**385**	**437**

Inventories recognised as an expense in 2014 amount to SEK 640 million (972). No impairment losses for inventories or reversals of impairment losses were recognised during the year.

Note 25 Intangible assets: current

Attributable to emission allowances and certificates. See Note 3 to the consolidated accounts, Accounting policies.

	2014			2013		
	Emission allowances	Certificates	Total	Emission allowances	Certificates	Total
Balance brought forward	—	86	**86**	20	229	**249**
Purchases	287	397	**684**	—	481	**481**
Received free of charge	—	68	**68**	—	88	**88**
Sold	-287	-300	**-587**	—	-132	**-132**
Redeemed	—	-183	**-183**	-20	-580	**-600**
Balance carried forward	**—**	**68**	**68**	**—**	**86**	**86**

Note 26 Current receivables

	2014	2013
Advance payments paid	21	9
Accounts receivable – trade	1,704	1,758
Receivables from subsidiaries	12,314	14,775
Other receivables	1,215	845
Prepaid expenses and accrued income	2,801	3,063
Total	**18,055**	**20,450**

Age analysis of current receivables

The collection period is normally 30 days.

	2014			2013		
	Receivables gross	Impaired receivables	Receivables net	Receivables gross	Impaired receivables	Receivables net
Accounts receivable – trade						
Not due	1,158	—	1,158	1,370	—	**1,370**
Past due 1–30 days	511	—	511	368	—	**368**
Past due 31–90 days	16	—	16	8	—	**8**
Past due >90 days	51	32	19	37	25	**12**
Total	**1,736**	**32**	**1,704**	**1,783**	**25**	**1,758**
Receivables from subsidiaries						
Not due	12,314	—	12,314	14,775	—	**14,775**
Total	**12,314**	**—**	**12,314**	**14,775**	**—**	**14,775**
Other receivables						
Not due	1,215	—	1,215	845	—	**845**
Total	**1,215**	**—**	**1,215**	**845**	**—**	**845**

Note 27 Short-term investments

	2014	2013
Fixed-income investments[1]	23,737	6,175
Margin calls, financing activities	2,987	1,522
Total	**26,724**	**7,697**

1) The increase in 2014 is mainly attributable to investments of cash and cash equivalents received in connection with divestments of operations.

Note 28 Cash and cash equivalents

	2014	2013
Cash and bank balances	7,959	9,143
Cash equivalents	376	—
Total	**8,335**	**9,143**

Note 29 Provisions

	2014	2013
Pension provisions[1,2]	3,657	3,568
Personnel-related provisions for non-pension purposes	540	559
Provisions for environmental measures/undertakings	81	114
Other provisions	—	—
Total	**4,278**	**4,241**
1) Of which, information registered by PRI	3,141	3,024
2) Of which, covered by credit insurance with FPG/PRI	3,652	3,565

The Parent Company's pension obligations are subject in its entirety to the Act on Safeguarding of Pension Obligations ("Tryggandelagen").

	2014	2013
Fair value of plan assets at start of year	—	1,364
Return on plan assets	—	38
Compensation from Vattenfalls Pension Foundation	—	-836
Change in pension funding	—	-1,084
Pension liabilities taken over from subsidiaries	—	518
Fair value of plan assets at the end of year	**—**	**—**

Note 30 Other interest-bearing liabilities and derivatives

	Non-current portion maturity 1–5 years		Non-current portion maturity >5 years		Total non-current portion		Current portion		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Bond issues	28,747	19,585	32,558	40,786	**61,305**	**60,371**	1,262	15,153	**62,567**	**75,524**
Commercial paper	—	—	—	—	**—**	**—**	4,791	4,464	**4,791**	**4,464**
Liabilities to credit institutions	1,934	1,073	15	28	**1,949**	**1,101**	415	496	**2,364**	**1,597**
Liabilities pertaining to acquisition of N.V. Nuon Energy[1]	—	21,690	—	—	**—**	**21,690**	21,985	—	**21,985**	**21,690**
Liabilities to subsidiaries	708	235	—	477	**708**	**712**	42,912	30,307	**43,620**	**31,019**
Other liabilities (margin calls within-financing activities)	—	—	—	—	**—**	**—**	7,014	2,176	**7,014**	**2,176**
Total interest-bearing liabilities excluding Hybrid capital	**31,389**	**42,583**	**32,573**	**41,291**	**63,962**	**83,874**	**78,379**	**52,596**	**142,341**	**136,470**
Hybrid capital[2]	—	8,835	—	—	**—**	**8,835**	9,385	—	**9,385**	**8,835**
Total interest-bearing liabilities	**31,389**	**51,418**	**32,573**	**41,291**	**63,962**	**92,709**	**87,764**	**52,596**	**151,726**	**145,305**

Undiscounted future cash flows including interest payments and derivatives associated with the liabilities specified above, excluding liabilities to subsidiaries, amount to:[3,4]

	Non-current portion maturity 1–5 years		Non-current portion maturity >5 years		Total non-current portion		Current portion		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Interest-bearing liabilities	40,503	67,616	52,694	71,775	93,197	139,391	47,935	28,389	141,132	167,780
Derivatives (swaps)	-2,390	-2,592	-10,388	-7,928	-12,778	-10,520	-1,343	-1,383	-14,121	-11,903
Accounts payable – trade, and other financial liabilities	3,835	3,800	—	—	3,835	3,800	7,108	6,453	10,943	10,253
Total	**41,948**	**68,824**	**42,306**	**63,847**	**84,254**	**132,671**	**53,700**	**33,459**	**137,954**	**166,130**

1) According to agreement, the liability pertaining to the acquisition of the remaining 21% of the shares in N.V. Nuon Energy will be paid in July 2015.
2) See note 40 to the consolidated accounts.
3) Floating interest cash flows with future interest fixing dates are estimated based on observable interest rate curves at year-end.
4) All future cash flows in foreign currency are translated to SEK using the rate on the balance sheet date for the annual accounts.

Note 31 Other noninterest-bearing liabilities (non-current)

	2014	2013
Liabilities to subsidiaries	36,367	33,032
Other liabilities	54	64
Total	36,421	33,096

Liabilities to subsidiaries refer mainly to liabilities pertaining to Group contributions and to a non-current liability to Forsmarks Kraftgrupp AB for power charges. For this latter debt, in accordance with an agreement between the co-owners, no interest is payable on the debt. Of other liabilities, SEK 29 million (35) falls due after more than five years.

Note 32 Other noninterest-bearing liabilities (current)

	2014	2013
Advance payments from customers	1	—
Accounts payable - trade	381	407
Liabilities to subsidiaries	2,485	1,879
Other liabilities	733	615
Accrued expenses and deferred income	3,502	3,552
Total	7,102	6,453

Breakdown of accrued expenses and deferred income:

	2014	2013
Accrued personnel-related costs	268	280
Accrued interest expenses	2,435	2,311
Other accrued expenses	357	323
Deferred income and accrued expenses, electricity	435	629
Other deferred income	7	9
Total	3,502	3,552

Note 33 Financial instruments: Carrying amount and fair value

The categories for assets and liabilities below correspond to the categories described in Note 47 to the consolidated accounts, Financial instruments by category and related effects on income. However, the Parent Company recognises all financial instruments based on cost in accordance with the Swedish Annual Accounts Act, i.e., the categories do not determine how the instruments are measured or recognised. For disclosures on how fair value is calculated, see Note 3 to the consolidated accounts, Accounting policies. The column fair value is included for information purposes only.

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss				
Derivative assets	— [1]	16,692	— [1]	10,032
Short-term investments	26,724	26,724	7,697	7,702
Cash equivalents	376	376	—	—
Total	27,100	43,792	7,697	17,734
Loans and receivables				
Other non-current receivables	90,478	90,478	92,276	92,276
Trade receivables and other receivables	18,034	18,034	20,441	20,441
Advance payments paid	21	21	9	9
Cash and bank balances	7,959	7,959	9,143	9,143
Total	116,492	116,492	121,869	121,869
Available-for-sale financial assets				
Other shares and participations carried at cost	21	21	2,434	2,434
Total	21	21	2,434	2,434
Financial liabilities at fair value through profit or loss				
Derivative liabilities	— [1]	11,467	— [1]	7,947
Total	—	11,467	—	7,947
Other financial liabilities				
Hybrid capital	9,385	9,551	8,835	9,238
Other non-current interest-bearing liabilities	63,962	77,566	83,874	87,594
Other non-current noninterest-bearing liabilities	36,421	36,421	33,096	33,096
Current interest-bearing liabilities	78,379	78,537	52,596	50,938
Trade payables and other liabilities	7,101	7,101	6,453	6,453
Advance payments received	1	1	—	—
Total	195,249	209,177	184,854	187,319

For assets and liabilities with a remaining maturity of less than three months (e.g., cash and bank balances, trade receivables and other receivables and trade payables and other payables) fair value is considered to be equal to the carrying amount.

1) The carrying amount of derivatives is included in related items, i.e.,in the hedged items or in the interim entries, with a net value of SEK 319 million (2,116).

