

Organization number 556006-8420

## *INTERIM REPORT JANUARY – MARCH 2007*

- *First interim report under IFRS*
- *Revenue increased by 15 percent and amounted to SEK 9.5 billion (8.2)*
- *Adjusted EBIT amounted to SEK 2.7 billion (2.9)*
- *Net profit for the period amounted to SEK 1.7 billion (1.2)*
- *Earnings per share were SEK 8.79 (6.35)*
- *Declining market prices for electricity were offset by the Group's price-hedging activities*
- *Costs for Hurricane Per amounted to SEK 875 million*

### **COMMENTS BY THE CEO**

The Group's revenue in the first three months increased by 15 percent to about SEK 9.5 billion, compared with the corresponding period last year. The increase was primarily due to increased sales to Nord Pool and a positive effect of the Group's price-hedging activities. Earnings after net financial items increased by 39 percent to SEK 2.3 billion, compared with SEK 1.6 billion in the year-earlier period.

Electricity production increased, as did sales of electricity, despite the warm weather. On the other hand, both gas and heat sales declined. With respect to electricity production, hydroelectric power increased significantly, while nuclear power declined due to the delayed start of Oskarshamn 1 and the unanticipated stoppage of the partially owned reactors in Ringhals and Forsmark.

The Electricity Production, Heat and Waste, Services business sectors, as well as Energy Trading, reported improved operating earnings, while the trend was negative in Marketing and Distribution.

### **EXTENSIVE INVESTMENTS**

Investments totalled SEK 5.7 billion in 2006. This was more than SEK 15 million every day of the year. Over the coming years, we will continue to make extensive investments to increase delivery reliability through new electricity production and more reliable networks. Total investments will amount to between SEK 25 and 30 billion the following three years.

New electricity production is needed to improve electricity supplies in the Nordic market and to diminish turbulent electricity price trends. Investments

made by E.ON Sverige in both existing and new electricity production will amount to about SEK 15 billion. At present, we are preparing to increase output in our nuclear power plants, to expand hydroelectric power production to the extent that this is possible from a technical and environmental standpoint and to invest in co-generation plants, which are an effective means of producing electricity at the same time as an urban area can obtain environmentally compatible and convenient district heating.

In addition, our investments in wind power continue, although plans for wind power at sea in Sweden have been delayed over the short term due to sharp price increases for sea-based plants and associated equipment. Accordingly, we will prioritize land-based plants over the coming years. In the long term, however, sea-based plants are to be preferred, since wind conditions are more favourable and disruptions less frequent, meaning that larger facilities can be built. In Denmark, where conditions are more favourable for sea-based wind power, E.ON is participating in the expansion of one of the world's largest sea-based wind power farms, Nysted, south of Lolland in Denmark. In addition, preliminary planning is starting for a new, very large wind power farm at Södra Midsjöbanken in the Baltic Sea.

To strengthen electricity production in southern Sweden, we have commenced construction of a natural gas-fired co-generation plant in Malmö with a capacity of 400 MW of electricity and 250 MW of heat. The plant will be completed by year-end 2008/2009 and is then expected to deliver 3 TWh of electricity per year to the Nordic electricity system and 1 TWh of heat per year to Malmö's district heating network. The investment is estimated at about SEK 3 billion and will generate highly favourable effects for the strained situation in southern Sweden. It will also replace imported coal power, thus reducing carbon dioxide emissions in northern Europe by about 1,000,000 tons per year.

Investments in more reliable and better networks continue, and as much as 17,000 kilometres of weather-sensitive uninsulated aerial power lines will be replaced, primarily with underground cable. During 2006, approximately 3,200 kilometres was completed. At present, we are laying 100 kilometres of underground cable per week.

### **Hurricane Per**

On Sunday, January 14, 2007, Hurricane Per struck southern Sweden, causing major damage to communities. Approximately 170,000 of E.ON Sverige's customers were left without electricity. Lessons had been learned from Hurricane Gudrun and other hurricanes. Some 1,500 persons were on call, with particular emphasis on preparedness in Kronoberg County. Planning, readiness and material supplies proved to be very well coordinated with repair crews. Measures to mitigate customers' discomfort were implemented quickly and were appreciated. Forecast work functioned well, and our temporary information offices were a great success.