Note 34 Collateral

	2014	2013
Blocked bank funds as security for trading on Nord Pool, ICE and EEX.	310	328
Assets pledged to the Swedish insurance company PRI Pensionsgaranti as security for credit insurance for pensions obligations in Vattenfall's Swedish operations	6	6
Blocked bank funds as security for guarantees issued by bank	59	66
Total	375	400

To fulfil the requirements for security in the derivative market, in its financial operations Vattenfall has pledged security to counterparties for the negative fair value of derivative positions. As per 31 December 2014 this security amounted to SEK 2,987 million (1,522). The counterparties are obligated to repay this security to Vattenfall in the event the negative fair value decreases. The amount is reported as an asset on the balance sheet under Short-term investments. See also Note 27 to the Parent Company accounts. In a similar manner, counterparties of Vattenfall have pledged security to Vattenfall in the financial operations. Security received amounted to SEK 0 million (0) for energy trading and to SEK 7,013 million (2,176) for financial operations as per 31 December 2014. The amount is reported as a liability on the balance sheet under Interest-bearing liabilities (short-term). See also Note 30 to the Parent Company accounts.

Vattenfall AB has pledged shares in Vattenfall Eldistribution AB to the insurance company PRI Pensionsgaranti as security for the credit insurance that is required to fund the pensions.

Note 35 Contingent liabilities

	2014	2013
Guarantees pertaining to:		
Swedish Nuclear Waste Fund	12,025	12,025
Contract guarantees provided by order of subsidiaries	12,693	12,454
Guarantees provided as collateral for the subsidiaries within Vattenfall Energy Trading's energy trading	6,758	6,337
Other contingent liabilities	10,961	12,620
Total	42,437	43,436

The Parent Company's contingent liabilities pertaining to subsidiaries amounted to SEK 42,437 million (43,436), which are included in the reported contingent liabilities.

In 2009 Vattenfall AB, together with its subsidiary SKB (the Swedish Nuclear Fuel and Waste Management Company) and the other part-owners of that company, signed a long-term cooperation agreement with the Östhammar and Oskarshamn municipalities. The agreement covers the period 2010 to approximately 2025 and regulates development efforts in association with the implementation of the Swedish nuclear waste programme. Through development initiatives in areas such as training, enterprise and infrastructure, over time the parties will generate value-added worth SEK 1,500 million to SEK 2,000 million. The parties are to finance the development efforts in proportion to their ownership interests. The Vattenfall Group's ownership interest is 56%. Implementation of the efforts is being carried out across two periods: a period before all necessary permits have been received (Period 1), and a period during implementation and operation of the facilities (Period 2). In 2014 Vattenfall reported a provision of SEK 88 million (91) for its share of Period 1 activities.

As security for energy trading conducted by the subsidiaries within Vattenfall Energy Trading, Vattenfall AB has issued guarantees for a total value of SEK 27,017 million (22,409). As per 31 December 2014, utilised guarantees totalling SEK 6,758 million (6,337) are included in the reported contingent liabilities.

Atomic liability in Sweden is strict and limited to 300 million Special Drawing Rights (SDRs) (rate 11.3035), corresponding to SEK 3,391 million (3,007), which means that the companies that are owners of nuclear power plants are only liable for damage to the surrounding environment up to this amount.

According to the Swedish Act (2006:647) on the Financing of Future Expenses for Nuclear Waste Management, Sweden's nuclear power companies are required to pledge security to the Swedish state (the Swedish Nuclear Waste Fund) as a guarantee that sufficient funds exist to cover the future costs of nuclear waste management. The security is pledged in the form of guarantee commitments by the owners of the nuclear power companies. In a decision made on 22 December 2011, the Swedish government set new guarantee amounts for the years 2012–2014. As security for the subsidiaries Forsmarks Kraftgrupp AB and Ringhals AB, Vattenfall AB has made guarantee commitments for a combined value of SEK 12,025 million (12,025). The amounts are included in the reported contingent liabilities.

Two types of guarantees have been issued. The first guarantee – so-called Financing Security, totalling SEK 6,821 million – is intended to cover the requisite need for fees that have been decided on but not yet been paid in during the so-called earnings period (25 years of operation). The second guarantee, amounting to SEK 5,204 million, pertains to future cost increases stemming from unforeseen events (so-called Complementary Security). The amounts for both of these types of security have been determined based on a probability-based risk analysis in which the former amount has been determined as such that there is a 50% probability (the median value) that it, together with currently funded amounts, will provide full cost coverage. The latter amount essentially consists of the supplement that would be required if the corresponding probability was 90%.

Note 36 Commitments under consortium agreements

See Note 52 to the consolidated accounts.

Note 37 Average number of employees and personnel costs

	2014			2013		
Average number of employees	Men	Women	Total	Men	Women	Total
Sweden	1,081	508	**1,589**	1,004	497	**1,501**

Personnel costs	2014	2013
Salaries and other remuneration	1,183	1,067
Social security expenses	388	549
– of which pension costs[1]	69	283
Total	**1,571**	**1,616**

1) SEK 14 million (11) of the pension costs are attributable to senior executives, i.e., presidents and vice presidents and former presidents and vice presidents. The company's outstanding pension obligations attributable to these executives total SEK 0 million (0).

None of the board members receive any pension benefits in connection with their board duties.

	2014			2013		
Salaries and other remuneration	Senior executives [1]	Other employees	Total	Senior executives [1]	Other employees	Total
Sweden	49	1,134	**1,183**	44	1,023	**1,067**

1) Senior executives comprise board members and deputy board members as well as presidents and vice presidents. The term also refers to former board members and deputy board members, former presidents and vice presidents, and other senior executives who are members of the Executive Group Management.

Total salaries and other remuneration to board members and presidents include bonuses of SEK 0 million (0). For benefits to senior executives at Vattenfall AB, see Note 53 to the consolidated accounts.

Note 38 Gender distribution among senior executives

	Women, %		Men, %	
	2014	2013	2014	2013
Gender distribution among board members	36	40	64	60
Gender distribution among other senior executives	22	22	78	78

Note 39 Related party disclosures

See Note 55 to the consolidated accounts.

Note 40 Specification of the cash flow statement

Other, incl. non-cash items	2014	2013
Unrealised foreign exchange gains/losses	2,895	-456
Changes in interest receivables	756	550
Changes in interest liabilities	884	608
Group contributions	479	2,130
Changes in provisions	18	-530
Changes in appropriations	-897	1,939
Other	434	540
Total	**4,569**	**4,781**

Note 41 Events after the balance sheet date

See Note 56 to the consolidated accounts.

Auditor's report

To the annual meeting of the shareholders of Vattenfall AB, corporate identity number 556036-2138

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of Vattenfall AB for the year 2014, except for the corporate governance statement on pages 52–61. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 5, 8–9, 45–46, 52–61 and 65–144.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts
The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 52–61. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Vattenfall AB for the year 2014. We have also conducted a statutory examination of the corporate governance statement.

Responsibilities of the Board of Directors and the President
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. The Board of Directors and the President are responsible for administration under the Companies Act and that the corporate governance statement on pages 52–61 has been prepared in accordance with the "The Government's owner policy and guidelines for government owned companies" (Statens ägarpolicy och riktlinjer för företag med statligt ägande).

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence which we have obtained is sufficient and appropriate in order to provide a basis for our opinions.

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

A corporate governance statement has been prepared, in accordance with the owner policy, and its mandatory statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Stockholm, 17 March 2015
Ernst & Young AB

Hamish Mabon
Authorised Public Accountant

Limited assurance report

Auditor's Limited Assurance Report on Vattenfall AB's Sustainability Report
This is the translation of the auditor's report in Swedish.

To Vattenfall AB

Introduction
We have been engaged by the Board of Directors of Vattenfall AB to undertake a limited assurance engagement of Vattenfall AB's Sustainability Report for the year 2014. Vattenfall AB has defined the scope of the Sustainability Report on page 154–158 in the Annual and sustainability report.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report
The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on pages 154–155 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the auditor
Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 *Assurance of Sustainability Reports* issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion
Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm 17 March 2015

Ernst & Young AB

Hamish Mabon
Authorised Public Accountant

Håkan Ulrichs
Partner, Climate Change and Sustainability Services

Quarterly overview

	2013				2014			
Amounts in SEK million	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Income statement items								
Net sales	49,732	38,308	37,057	47,156	45,912	36,575	34,734	48,725
EBITDA	15,783	8,736	9,609	9,424	16,588	3,890	8,438	12,120
Operating profit (EBIT)	10,837	-25,842	4,893	3,895	11,832	-1,637	-19,436	7,045
Underlying operating profit	11,656	5,399	4,074	7,007	9,075	4,086	2,750	8,223
Financial income	158	163	384	711	690	623	577	697
Financial expenses	-2,634	-2,823	-2,146	-2,850	-2,391	-2,044	-1,939	-2,257
Profit before tax	8,361	-28,502	3,131	1,756	10,131	-3,058	-20,798	5,485
Profit for the period	6,195	-23,259	1,538	1,983	8,205	-2,323	-18,065	3,900
– of which, attributable to owners of the Parent Company	6,241	-23,707	1,570	2,227	8,111	-1,830	-18,122	3,663
– of which, attributable to non-controlling interests	-46	448	-32	-244	94	-493	57	237
Cash flow items								
Funds from operations (FFO)	12,598	5,999	6,743	6,548	10,792	3,854	5,008	12,476
Cash flow from operating activities	4,760	11,474	13,695	7,914	7,487	8,333	9,992	14,333
Free cash flow	2,750	8,363	10,214	2,252	4,685	4,330	6,083	8,136
Balance sheet items								
Cash and cash equivalents and short-term investments	38,981	35,082	29,590	27,261	35,301	30,147	35,794	45,068
Equity	152,527	127,691	122,796	130,718	145,725	142,387	123,864	128,462
– of which, attributable to owners of the Parent Company	143,625	117,858	114,152	120,370	134,852	131,567	111,603	115,260
– of which, attributable to non-controlling interests	8,902	9,833	8,644	10,348	10,873	10,820	12,261	13,202
Interest-bearing liabilities	139,813	139,687	129,065	126,488	121,588	116,618	120,680	125,928
Net debt	99,494	104,249	99,033	98,998	85,694	85,872	83,403	79,473
Adjusted net debt	152,101	162,503	157,996	162,590	147,296	156,124	151,464	158,291
Provisions	111,274	115,168	114,864	118,166	117,640	128,560	128,478	138,567
Noninterest-bearing liabilities	109,504	104,369	100,997	110,112	107,222	98,184	90,207	103,476
Capital employed, average	315,136	302,084	288,959	302,743	303,207	296,908	282,390	293,992
Balance sheet total	513,118	486,915	467,722	485,484	492,175	485,749	463,229	496,433
Key ratios								
In % unless otherwise stated. (x) means times.								
Operating margin	21.8	- 67.5	13.2	8.3	25.8	-4.5	-56.0	14.5
Operating margin[2]	23.4	14.1	11.0	14.9	19.8	11.2	7.9	16.9
Return on equity	6.8	- 11.7	- 7.6	- 11.4	-9.9	8.4	-8.0	-6.9
Return on capital employed	5.7	- 4.2	- 1.7	- 2.1	-1.7	6.4	-1.9	-0.7
Return on capital employed[2]	8.7	9.3	9.5	9.3	8.4	8.2	8.1	8.2
EBIT interest cover, (x)	2.8	- 4.1	- 0.7	- 0.7	-0.6	3.3	-0.6	-0.1
EBIT interest cover, (x)[2]	4.2	6.3	4.2	4.1	3.9	4.2	4.2	5.0
FFO interest cover, (x)	6.0	6.9	6.5	5.4	5.4	5.5	5.5	7.2
FFO interest cover, net, (x)	7.1	5.7	7.0	6.2	6.2	5.0	7.3	10.1
FFO/gross debt	24.5	26.0	28.6	25.2	24.7	24.0	21.7	25.5
FFO/net debt	34.5	34.9	37.3	32.2	35.1	32.5	31.4	40.4
FFO/adjusted net debt	22.6	22.4	23.4	19.6	20.4	17.9	17.3	20.3
Equity/total assets	29.7	26.2	26.3	26.9	29.6	29.3	26.7	25.9
Gross debt/equity	91.7	109.4	105.1	96.8	83.4	81.9	97.4	98.0
Net debt/equity	65.2	81.6	80.7	75.7	58.8	60.3	67.3	61.9
Gross debt/gross debt plus equity	47.8	52.2	51.2	49.2	45.5	45.0	49.4	49.5
Net debt/EBITDA, (x)	2.2	2.3	2.2	2.3	1.9	2.2	2.2	1.9
Adjusted net debt/EBITDA, (x)	3.3	3.6	3.6	3.7	3.3	4.0	4.0	3.9
Other information								
Investments	5,300	6,566	6,486	9,409	5,254	6,044	7,890	9,844
Electricity generation, TWh	52.2	41.8	40.0	47.7	50.1	39.7	36.8	46.2
Sales of electricity, TWh	58.3	45.6	44.6	54.8	56.5	46.6	42.5	53.4
Sales of heat, TWh	14.0	5.8	2.8	7.7	9.1	4.7	2.5	7.8
Sales of gas, TWh	25.3	9.7	4.8	16.0	18.4	7.0	4.8	15.3
Number of employees, full-time equivalents	32,721	32,467	32,077	31,819	31,261	30,544	30,332	30,181

Ten-year overview

Amounts in SEK million	2005	2006	2007	2008	2009	2010	2011	2012	2013 [1]	2014
Income statement items										
Net sales	123,794	135,802	143,639	164,549	205,407	213,572	181,040	167,313	172,253	165,945
EBITDA	43,175	43,938	45,821	45,960	51,777	60,706	54,538	54,271	43,554	41,038
Operating profit (EBIT)	28,363	27,821	28,583	29,895	27,938	29,853	23,209	25,958	-6,218	-2,195
Underlying operating profit	25,377	27,448	28,497	30,220	31,294	36,838	30,793	27,530	28,135	24,133
Financial income	3,810	3,839	2,276	3,412	2,814	2,514	3,843	2,636	1,416	2,590
Financial expenses	-6,013	-6,135	-6,926	-9,809	-13,018	-10,944	-12,754	-10,476	-10,453	-8,635
Profit before tax	26,160	25,525	23,933	23,498	17,734	21,423	14,298	18,118	-15,255	-8,240
Profit for the period	20,518	19,858	20,686	17,763	13,448	13,185	10,416	17,047	-13,543	-8,284
– of which, attributable to owners of the Parent Company	19,235	18,729	19,769	17,095	12,896	12,997	11,083	16,759	-13,668	-8,178
– of which, attributable to non-controlling interests	1,283	1,129	917	668	552	188	-667	288	125	-106
Cash flow items										
Funds from operations (FFO)	31,386	35,673	34,049	30,735	36,700	40,108	38,256	34,419	31,888	32,131
Cash flow from operating activities	24,423	35,207	32,331	36,194	46,246	41,231	33,468	28,485	37,843	40,146
Free cash flow	14,341	23,178	19,650	18,963	27,566	23,846	17,637	12,619	23,579	23,234
Balance sheet items										
Cash and cash equivalents and short-term investments	14,074	22,168	22,659	40,236	56,940	43,873	28,685	46,495	27,261	45,068
Equity	90,909	107,674	124,132	140,886	142,404	133,621	138,931	149,372	130,718	128,462
– of which, attributable to owners of the Parent Company	80,565	96,589	111,709	129,861	135,620	126,704	131,988	140,764	120,370	115,260
– of which, attributable to non-controlling interests	10,344	11,085	12,423	11,025	6,784	6,917	6,943	8,608	10,348	13,202
Interest-bearing liabilities	78,663	71,575	67,189	107,347	213,494	188,277	170,350	160,261	126,488	125,928
Net debt	64,343	49,407	43,740	66,000	154,987	144,109	141,089	111,907	98,998	79,473
Adjusted net debt	—	—	—	—	205,028	173,409	176,031	154,335	162,590	158,291
Provisions	65,123	66,094	73,985	89,799	91,100	87,822	91,719	103,832	118,166	138,567
Noninterest-bearing liabilities	90,373	77,823	72,930	107,795	155,129	131,712	123,558	114,899	110,112	103,476
Capital employed, average	—	—	—	—	—	—	317,799	313,124	302,743	293,992
Balance sheet total	325,068	323,166	338,236	445,827	602,127	541,432	524,558	528,364	485,484	496,433
Key ratios										
In % unless otherwise stated. (x) means times.										
Operating margin	22.9	20.5	19.9	18.2	13.6	14.0	12.8	15.5	-3.6	-1.3
Operating margin[2]	20.5	20.2	19.8	18.4	15.2	17.2	17.0	16.5	16.3	14.5
Return on equity	23.2	19.1	17.6	13.6	9.5	10.0	8.6	12.3	-11.4	-6.9
Return on capital employed	—	—	—	—	—	—	7.3	8.3	-2.1	-0.7
Return on capital employed[2]	—	—	—	—	—	—	9.7	8.8	9.3	8.2
EBIT interest cover, (x)	7.6	7.2	6.7	4.5	3.1	4.1	2.6	3.7	-0.7	-0.1
EBIT interest cover, (x)[2]	6.9	7.1	6.7	4.6	3.4	5.0	3.3	3.9	4.1	5.0
FFO interest cover, (x)	8.9	9.7	8.6	5.4	4.8	6.2	4.9	5.7	5.4	7.2
FFO interest cover, net, (x)	15.1	15.9	12.2	7.1	5.6	7.5	5.8	6.6	6.2	10.1
FFO/gross debt	39.9	49.8	50.7	28.6	17.2	21.3	22.5	21.5	25.2	25.5
FFO/net debt	48.8	72.2	77.8	46.6	23.7	27.8	27.1	30.8	32.2	40.4
FFO/adjusted net debt	—	—	—	—	17.9	23.1	21.7	22.3	19.6	20.3
Equity/total assets	28.0	33.3	36.7	31.6	23.7	24.7	26.5	28.3	26.9	25.9
Gross debt/equity	86.5	66.5	54.1	76.2	149.9	140.9	122.6	107.3	96.8	98.0
Net debt/equity	70.8	45.9	35.2	46.8	108.8	107.8	101.6	74.9	75.7	61.9
Gross debt/gross debt plus equity	46.4	39.9	35.1	43.2	60.0	58.5	55.1	51.8	49.2	49.5
Net debt/EBITDA, (x)	1.5	1.1	1.0	1.4	3.0	2.4	2.6	2.1	2.3	1.9
Adjusted net debt/EBITDA, (x)	—	—	—	—	4.0	2.9	3.2	2.8	3.7	3.9
Other information										
Dividend to owners of the Parent Company	5,800	7,500	8,000	6,900	5,240	6,500	4,433	6,774	—	—[3]
Investments	24,497	17,220	18,964	42,296	102,989	41,794	35,750	29,581	27,761	29,032
Electricity generation, TWh	169.1	165.4	167.6	162.1	158.9	172.4	166.7	178.9	181.7	172.9
Sales of electricity, TWh	200.3	191.1	193.8	189.3	194.6	194.2	209.4	205.5	203.3	199.0
Sales of heat, TWh	34.1	35.2	36.2	35.6	37.9	47.1	41.6	29.8	30.3	24.1
Sales of gas, TWh	—	—	—	0.3	20.0	63.2	53.8	52.4	55.8	45.5
Number of employees, full-time equivalents	32,231	32,308	32,396	32,801	36,593	38,459	37,679	33,059	31,819	30,181