E.ON Sverige's costs for Hurricane Per amounted to about SEK 875 million, which is in line with the preliminary estimate directly after the hurricane.

**Even greater focus on customers and climate**

Our goal is to become Sweden's best energy company. We continue untiringly to learn more about what our customers want and what kind of service they expect. We are currently implementing an extensive program aimed at improving our customer orientation.

The aim of this effort is partly to increase our credibility by defining clear climate goals that among other include reducing carbon dioxide emissions. We aim to achieve these goals through investments in renewable energy, energy gases with low emissions and increased output from nuclear power. We are increasing our measures on climate and energy-efficiency in our own organization and working actively to reduce our customers' emissions. We are also investing in research and development in such areas as bio-energy and hydrogen gas.

With regard to research and development, I would also like to mention our investments in separating carbon dioxide from flue gases. E.ON Sverige will be the first in Europe to test this new method, which will eliminate about 90 percent of the carbon dioxide. The international energy company Alstom Power has developed the technology. This will also be the first time carbon dioxide separation from flue gases is demonstrated in Sweden. For the time being, the method is only being implemented on a laboratory scale. By year-end 2007/2008, however, carbon dioxide separation will be taken into operation in our oil-fired power plant in Karlshamn.

**Responsibility**

E.ON Sverige is a large company with considerable emphasis on responsibility. Our customers want reliable energy supplies at reasonable prices. This requires increased production and a variety of energy sources. We take a serious view on the climate threats, which is reflected in our major efforts to reduce carbon dioxide emissions and offers to our customers to help them use energy more efficiently. In our efforts, we are highly dependent on politicians establishing long-term and sustainable rules that facilitate our work to provide reliable energy supplies with the least possible impact on our climate. Unfortunately, constantly changing control mechanisms and taxes and protracted permit processes work in the wrong direction.

**SAKAB**

SAKAB are experts in hazardous waste and has been owned by E.ON Sverige since 2000. These operations have essentially doubled in size under our ownership. Today, SAKAB processes 250,000 tons of waste. We believe that SAKAB's future development is best served in another owner constellation.

**Outlook for 2007**

The year 2006 was characterized by below normal hydroelectric and nuclear power production, which was offset, however, by increased electricity prices.

It is expected that electricity production will return to normal levels in 2007 and that the Group's price-hedging activities will continue to have a favourable effect. Adjusted EBIT is expected to significantly exceed the 2006 level. Earnings will be positively affected by higher volumes in both hydropower and nuclear production as well as by higher achieved average wholesale electricity prices.

*Lars Frithiof*

## **REVENUE AND EARNINGS**

### **Revenue**

The Group's revenue amounted to SEK 9,466 M (8,247), an increase of SEK 1,219 M or about 15 percent, compared with the corresponding period in the preceding year. The increase was primarily due to increased sales to Nord Pool and a positive effect of the Group's price-hedging activities. Favourable runoff in the Nordic reservoirs increased significantly supplies in the Nordic electricity market during the first quarter of 2007. This in combination with the mild winter and declining prices for emission rights resulted in a sharp decline in electricity prices. The effect on revenues was compensated by the group's hedging activities.

E.ON Sverige's electricity sales excluding sales to minority owners in the Group's electricity production companies increased by 9 percent and amounted to 10.9 TWh (10.0).

The Group's electricity production increased by 0.1 TWh to 9.4 TWh. The distribution by production type changed, compared with the corresponding period in the preceding year. Hydroelectric power production increased significantly, while nuclear power production declined and other electricity production was largely unchanged.

The increase in hydroelectric power production by 0.7 TWh and was a consequence of significantly higher runoff to the Nordic reservoirs during the fourth quarter of 2006 and the first quarter of 2007.