1) Certain amounts for 2013 have been recalculated compared with previously published information in Vattenfall's 2013 Annual and sustainability report as a result of new accounting rules (IFRS 11) that took effect in 2014. See Note 2 to the consolidated accounts, Important changes in the financial statements compared with the preceding year.

2) Based on underlying operating profit, i.e., operating profit excl. items affecting comparability.

3) Proposed dividend.

Five-year overview of sustainability data

	2010 [1]	2011	2012	2013	2014
Production and environment					
Electricity generation	172.5	166.7	178.9	181.7	172.9
– where of Hydro power	35.4	34.5	42.2	35.6	34.3
– where of nuclear power	43.6	42.5	48.9	51.9	49.9
– where of fossil power	89.7	85	81.7	87.9	82.7
– where of wind power	2.2	3.4	3.6	3.9	4.1
– where of biomass and waste	1.5 [1]	1.3 [1]	2.5	2.4	2.0
Energy consumption, TWh					
Gas	39.5	33.8	32.5	37.1	31.7
Hard coal	73.5	58.5	41.5	45.1	35.2
Lignite	143.3	147.4	152.8	157.0	153.5
Peat	1.6	1.1	0.6	0.7	0.4
Waste (non-biogenic)	2.6	2.8	2.9	3.2	2.9
Biomass, waste (biogenic)	11.7	11.8	10.5	9.8	7.1
Other fuels, including oil	6.9	5.3	5.9	5.7	5.7
Uranium (tonnes)	104	104	126	133	119
Emissions to air					
Carbon dioxide (CO_2), Mtonnes [2]	91.9	86.7	83.5	86.9	82.7 [3]
Specific CO_2 emissions, g/kWh	416	418	400	412	421
Biogenic CO_2 , Mtonnes [4]	4.0	4.0	3.6	3.4	2.4
Nitrogen oxides(NO_x), ktonnes	70.2	63.6	53.4	56.5	52.8
Specific NO_x emissions, g/kWh	0.318	0.306	0.258	0.268	0.271
Specific NO_x emissions (only combustion plants), g/kWh	0.493	0.491	0.460	0.458	0.474
Sulphur dioxide (SO_2), ktonnes	74.4	69.8	56.1	58.2	53.1
Specific SO_2 emissions, g/kWh	0.337	0.336	0.272	0.276	0.272
Specific SO_2 emissions (only combustion plants), g/kWh	0.522	0.539	0.483	0.472	0.476
Particulate matter (PM), ktonnes	2.4	2.6	1.9	2.1	1.7
Specific PM emissions, g/kWh	0.011	0.012	0.009	0.010	0.008
Specific PM emissions (only combustion plants), g/kWh	0.017	0.020	0.016	0.017	0.015
Waste and by-products, ktonnes					
Hazardous waste	199	211	431	194	123
Non-hazardous waste	189	219	447	349	416
Ash from hard coal	1,413	1,103	667	738	578
Ash from lignite	4,868	5,198	5,330	5,388	5,334
Ash from biomass	118	90	64	67	42.3
Slag from waste incineration	305	301	317	330	245
Gypsum	2,742	3,109	3,154	3,219	3,000
Other by-products	102	88	75	73	48
Radioactive waste					
Low and medium radiactive operational waste, m^3	561	1,082	1,277	883	2,251
Core components, tonnes	494	842	18	18	10
Spent nuclear fuel, tonnes	135	157	147	161	193
Uranium in spent nuclear fuel, tonnes	82	103	136	145	138
Our people					
Number employees, FTE,	38,180	34,685	32,794	31,819	30,181
– where of females	9,119	8,267	7,928	7,485	6,983
– where of temporary employed (not permanent contract)	N/A	N/A	1,234	1,154	882
Sick leave					
men %	N/A	N/A	N/A	3.8%	3.7%
females %	N/A	N/A	N/A	5.3%	5.0%
Working related accidents number (LTIF)					
Internal (employees)	4.5	3.3	2.3	2.6	2.7
External (contractors)	N/A	N/A	N/A	3.6	3.7
Gender diversity					
Female managers %	19%	19%	19%	18%	18%
Number of managers per age category total					
–29	N/A	64	38	43	44
30–49	N/A	1,964	1,486	1,467	1,406
50–	N/A	779	1,175	1,339	1,177

1) Accounting principle changed in 2012.

2) Emissions are presented in accordance to financial accounting and consolidated.

3) Total greenhouse emissions amount to 83.0 Mtonnes, 0.3 Mtonnes consist of SF_6 and N_2O emissions. Characterisation factors are obtained from the IPCC Fifth Assessment report.

4) CO_2 emissions from combustion of biomass.

Definitions and calculations of key ratios

Figures for the Group in 2014. Amounts in SEK million unless indicated otherwise.

EBIT:	Earnings Before Interest and Tax (Operating profit)
EBITDA:	Earnings Before Interest, Tax, Depreciation, Amortisation. (Operating profit before depreciation, amortisation and impairment losses)
Items affecting comparability:	Capital gains and capital losses from shares and other non-current assets, impairment losses and reversed impairment losses reversed pertaining to non-current assets, and other non-recurring items. Also included here are, for trading activ ities, unrealised changes in the fair value of energy derivatives, which according to IAS 39 cannot be recognised using hedge accounting and unrealised changes in the fair value of inventories
Underlying operating profit:	Operating profit (EBIT) excluding items affecting comparability
FFO:	Funds From Operations
Free cash flow:	Cash flow from operating activities less maintenance and replacement investments
Hybrid capital:	Subordinated securities, junior to all Vattenfall's unsubordinated debt instruments. Reported as interest-bearing liabilities
Capital employed:	Balance sheet total less financial assets and noninterest-bearing liabilities
Net debt:	Interest-bearing liabilities less loans to owners of non-controlling interests in Group companies, cash and cash equivalents, short-term investments
Adjusted net debt:	For calculation, see Consolidated balance sheet – Supplementary Information

Operating margin, %	= 100 x	EBIT / Net sales	-2,195 / 165,945	=	-1.3
Operating margin excl. items affecting comparability, %	= 100 x	Underlying EBIT / Net sales	24,133 / 165,945	=	14.5
Pre-tax profit margin, %	= 100 x	Profit before tax / Net sales	-8,240 / 165,945	=	-5.0
Pre-tax profit margin excl. items affecting comparability, %	= 100 x	Profit before tax excl. items affecting comparability / Net sales	18,140 / 165,945	=	10.9
Return on equity, %	= 100 x	Profit for the period attributable to owner of the Parent Company / Average equity for the period attributable to owner of the Parent Company excl. the Reserve for cash flow hedges	-8,178 / 118,618	=	-6.9
Return on capital employed, %	= 100 x	EBIT / Capital employed, average	-2,195 / 293,992	=	-0.7
Return on capital employed excl. items affecting comparability, %	= 100 x	Underlying EBIT / Capital employed, average	24,133 / 293,992	=	8.2
EBIT interest cover, (x)	=	EBIT + financial income excl. return from the Swedish Nuclear Waste Fund / Financial expenses excl. discounting effects attributable to provisions	- 567 / 5,144	=	-0.1
EBIT interest cover excl. Items affecting comparability, (x)	=	Underlying EBIT + financial income excl. Return from the Swedish Nuclear Waste Fund / Financial expenses excl. discounting effects attributable to provisions	25,761 / 5,144	=	5.0