Production in the Group's nuclear power plants were 0.4 TWh lower due to delayed start-up of Oskarshamn 1 and unplanned outages in Ringhals and Forsmark. Oskarshamn 1, which was closed during 2006 for safety reasons following an incident at Forsmark was scheduled to start-up at year-end 2006, but was delayed by 19 days. Other sources of electricity production declined by 0.2 TWh due to lower demand at the beginning of the year.

Unseasonably warm weather, as well as competition that continued to increase, meant that gas sales declined significantly, compared with the corresponding period in the preceding year and amounted to 2.2 TWh (3.2).

Heat sales declined by 12 percent and amounted to 3.0 TWh (3.4). The decline was attributable to the warm weather at the beginning of the year.

### **Operating profit, adjusted EBIT and profit for the period**

The Group's operating profit increased by SEK 703 M, compared with the corresponding period in the preceding year and amounted to SEK 2,468 M (1,765).

The comparison of operating profit between 2006 and 2007 is significantly affected by the fact that the Group's unrealized derivatives, for which hedge accounting is not applied, are reported at fair value. During the first quarter of

2007, this market valuation had a positive effect on operating profit of SEK 694 M, while the effect of market valuation on operating profit in the corresponding period of 2006 was negative in an amount of SEK 1,077 M. The comparison between the years is also affected by the fact that SEK 875 M was charged against operating profit in 2007 relating to costs in conjunction with the hurricane that affected southern Sweden in January 2007, resulting in extensive damage to the electricity distribution network.

To indicate the business's long-term earnings power the management of E.ON Sverige uses the key ratio Adjusted EBIT. This key ratio is also used for purposes of internal management control and is derived from income/loss (-) from continuing operations before income taxes and interest income and adjusted to exclude certain special items. The adjustments include book gains and losses on disposals, restructuring expenses, unrealized derivatives and other non-operating income and expenses of a nonrecurring or rare nature. In addition, net financial items are adjusted using economic criteria.

Adjusted EBIT decreased by SEK 165 M in comparison to prior year and amounted to SEK 2,711 M (2,876).

<i>Profit for the period</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>
<i>SEK M</i>	<i>Jan-March</i>	<i>Jan-March</i>	<i>Jan-Dec</i>
<b>Adjusted EBIT</b>	<b>2,711</b>	<b>2,876</b>	<b>5,198</b>
Adjusted financial net	-208	-136	253
Costs for Hurricane Per	-875	-	-
Impairment	-	-	-872
Divestments	-	-	364
Other non-operating earnings	694	-1,077	331
<b>Profit before taxes</b>	<b>2,322</b>	<b>1,663</b>	<b>5,274</b>
Income taxes	-643	-451	-1,429
<b>Profit for the period</b>	<b>1,679</b>	<b>1,212</b>	<b>3,845</b>

The decline in electricity prices, which was attributable to the improved hydrological conditions, lower prices for emission rights and lower demand due to warmer weather, had a negative impact on profit. The change in electricity prices, however, affected the Group's Adjusted EBIT only to a limited extent, since portions of the Group's electricity production had previously been hedged at price levels different from those currently prevailing.

Warmer weather during the period had a negative effect on the Group's heat operations but only affected Adjusted EBIT to a limited extent, since fuel costs also declined.

Operating costs, excluding other operating costs, increased by SEK 1,471 M and amounted to SEK 6,429 M (4,958). The increase was primarily attributable to the cost of raw materials and commodities resulting from the shift between production types and effects of the Group's price-hedging strategies.

Earnings from participation in associated companies amounted to SEK 54 M (29).

### **Financial net and profit after financial items**

Consolidated profit after financial items amounted to SEK 2,268 M (1,634), which was an increase of SEK 634 M or about 39 percent, compared with the corresponding period in the preceding year. The improvement was primarily due to positive effects of the Group's market valuation of unrealized derivatives, which offset the negative effects of the hurricane.

The consolidated financial net amounted to an expense of SEK 200 M (expense: 131), which was an increase of SEK 69 M, compared with the corresponding period in the preceding year. The increase was primarily due to market valuation of interest derivatives and higher effective interest rates.

### **Profitability**

The operating margin amounted to 20.3 percent (18.6), while the profit margin was 21.4 percent (20.0).

Return on average equity after tax amounted to 12.6 percent (11.6) and on average capital employed before tax to 12.0 percent (11.3).

Figures in parentheses refer to full-year 2006.

Earnings per share increased by 38 percent and amounted to SEK 8.79 (6.35). There was no dilution effect on these earnings.

## **BUSINESS SECTORS**

### **Profit per business sector**

<i>SEK M</i>	<b>Operating profit</b>		<b>Adjusted EBIT</b>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>Jan-March</i>	<i>Jan-March</i>	<i>Jan-March</i>	<i>Jan-March</i>
Marketing	-35	98	-35	98
Electricity Production	2,041	1,362	1,987	1,379
Heat and Waste	431	386	431	386
Distribution	-255	653	620	653
Services	25	3	25	3
Energy Trading	716	-595	-259	447
Other	-455	-142	-58	-90
<b>Group</b>	<b>2,468</b>	<b>1,765</b>	<b>2,711</b>	<b>2,876</b>

The comments below on profit trends per business sector are based on Adjusted EBIT to facilitate the comparison between periods.

Electricity Production showed a significant improvement in profits, compared with the preceding year, while Energy Trading and Marketing reported profits significantly lower than last year's level.

The improved profit in Electricity Production resulted from a combination of increased volumes and improved price levels, compared with the prior year. The increased volumes were a consequence of higher runoff to the Nordic reservoirs, resulting in increased hydroelectric power production. Operating profit was positively affected by the fact that most electricity production was previously price-hedged internally against Energy Trading at price levels exceeding those now prevailing.

The decline in profit in Energy Trading was essentially due to lower electricity prices during the quarter, compared with the corresponding period in the preceding year. Higher volumes from hydroelectric power production did not offset the negative effect of lower market prices, since the purchase price from Electricity Production was significantly higher.

Marketing reported a decline in profit due to lower consumption resulting from the mild winter. Declining electricity prices also had a negative effect on profit.

Heat and Waste showed an improvement in profit during the quarter, despite warmer weather and lower sales than during the corresponding period in the preceding year. The improvement in profit was attributable to significantly lower fuel costs and to the divestment of fixed assets.

Distribution's profit was negatively affected by the mild weather during the first quarter, compared with the corresponding period in the preceding year. Reduced volumes in electricity distribution, however, were offset by lower costs for network losses, although gas distribution was negatively affected by increased competition in combination with lower volumes.

The profit improvement in Services during the first quarter was primarily a result of high capacity utilization due to both internal and external assignments in conjunction with restoration of the electricity networks after Hurricane Per. In comparison with the corresponding period in the preceding year, however, it must be taken into consideration that the quarter was negatively affected by cold weather that resulted in a shift of activities.

## **INVESTMENTS, ACQUISITIONS AND DIVESTMENTS**

The Group's total investments in fixed assets and shares amounted to SEK 1,688 M (1,267) during the period.

### **Fixed-asset investments in existing operations**

Fixed-asset investments in existing operations amounted to SEK 1,663 M (875). The major share of the Group's investments comprises production and distribution facilities. The increased investments comprised continued improvement in the electricity distribution network, increased production capacity in nuclear power and the start of construction on a natural gas-fired co-generation plant in Malmö.

#### **Investments in subsidiaries**

Investments in new subsidiaries amounted to SEK 27 M (392). The period's investments comprised acquisition of Kraftmontasje AS. Kraftmontasje AS operates within the business segment Services and has its domicile in Vestnes in Norway.

#### **Investments in associated and other companies**

Investments in associated and other companies amounted to SEK 5 M (-).

#### **Divestments**

There were no divestments of subsidiaries during the period. The associated company Jämtlands Värme AB was sold to Strömsund Municipality for SEK 11 M.

#### **Cash flow and financial position**

The Group's cash flow from operations increased by SEK 358 M and amounted to SEK 2,865 M (2,507). The increase was primarily due to improved profits.