Definitions and calculations of key ratios

FFO interest cover, (x)	=	FFO + financial expenses excl. discounting effects attributable to provisions	37,275	=	7.2
		Financial expenses excl. discounting effects attributable to provisions	5,144		
FFO interest cover, net, (x)	=	FFO + financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	35,647	=	10.1
		Financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	3,516		
Cash flow interest cover after maintenance investments, (x)	=	Cash flow from operating activities less maintenance investments + financial expenses excl. discounting effects attributable to provisions and interest components related to pension costs	27,138	=	7.0
		Financial expenses excl. discounting effects attributable to provisions and interest components related to pension cost	3,904		
FFO/gross debt, %	= 100 x	FFO	32,131	=	25.5
		Interest-bearing liabilities	125,928		
FFO/net debt, %	= 100 x	FFO	32,131	=	40.4
		Net debt	79,473		
FFO/adjusted net debt, %	= 100 x	FFO	32,131	=	20.3
		Adjusted net debt	158,291		
EBITDA/net financial items, (x)	=	EBITDA	41,038	=	11.7
		Financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	3,516		
EBITDA excl. items affecting comparability/net financial items, (x)	=	EBITDA excl. items affecting comparability	67,366	=	19.2
		Financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	3 516		
Equity/total assets, %	= 100 x	Equity	128,462	=	25.9
		Balance sheet total	496,433		
Gross debt/equity, %	= 100 x	Interest-bearing liabilities	125,928	=	98.0
		Equity	128,462		
Net debt/equity, %	= 100 x	Net debt	79,473	=	61.9
		Equity	128,462		
Gross debt/gross debt plus equity, %	= 100 x	Interest-bearing liabilities	125,928	=	49.5
		Interest-bearing liabilities + equity	254,390		
Net debt/net debt plus equity, %	= 100 x	Net debt	79,473	=	38.2
		Net debt + equity	207,935		
Net debt/EBITDA, (x)	=	Net debt	79,473	=	1.9
		EBITDA	41,038		
Adjusted net debt/ EBITDA, (x)	=	Adjusted net debt	158,291	=	3.9
		EBITDA	41,038		

Facts about Vattenfall's markets[1]

	2014						
	Sweden	Finland	Denmark	Germany	Netherlands	UK	Total
Installed capacity electricity, MW							
Hydro power[2]	8,175	125	—	2,880	24	—	11,203
Nuclear power	6,974	—	—	—	—	—	6,974
Fossil-based power	1,212	—	1,059	12,971	4,750	—	19,992
of which, gas	—	—	—	1,707	4,100	—	5,807
of which, lignite	—	—	—	7,767	—	—	7,767
of which, hard coal	—	—	1,059	2,866	650	—	4,575
of which, oil	1,212	—	—	631	—	—	1,843
Wind power	272	—	360	12	234	612	1,489
Biomass, waste	189	—	59	112	2	—	362
Total electricity	**16,821**	**125**	**1,478**	**15.975**	**5,010**	**612**	**40.021**
Installed capacity heat, MW	**2,255**	**—**	**1,063**	**9,911**	**2,622**	**—**	**15,852**
Generated electricity, TWh							
Hydro power[2]	30.9	0.3	—	3.0	0.1	—	34.3
Nuclear power	49.9	—	—	—	—	—	49.9
Fossil-based power	—	—	3.7	65.9	13.1	—	82.7
of which, gas	—	—	—	2.4	10.5	—	12.9
of which, lignite	—	—	—	55.4	—	—	55.4
of which, hard coal	—	—	3.7	7.6	2.6	—	13.9
of which, oil	—	—	—	0.5	—	—	0.5
Wind power	0.7	—	1.0	—	0.5	1.8	4.1
Biomass, waste	0.2	—	0.3	1.5	—	—	2.0
Total electricity	**81.7**	**0.3**	**5.0**	**70.4**	**13.7**	**1.8**	**172.9**
Sales of heat, TWh							
Fossil-based power	0.4	—	2.7	13.2	3.1	—	19.5
of which, gas	—	—	—	3.8	3.1	—	6.9
of which, lignite	—	—	—	4.4	—	—	4.4
of which, hard coal	—	—	2.7	4.7	—	—	7.4
of which, oil	0.4	—	0.1	0.4	—	—	0.8
Biomass, waste	3.3	—	0.4	0.9	—	—	4.6
Total heat	**3.7**	**—**	**3.1**	**14.2**	**3.1**	**—**	**24.1**
Sales of electricity, TWh	**76.3**	**8.9**	**8.1**	**85.6**	**20.1**	**—**	**199.0**
Sales of gas, TWh	**—**	**—**	**—**	**5.0**	**40.6**	**—**	**45.5**
Number of retail customers	**934,000**	**373,000**	**—**	**2,854,000**	**1,993,000**	**—**	**6,154,000**
Electricity volume, TWh retail customers	**7.9**	**2.6**	**—**	**7.7**	**8.0**	**—**	**26.2**
Electricity volume, TWh resellers	**4.1**	**1.1**	**1.7**	**22.3**	**—**	**—**	**29.2**
Electricity volume, TWh businesses	**28.1**	**4.9**	**—**	**21.4**	**9.0**	**—**	**63.4**
Number of network customers	**938,000**	**—**	**—**	**2,293,000**	**—**	**—**	**3,231,000**
Number of gas customers	**—**	**—**	**—**	**224,100**	**1,717,700**	**—**	**1,941,800**
Electricity network							
Transited volume, TWh[3]	69.6	—	—	13.3	—	—	**82.9**
Distribution network, km	175,000	—	—	81,000	—	—	**256,000**
Number of employees (full-time equivalents)							
Per country	8,870	55	462	16,158	4,369	169	**30,169**
Group total[4]							**30,181**
CO_2 emissions per country, Mtonnes	0.3	—	3.3	72.2	6.9	—	82.7
CO_2 emission allowances received, Mtonnes CO_2/year	0.5	—	—	2.7	0.5	—	3.7

1) Rounding differences of 0.1 have been made for certain items.
2) In Germany mainly pumped-storage power plants.
3) Excl. generation transiting.
4) There are 98 employees (127) in other countries.

Facts about Vattenfall's markets (cont.)[1]

	2013						
	Sweden	Finland	Denmark	Germany	Netherlands	UK	Total
Installed capacity electricity, MW							
Hydro power[2]	8,195	128	—	2,880	24	—	11,227
Nuclear power	6,984	—	—	—	—	—	6,984
Fossil-based power	1,212	—	1,309	11,422	5,063	—	19,006
of which, gas	—	—	—	1,707	4,160	—	5,867
of which, lignite	—	—	—	7,766	—	—	7,766
of which, hard coal	—	—	1,309	1,318	903	—	3,530
of which, oil	1,212	—	—	631	—	—	1,843
Wind power	241	—	346	12	234	612	1,445
Biomass, waste	189	—	128	125	2	—	444
Total electricity	**16,821**	**128**	**1,783**	**14,439**	**5,323**	**612**	**39,106**
Installed capacity heat, MW	**2 414**	**—**	**1,646**	**10,424**	**2,692**	**—**	**17,176**
Generated electricity, TWh							
Hydro power[2]	32.1	0.4	—	3.0	0.1	—	35.6
Nuclear power	51.9	—	—	—	—	—	51.9
Fossil-based power	—	—	5.3	66.2	16.5	—	87.9
of which, gas	—	—	—	3.2	11.5	—	14.7
of which, lignite	—	—	—	57.2	—	—	57.2
of which, hard coal	—	—	5.2	5.7	4.7	—	15.6
of which, oil	—	—	—	0.4	—	—	0.4
Wind power	0.63	—	0.9	—	0.5	1.8	3.9
Biomass, waste	0.4	—	0.7	1.3	—	—	2.4
Total electricity	**85.0**	**0.4**	**6.9**	**70.5**	**17.0**	**1.8**	**181.7**
Sales of heat, TWh							
Fossil-based power	0.1	—	3.8	14.6	3.9	—	22.4
of which, gas	—	—	—	5.7	3.9	—	9.6
of which, lignite	—	—	—	1.8	—	—	1.8
of which, hard coal	—	—	3.7	7.1	—	—	10.8
of which, oil	0.1	—	0.1	—	—	—	0.2
Biomass, waste	4.0	—	2.0	1.8	—	—	7.8
Total heat	**4.1**	**—**	**5.8**	**16.4**	**3.9**	**—**	**30.3**
Sales of electricity, TWh	**77.6**	**9.3**	**10.0**	**86.2**	**20.3**	**—**	**203.3**
Sales of gas, TWh	**—**	**—**	**—**	**4.3**	**51.5**	**—**	**55.8**
Number of retail customers	**935,000**	**361,000**	**—**	**2,766,000**	**2,070,000**	**—**	**6,132,000**
Electricity volume, TWh retail customers	**8.4**	**2.6**	**—**	**8.2**	**9.0**	**—**	**28.1**
Electricity volume, TWh resellers	**4.1**	**1.3**	**2.0**	**19.7**	**—**	**—**	**27.1**
Electricity volume, TWh businesses	**30.9**	**5.0**	**—**	**22.0**	**8.2**	**—**	**66.1**
Number of network customers	**932,000**	**—**	**—**	**3,409,000**	**—**	**—**	**4,341,000**
Number of gas customers	**—**	**—**	**—**	**136,700**	**1,774,500**	**—**	**1,911,200**
Electricity network							
Transited volume. TWh[4]	71.9	—	—	26.5	—	—	**98.4**
Distribution network, km	172,000	—	—	137,000	—	—	**309,000**
Number of employees (full-time equivalents)							
Per country	8,902	49	566	17,254	4,756	165	**31,775**
Group total[5]							**31,819**
CO_2 emissions per country, Mtonnes	0.4	—	5.0	72.2	9.3	—	**86.9**
CO_2 emissions allowances received, Mtonnes Co_2/year	0.6		—	3.0	0.5	—	**4.2**

1) Rounding differences of 0.1 have been made for certain items.
2) In Germany mainly pumped-storage power plants.
3) The number of retail customers in Germany in 2013 has been adjusted.
4) Excl. generation transiting.
5) There are 98 employees (127) in other countries.

Facts about Vattenfall's markets (cont.)[1]

Energy consumption

	2014						
Fuel consumption, TWh	Sweden	Finland	Denmark	Germany	Netherlands	UK	Total
Gas	—	—	—	8.2	23.5	—	31.7
Hard coal	—	—	9.6	19.3	6.2	—	35.2
Lignite	—	—	—	153.5	—	—	153.5
Peat	0.4	—	—	—	—	—	0.4
Waste, non-biological	0.4	—	—	2.5	—	—	2.9
Biomass, waste (biological)	2.8	—	0.8	3.5	0.1	—	7.1
Other, including oil	0.3	—	0.1	5.3	—	—	5.7
Total	**3.8**	**—**	**10.4**	**192.4**	**29.8**	**—**	**236.5**
Uranium (tonnes)	119.0	—	—	—	—	—	119.0

	2013						
Fuel consumption, TWh	Sweden	Finland	Denmark	Germany	Netherlands	UK	Total
Gas	—	—	—	10.9	26.1	—	37.1
Hard coal	—	—	14.9	18.9	11.4	—	45.1
Lignite	—	—	—	157.0	—	—	157.0
Peat	0.7	—	—	—	—	—	0.7
Waste, non-biological	0.4	—	—	2.8	—	—	3.2
Biomass, waste (biological)	3.2	—	2.3	4.3	0.1	—	9.8
Other, including oil	0.4	—	0.1	5.1	—	—	5.7
Total	**4.7**	**—**	**17.4**	**198.9**	**37.6**	**—**	**258.6**
Uranium (tonnes)	133.0	—	—	—	—	—	133.0

1) Rounding differences of 0.1 have been made for certain items.

Pro rata[1]

Pro rata – Generation data corresponding to Vattenfall's ownership in the respective facilities

	2014								
	Sweden	Finland	Denmark	Germany	Poland	Netherlands	Belgium	UK	Total
Installed capacity electricity, MW									
Hydro power[2]	8,212	125	—	2,880	—	24	—	—	10,997
Nuclear power	4,767	—	—	282	—	—	—	—	5.049
Fossil-based power	1,212	—	1,059	12,890	—	4,750	—	—	19,911
of which, gas	—	—	—	1,675	—	4,100	—	—	5,775
of which, lignite	—	—	—	7,767	—	—	—	—	7,767
of which, hard coal	—	—	1,059	2,817	—	650	—	—	4,526
of which, oil	1,212	—	—	631	—	—	—	—	1,843
Wind power	271	—	358	28	—	328	—	612	1,597
Biomass, waste	189	—	59	92	—	2	—	—	342
Total electricity	**14,651**	**125**	**1,476**	**16.172**	**—**	**5,104**	**—**	**612**	**38.140**
Installed capacity heat, MW	**2,116**	**—**	**1,063**	**9,466**	**—**	**2,622**	**—**	**—**	**15,852**

	2013								
	Sweden	Finland	Denmark	Germany	Poland	Netherlands	Belgium	UK	Total
Installed capacity electricity, MW[2]									
Hydro power[2]	7,815	128	—	2,880	20	24	—	—	10,867
Nuclear power	4,774	—	—	282	—	—	—	—	5,056
Fossil-based power	1,212	—	1,309	11,341	543	5,063	—	—	19,468
of which, gas	—	—	—	1,675	—	4,160	—	—	5,835
of which, lignite	—	—	—	7,766	—	—	—	—	7,766
of which, hard coal	—	—	1,309	1,269	543	903	—	—	4,024
of which, oil	1,212	—	—	631	—	—	—	—	1,843
Wind power	241	—	345	28	10	328	—	612	1,564
Biomass, waste	189	—	128	102	30	2	—	—	451
Total electricity	**14,231**	**128**	**1,782**	**14,633**	**603**	**5,417**	**—**	**612**	**37,406**
Installed capacity heat, MW	**2,284**	**—**	**1,646**	**9,961**	**50**	**3,261**	**—**	**—**	**17,202**

	2014								
	Sweden	Finland	Denmark	Germany	Poland	Netherlands	Belgium	UK	Total
Generated electricity, TWh									
Hydro power[2]	29.8	0.3	—	3.0	—	0.1	—	—	33.2
Nuclear power	34.0	—	—	2.2	—	—	—	—	36.2
Fossil-based power	—	—	3.7	65.7	—	13.2	—	—	82.6
of which, gas	—	—	—	2.4	—	10.6	—	—	13.0
of which, lignite	—	—	—	55.5	—	—	—	—	55.5
of which, hard coal	—	—	3.7	7.3	—	2.6	—	—	13.6
of which, oil	—	—	—	0.5	—	—	—	—	0.5
Wind power	0.7	—	1.0	0.1	—	0.7	—	1.8	4.3
Biomass, waste	0.3	—	0.3	1.3	—	—	—	—	1.9
Total electricity	**64.8**	**0.3**	**5.0**	**72.3**	**—**	**14.0**	**—**	**1.8**	**158.3**

	2013								
	Sweden	Finland	Denmark	Germany	Poland	Netherlands	Belgium	UK	Total
Generated electricity, TWh									
Hydro power[2]	29.7	0.4	—	2.7	—	0.1	—	—	32.9
Nuclear power	35.5	—	—	2.3	—	—	—	—	37.8
Fossil-based power	0.1	—	5.3	66.4	2.0	13.7	—	—	87.4
of which, gas	—	—	—	3.5	—	9.7	—	—	13.2
of which, lignite	—	—	—	56.8	—	—	—	—	56.8
of which, hard coal	—	—	5.2	5.7	2.0	4.0	—	—	16.9
of which, oil	0.1	—	—	0.4	—	—	—	—	0.5
Wind power	0.6	—	0.9	0.1	—	0.7	—	1.8	4.1
Biomass, waste	0.1	—	0.7	1.5	0.1	—	—	—	2.4
Total electricity	**66.0**	**0.4**	**6.9**	**73.0**	**2.1**	**14.5**	**—**	**1.8**	**164.6**

CO_2 emissions, pro rata

	2014								
	Sweden	Finland	Denmark	Germany	Poland	Netherlands	Belgium	UK	Total
CO_2 emissions per country, Mtonnes	0.3	—	3.3	71.7	—	6.9	—	—	**82.3**

	2013								
	Sweden	Finland	Denmark	Germany	Poland	Netherlands	Belgium	UK	Total
CO_2 emissions per country, Mtonnes	0.4	—	5.0	71.8	1.9	9.3	—	—	88.4

Footnotes: For explanations, see page 150

GRI – Content and references

Vattenfall's annual and sustainability report is an integrated report in which information about the company's work with sustainability issues and outcomes is described together with the company's financial performance. Vattenfall has been reporting in accordance with the Global Reporting Initiative (GRI) Guidelines since 2003. For 2014 Vattenfall adheres to the latest version of the GRI Guidelines – G4 – and reports at the "Core" level. This means that Vattenfall has identified the aspects that are significant for the company and reports at least one indicator per aspect.

In 2013 Vattenfall identified a number of sustainability focus areas in connection with the company's strategy work. Vattenfall is striving to make continuous improvements in these areas and is currently in the process of formulating concrete targets and KPIs. Vattenfall uses the GRI Guidelines where possible and is working to gradually develop and improve its reporting in accordance with the GRI G4 framework. Omitted information is reported in the GRI index on pages 156–158.

Vattenfall's overall ambition for its sustainability reporting is that it will be transparent, relevant and comparable. The GRI index, which is structured in accordance with the GRI G4 Guidelines, indicates where information about Vattenfall's work with sustainable consumption, sustainable production and sustainable financial performance can be found in the Annual and sustainability report.

Reporting profile and scope

The Annual and sustainability report describes the areas in which the Group has considerable environmental, social and financial impacts. Vattenfall's activities, performance and results in these areas are reported in the three dimensions of Vattenfall's strategy – sustainable consumption, sustainable production and sustainable financial performance.

The reporting covers all of the Vattenfall Group's operations during the 2014 financial year, unless indicated otherwise, and the figures provided pertain to the 2014 financial year. Vattenfall reports sustainability data annually, and the preceding year's report was published on 24 March 2014.