Cash flow after investing activities increased by SEK 710 M and amounted to SEK 964 M (254), which was primarily due to reduced investments in company acquisitions.

Interest-bearing debt declined by SEK 714 M and amounted to SEK 25,417 M (26,131). Increased net amortization during the latter part of 2006 contributed to lower interest-bearing debt.

The Group's cash and cash equivalents amounted to SEK 1,169 M (506).

The equity/assets ratio was 38 percent (34). By year-end 2006, the equity/assets ratio was 37 percent.

Malmö, May 9, 2007

Lars Frithiof  
Chief Executive Officer

The figures in parentheses refer to 2006.

This report has not been subject to review by E.ON Sverige AB's auditors.

**FINANCIAL INFORMATION FROM E.ON SVERIGE 2007**

Interim report as per March 31	May 9
Interim report as per June 30	August 15
Interim report as per September 30	November 13

**CONDENSED CONSOLIDATED INCOME STATEMENT**

Footnote	Amounts in SEK M	2007 Jan-March	2006 Jan-March	April 2006- March 2007	2006 Full-year
<b>4</b>	<b>Revenue</b>	<b>9,466</b>	<b>8,247</b>	<b>27,322</b>	<b>26,103</b>
	Other operating income	1,067	1,152	2,245	2,330
	Capitalized work on own account	65	166	975	1,076
	Raw materials and consumables	-4,791	-3,363	-13,982	-12,554
	Personnel costs	-898	-872	-3,647	-3,621
	Depreciation, amortisation and impairment	-740	-723	-4,366	-4,349
<b>5</b>	<b>Other operating costs</b>	<b>-1,701</b>	<b>-2,842</b>	<b>-3,001</b>	<b>-4,142</b>
<b>4</b>	<b>Operating profit</b>	<b>2,468</b>	<b>1,765</b>	<b>5,546</b>	<b>4,843</b>
	Financial income	128	235	1,653	1,760
	Financial expenses	-328	-366	-1,357	-1,395
	Financial net	-200	-131	296	365
	<b>Profit after financial items</b>	<b>2,268</b>	<b>1,634</b>	<b>5,842</b>	<b>5,208</b>
	Income from shares in associated companies	54	29	91	66
	<b>Profit before tax</b>	<b>2,322</b>	<b>1,663</b>	<b>5,933</b>	<b>5,274</b>
<b>3</b>	<b>Income taxes</b>	<b>-643</b>	<b>-451</b>	<b>-1,621</b>	<b>-1,429</b>
	<b>Profit for the period</b>	<b>1,679</b>	<b>1,212</b>	<b>4,312</b>	<b>3,845</b>
	Attributable to:				
	Shareholders of the parent company	1,647	1,129	4,253	3,735
	Minority interests	32	83	59	110
	<b>Profit for the period</b>	<b>1,679</b>	<b>1,212</b>	<b>4,312</b>	<b>3,845</b>
	<b>Earnings per share, SEK</b>				
	- basic	8.79	6.35	22.58	20.13
	- diluted	8.79	6.35	22.58	20.13

**CONDENSED CONSOLIDATED BALANCE SHEET**

Amounts in SEK M	March 31, 2007	March 31, 2006	Dec. 31, 2006
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible fixed assets	5,411	5,187	5,310
Tangible fixed assets	58,801	55,876	57,889
Financial fixed assets	18,926	19,374	19,020
<b>Total non-current assets</b>	<b>83,138</b>	<b>80,437</b>	<b>82,219</b>
<b>Current assets</b>			
Inventory	1,897	1,607	2,002
Accounts receivable and other current assets	10,015	12,333	8,650
Current investments	84	79	70
Cash and cash equivalents	1,169	506	425
<b>Total current assets</b>	<b>13,165</b>	<b>14,525</b>	<b>11,147</b>
<b>Total assets</b>	<b>96,303</b>	<b>94,962</b>	<b>93,366</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Attributable to Parent Company shareholders	36,048	31,288	34,037
Attributable to minority interests	496	517	507
<b>Total shareholders' equity</b>	<b>36,544</b>	<b>31,805</b>	<b>34,544</b>
<b>Non-current liabilities</b>			
Provisions	23,509	19,437	23,534
Financial liabilities	19,145	22,219	18,008
Operating liabilities	1,012	153	994
<b>Total non-current liabilities</b>	<b>43,666</b>	<b>41,809</b>	<b>42,536</b>
<b>Current liabilities</b>			
Provisions	1,327	1,750	448
Financial liabilities	6,272	3,912	7,626
Operating liabilities	8,494	15,686	8,212
<b>Total current liabilities</b>	<b>16,093</b>	<b>21,348</b>	<b>16,286</b>
<b>Total shareholders' equity and liabilities</b>	<b>96,303</b>	<b>94,962</b>	<b>93,366</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**