Vattenfall's sustainability areas	GRI Aspects	GRI DMAs and Indicators
Offer customers solutions that enable sustainable use of energy	Product and service labelling	G4-PR5 Customer satisfaction
Transform the production portfolio towards lower CO_2-emitting sources and more renewables	Research and development	G4-DMA Research and development activities
	Energy	G4-EN3 Energy consumption within the organisation
	Emissions	G4-EN15 Direct greenhouse gas emissions
		G4-EN18 Greenhouse gas emissions intensity
Increase focus on other emissions	Emissions	G4-EN21 Emissions to air
Improved resource efficiency in Vattenfall's operations	Water	G4-EN8 Water sources
	Effluents and waste	G4-EN22 Water discharge
		G4-EN23 Waste
Protect nature and species, and safeguard biodiversity	Biodiversity	G4-EN11 Operations adjacent to protected areas
Take responsibility for Vattenfall's impacts on local communities	Economic performance	G4-EC1 Direct economic value generated and distributed
	Local communities	G4-SO1 Impacts of operations and of community resettlements
Ensure a healthy and safe workplace	Occupational health and safety	G4-LA6 Injuries, absences and work-related fatilities
Our people	Training and education	G4-LA11 Performance and career development
	Diversity and equal opportunity	G4-LA12 Composition of governance bodies
Safeguard the company's integrity	Anti-corruption	G4-SO4 Communication and training on anti-corruption policies and procedures
	Anti-competitive behaviour	G4-SO7 Legal actions against anti-competitive operations
Ensure sustainability in the supply chain	Supplier human rights assessment	G4-HR10 Audit of new suppliers
	Supplier environmental assessment	G4-EN32 Audit of new suppliers

Boundaries

Vattenfall has limited its reporting to the areas in which the company has full control over data collection and information quality, which entails all operations of the company unless indicated otherwise. A number of smaller heating plants in the Netherlands are not included in the 2013 environmental data due to shortcomings in the reporting. While GRI G4 entails a greater focus on impacts along the entire value chain, the company cannot yet measure data outside of its own operations in a reliable manner.

Important events and information about changes in the organisation during the year are provided on pages 8–9, 18–19 and page 57. Changes in Vattenfall's supply chain are described on page 51. Changes in the capital structure and other changes in capital are described in Note 49 to the consolidated accounts. The limitations and changes in the reporting are also described in the respective sections or in comments to diagrams and tables.

Data collection and accounting policies

Environmental data is collected via the Group's environmental reporting process. Group-wide definitions are used for all environmental parameters to enhance quality. Accounting policies for the financial reporting are described in Note 3 to the consolidated accounts. The principles of consolidation for environmental data are the same as for financial data. Consolidation includes subsidiaries in which Vattenfall AB owns shares corresponding to more than 50% of the voting rights or in some other way has control. Absolute CO_2 emissions are also reported in accordance with Vattenfall's share of ownership in the respective plants. The reported CO_2 emissions are calculated based on fuel consumption.

It should be noted that the calculation methods differ from country to country. The calculation methods are set by national legislation, with ties to the EU Emissions Trading System. All other emissions have either been measured or calculated based on periodically recurring measurements. Figures for energy and water consumption are based, like all environmental data, on the production units' own reporting. Depending on the size and type of operation, the measurement equipment differs from unit to unit. However, all reporting is to be in accordance with the Group-wide definitions and principles. The employee data that is presented is based on verified figures from Vattenfall's annual accounts.

External assurance

The sustainability information in the integrated report for 2014 has been reviewed by Vattenfall's auditor, Ernst & Young. In addition, it has been approved by Vattenfall's board of directors.

Sustainability initiatives and principles that the company has aligned itself with or supports, and important memberships in interest association and organisations

The Vattenfall Group has adhered to the UN's voluntary Global Compact since 2002 through the Swedish partnership for Global Responsibility. Vattenfall has been a direct participant since 2008. Consequently, Vattenfall has undertaken to support the UN's Global Compact and to adhere to the OECD guidelines for multinational companies. Vattenfall also adheres to the UN's framework for business and human rights. In addition to these undertakings, Vattenfall has opted to align itself with a number of voluntary sustainability initiatives and organisations at the Group level.

Examples of these include:

- The World Economic Forum's initiative
- The World Economic Forum
- The Centre for European Policy Studies (CEPS)
- CSR Europe
- The Global CCS Institute
- The European Technology Platform for Zero Emission Fossil Fuel Power Plants

Vattenfall mainly operates in Western European countries (Sweden and the rest of the Nordic region, Germany, the Netherlands and the UK). These countries have all ratified the International Labour Organization's (ILO) eight fundamental conventions. A country that has ratified an ILO convention must regularly report on its performance to the ILO.

GRI index

General information

		Page or reference	Omissions
Strategy and Analysis			
G4-1	Statement from the most senior decision-maker	6–7	
Organisational Profile			
G4-3	The name of the organisation	Cover, note 1	
G4-4	Brands, products and services	29	
G4-5	Location of the organisation's headquarters	4	
G4-6	The number of countries and their names where the organisation has significant operations	4, 150	
G4-7	Nature of ownership and legal form	4	
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers)	4, 150–151	
G4-9	Scale of the organisation, including number of employees, operations, net sales, total capitalisation (debt/equity)	4–5	
G4-10	Number of employees by employment contract, gender, region, and permanent employees/seasonal employees	47	The type of employment and hired-in workers are not reported, even though Vattenfall contracts a large number of hired-in personal. This is because data is not available at the Group level. Vattenfall has no seasonal variations for the number of employees.
G4-11	Percentage of total employees covered by collective bargaining agreements	Germany: 98% (98), Sweden 98% (98) Netherlands: 98% (98)	
G4-12	The organisation's supply chain	51	
G4-13	Changes in the organisation's size, structure, ownership, supply chain	8–9, 154, note 5, note 26	
G4-14	Handling of the precautionary principle	66–72	
G4-15	External sustainability principles and initiatives to which the organisation subscribes or which it endorses	155	
G4-16	Memberships of associations and industry advocacy organisations	155	
EU1	Installed capacity	150	
EU2	Energy production, net	150	
EU3	Number of customers	150	
EU4	Length of transmission and distribution lines, based on voltage	150	
EU5	Allocation of CO_2 emission allowances	150	
Identified Material Aspects and Boundaries			
G4-17	Entities included in the reporting, or not	154–155, note 2, note 3, note26	
G4-18	Process for defining the report content	24, http://corporate.vattenfall.com/sustainability/	
G4-19	Identified material aspects	24, 154, http://corporate.vattenfall.com/sustainability/	
G4-20	Aspect Boundaries for each material aspect within the organisation	24, http://corporate.vattenfall.com/sustainability/	
G4-21	Aspect Boundaries for each material aspect outside the organisation	24, http://corporate.vattenfall.com/sustainability/	
G4-22	The effect of any restatements of information provided in previous reports	154–155	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	154–155	
Stakeholder Engagement			
G4-24	List of stakeholder groups	24	
G4-25	Basis for identification and selection of stakeholders	24, http://corporate.vattenfall.com/sustainability/society-and-stakeholders/	
G4-26	Approach to stakeholder engagement	24–25, http://corporate.vattenfall.com/sustainability/society-and-stakeholders/	
G4-27	Key topics, concerns and the organisation's response, including through its reporting	24–25, http://corporate.vattenfall.com/sustainability/society-and-stakeholders/	
Report Profile			
G4-28	Reporting period	154–155	
G4-29	Date of most recent previous report	154–155	
G4-30	Reporting cycle	154	
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G4-33	Policy for external assurance	55, 155	
Governance			
G4-34	Governance structure, including committees and board responsibility for decision-making on economic, environmental and social impacts	52–55	
Ethics and Integrity			
G4-56	Values, principles and codes of conduct	50–51, 56, 58	

Specific information

DMA and Indicator		Page or reference	Omissions
Economic			
Aspect: Economic performance			
G4-DMA	Economic performance	22, 44–45	
G4-EC1	Direct economic value generated and distributed	44	
Sector specific aspect: Research and development			
G4-DMA	Research and development activities	46	No reporting on allocation of R&D resources for strategic and competative reasons.
Sector specific aspect: Plant decommissioning			
G4-DMA	Plant decommissioning	41	
Environment			
Aspect: Energy			
G4-DMA	Energy	23, 39–40	
Specific DMA	Energy regulations	15	
G4-EN3	Energy consumption within the organisation	152	Total consumption of electricity, heat, cooling and steam, and sold steam and cooling are not reported as data is not available at the Group level.
Aspect: Water			
G4-DMA	Water	39	
Sector specific DMA	Access to water		No reporting due to insignificance, as Vattenfall has no power plants in areas with poor access to water.
G4-EN8	Water sources	39	Rain and waste water from other organisations are not reported as this is not significant compared with other water flows.
Aspect: Biodiversity			
G4-DMA	Biodiversity	38	
Specific DMA	Biodiversity policy	58	
G4-EN11	Operations adjacent to protected areas	38	No reporting on the type habitat, size of area, or on rights to assets underground due to lack of data.
Sector specific DMA	Power line corridors	38	
G4-EU13	Biodiversity of offset habitats		No reporting on EN12, which makes reporting on EU13 impossible.
Aspect: Emissions			
G4-DMA	Emissions	35–37	
Specific DMA	Emissions regulations	15	Focus on regulations and policies for CO_2, as this is most significant for Vattenfall.
G4-EN15	Direct greenhouse gas emissions	36	Only CO_2 emissions (Scope 1) are reported.
G4-EN18	Greenhouse gas emissions intensity	36	CO_2 emissions (Scope 1) are reported.
G4-EN21	Emissions to air	37	Emissions of POPs, VOC and HAP are not reported because they are not measured regularly, since they are not significant for Vattenfall's plants. There are no specific legal requirements associated with these emissions.
Aspect: Effluents and waste			
G4-DMA	Effluents and waste	40–41	
Sector specific DMA	Nuclear waste	41	
G4-EN22	Water discharge	39	
G4-EN23	Waste	40	
Aspect: Supplier environment assesment			
G4-DMA	Audit of suppliers	51	
Specific DMA	Audit system for new suppliers	51	
G4-EN32	Audit of new suppliers	51	

Specific information

DMA and Indicator		Page or reference	Omissions
Social			
Working conditions			
Aspect: Occupational health and safety			
G4-DMA	Occupational health and safety	49	
Specific DMA	Programme for handling illnesses	49	
G4-LA6	Injuries, absences and work-related fatilities	49	No reporting on type of injuries, injury rate, occupational diseases, lost day rate. Instead Lost Time Injury Frequency (LTIF) is reported. A reporting system will be implemented during 2015 that will improve reporting. Occupational diseases rate will not be reported as the definitions differ between the countries.
Aspect: Training and education			
G4-DMA	Training and education	49	
G4-LA11	Performance and career development	47, 158	88% (88% men and 89% women) have had discussions with their managers about personal development and career opportunities. The data is from 2013 as no employee survey was conducted during 2014. No reporting per employee category, since such a categorical breakdown does not exist in Vattenfall.
Aspect: Diversity and equal opportunity			
G4-DMA	Diversity and equal opportunity	47	
G4-LA12	Composition of governance bodies	47	No reporing per minority group, as this is prohibited by rules in certain markets.
Human rights			
Aspect: Supplier human rights assessment			
G4-DMA	Audit of suppliers	51	
Specific DMA	Audit system for new suppliers	51	
G4-HR10	Audit of new suppliers	51	
Society			
Aspect: Local communities			
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Glossary

APX Amsterdam Power Exchange. An energy exchange for the Netherlands, the UK and Belgium.

Aspect GRI term that describes sustainability areas based on the categories Environment, Economy and Society.

Biomass Renewable fuel, such as wood, bark and pine oil.

BSCI (Business Social Compliance Initiative) An initiative launched by the Foreign Trade Association to improve working conditions at factories and farms around the world.

CCS Carbon Capture and Storage. The capture and underground storage of the carbon dioxide that is produced from combustion of fossil fuels.

CHP (Combined Heat and Power). A plant that produces both heat and electricity. In such a plant a large share of the primary energy is used for electricity and heat production, with little wasted heat.

CO_2 Carbon dioxide.

Derivative instrument A financial instrument that is commonly used to manage risk. Its value and change in value is related to the underlying (derived) instrument. Examples of derivative instruments are options, forward contracts and swaps.

DMA "Disclosures on Management Approach". Describes why certain sustainability aspects are identified asmaterial for the company and how steering and monitoring of these are conducted.

Ecological compensation Measures taken to create new environmental values to compensate for environmental values that have been lost through exploitation.

EEX The European Energy Exchange. The Germany electricity exchange.

Efficiency An efficiency rating indicates the relationship between energy output and the energy input in a system.

EPD Environmental Product Declaration – a third-party environmental declaration in accordance with ISO 14025 (www.environdec.com).

EPEX The spotmarket of EEX. Since 2009 part of EPEX Spot SE, Paris.

EU 27 The 27 member-states of the EU after its widening on 1 January 2007.

EU ETS The EU Emissions Trading System. The EU's trading system for CO_2 emission allowances. The system sets a cap for emissions from businesses within the system and facilitates optimisation through trading in emission allowances.

Forward market A market in which buyers and sellers agree on a set price for a future delivery of the underlying instrument, such as an electricity contract. (See also Derivative instrument).

Fossil fuels Fuels based on hydrocarbons from ancient sedimentary layers – mainly coal, oil and natural gas.

Global Compact The United Nations' (UN's) ten principles for companies surrounding human rights, labour issues, the environment and anti-corruption.

Green certificates Certificates for renewable energy that may be bought and sold. Called electricity certificates in Sweden.

GRI Global Reporting Initiative – a global standard for sustainability reporting.

Gross capacity The electric output delivered directly from a plant's generator. Measured in MW (Megawatt).

IED (Industrial Emissions Directive) An EU directive that sets higher demands on lowering emission levels and spills to soil and water.

IFRS International Financial Reporting Standards – Vattenfall has been reporting in accordance with IFRS since 2005.

Indicator GRI term that provides qualitative or quantitative information about the performance and development of the aspects that are identified as material for the company.

Installed capacity The performance according to design data for power plants. Commonly measured in MW (Megawatt).

ISO 14001 An international standard in the ISO 14000 series for establishing environmental management systems.

ISO 9001 An international standard in the ISO 9000 series for establishing quality management systems.

Life cycle analysis (LCA) Analysis of a power plant's environmental emissions in the entire chain from construction and fuel extraction via energy production to waste management and demolition.

LTIF (Lost Time Injury Frequency) Methodology to establish a products' total environmental impact during its life cycle, from raw material extraction, through manufacturing processes and usage, to waste management, including all transportation and energy consumption.

Margin call Marginal security that the holding of a derivative position must pledge to cover the credit risk of its counterparty (OTC or exchange).

Merit order The order in which production capacity at plants is used.

Net capacity The electric output that a plant delivers to distribution networks, i.e., gross capacity less the energy used by the plant itself. Measured in MW (Megawatt)

Nominal capacity The capacity that a generator is designed for. This concept is used mainly for electricity generation power plants, e.g., hydro power plants and wind turbines. Measured in MW (Megawatt).

Nord Pool The Nordic electricity exchange. Started in Sweden and Norway in 1996.

NO_x Collective term for nitrogen oxide, nitrogen dioxide and similar nitrogen compounds.

OHSAS 18000 A series of standards that can be used as a basis for an occupational health and safety management system.

OTC Over the Counter. Trading outside of exchanges (directly or via brokers) in physical and financial contracts.

Oxyfuel technology A technology used to separate carbon dioxide in a CCS plant.

Primary energy Primary energy is the form of energy that is accessible directly from the original sources. Vattenfall uses the interpretation applied by Eurostat and IEA. This means that all fuels are assigned a primary energy content corresponding to its heating value. Uranium is assigned a primary energy content corresponding to the heat released in the power plant. Solar, wind and hydro power are assigned a primary energy content corresponding to the extracted electricity (or heat).

Renewable energy sources Non-finite energy sources such as hydro power, biomass, wind, the sun, ocean waves and geothermal energy.

Reservoir levels Refers to the volume of water stored in a reservoir which on a specific occasion can be used for hydro power generation. Reservoir levels vary during the year depending on precipitation and production.

SAIDI (System Average Interruption Duration Index) An index of average power interruption times within electricity distribution. Measured in terms of interruption duration per customer and year.

SAIFI (System Average Interruption Frequency Index) An index of average power interruption frequency within electricity distribution. Measured in terms of the number of power interruptions per customer and year.

SKB Svensk Kärnbränslehantering AB (The Swedish Nuclear Fuel Management Company) – responsible for handling radioactive waste in Sweden.

SO_2 Sulphur dioxide.

Spot market A market in which trading is conducted for immediate delivery.

Swap A financial instrument that is a combination of a spot and forward transaction – a type of financial swap agreement.

Swedish GAAP Swedish Generally Accepted Accounting Principles. Applied by Vattenfall through 2004.

Thermal power Electricity generated via a heating process, such as a gas turbine or a steam process in a coal or nuclear power plant (compare combined heat and power).

Volatility A measure of how the price of a product varies during a given period of time.

Voluntary nature protection Measures taken on a voluntary basis aimed at protecting species and natural environments.

Waste hierarchy The EU's prioritisation framework for how waste is to be avoided and managed.

For definitions of **financial key ratios**, see pages 148–149.

Power units
- Power is energy per unit of time
- Power output is measured in watts (W)
- 1 kW (kilowatt) = 1,000 W
- 1 MW (megawatt) = 1,000 kW
- 1 GW (gigawatt) = 1,000,000 kW

Energy units
- Energy is power multiplied by time
- 1 kWh (kilowatt hour) = 1 kW in one hour
- 1 MWh (megawatt hour) = 1,000 kWh
- 1 GWh (gigawat hour) = 1,000,000 kWh
- 1 TWh (terawatt hour) = 1,000,000,000 kWh

Weight units
- ktonnes (kilotonnes) = 1,000 tonnes
- Mton (megatonnes) = 1,000,000 tonnes

Voltage
- 1 kV (kilovolt) = 1,000 volts (V)

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Financial calendar
27 April 2015 Annual General Meeting
28 April 2015 Interim report January–March
21 July 2015 Interim report January–June
27 October 2015 Interim report January–September
3 February 2016 Year-end report 2015 (preliminary)

About Vattenfall's financial reports
Vattenfall's financial reporting includes interim reports, the year-end report, and the annual report. In addition to these reports, the company issues financial information via press releases and on Vattenfall's websites.

Vattenfall's Annual and sustainability report 2014 is published in Swedish, English and German. All financial reports are available on Vattenfall's websites. The reports are only available digitally for downloading and can therefore not be ordered in printed versions.

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