Amounts in SEK M	2007 Jan-March	2006 Jan-March	April 2006- March 2007	2006 Full-year
<b>Cash flow from operating activities before changes in working capital</b>	<b>3,161</b>	<b>2,763</b>	<b>8,928</b>	<b>8,530</b>
Change in working capital	-296	-256	-989	-949
<b>Cash provided by operating activities</b>	<b>2,865</b>	<b>2,507</b>	<b>7,939</b>	<b>7,581</b>
Fixed assets sold	73	71	273	271
Company acquisitions and sales	-14	-394	475	95
Investments in fixed assets	-1,960	-1,930	-6,101	-6,071
<b>Cash used by investing activities</b>	<b>-1,901</b>	<b>-2,253</b>	<b>-5,353</b>	<b>-5,705</b>
<b>Cash flow after investments</b>	<b>964</b>	<b>254</b>	<b>2,586</b>	<b>1,876</b>
Net amortization	-220	-259	-415	-454
Dividend	-	-	-1,553	-1,553
Shareholder contribution	-	-	45	45
<b>Cash used by financing activities</b>	<b>-220</b>	<b>-259</b>	<b>-1,923</b>	<b>-1,962</b>
<b>Change in cash and cash equivalents</b>	<b>744</b>	<b>-5</b>	<b>663</b>	<b>-86</b>

**CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE**

Amounts in SEK M	2007 Jan-March	2006 Jan-March	2006 Full-year
Cash-flow hedge, net of tax	290	-1,225	769
Fair value adjustments, net of tax	-	-	-350
Actuarial gains and losses, net of tax	-	-	-3
Translation differences	31	-5	-32
<b>Income and expenses recognised directly in equity</b>	<b>321</b>	<b>-1,230</b>	<b>384</b>
Profit for the period	1,679	1,212	3,845
<b>Recognised income and expenses for the period</b>	<b>2,000</b>	<b>-18</b>	<b>4,229</b>
Attributable to:			
Shareholders of the parent company	1,959	-101	4,131
Minority interests	41	83	98
<b>Recognised income and expenses for the period</b>	<b>2,000</b>	<b>-18</b>	<b>4,229</b>

## SPECIFICATION OF CHANGES IN SHAREHOLDERS' EQUITY

## Attributable to Parent Company shareholders:

Amounts in SEK M	Share capital	Additional paid-in capital	Reserves	Retained earnings	Total	Minority	Total shareholders' equity
<b>Opening balance at January 1, 2006</b>	<b>1,910</b>	-	<b>1,186</b>	<b>28,293</b>	<b>31,389</b>	<b>434</b>	<b>31,823</b>
Dividend	-	-	-	-1,528	-1,528	-25	-1,553
Unconditional shareholders contribution	-	45	-	-	45	-	45
Recognised income and expenses for the period	-	-	399	3,732	4,131	98	4,229
<b>Closing balance at December 31, 2006</b>	<b>1,910</b>	<b>45</b>	<b>1,585</b>	<b>30,497</b>	<b>34,037</b>	<b>507</b>	<b>34,544</b>
<b>Opening balance at January 1, 2006</b>	<b>1,910</b>	-	<b>1,186</b>	<b>28,293</b>	<b>31,389</b>	<b>434</b>	<b>31,823</b>
Recognised income and expenses for the period	-	-	-1,230	1,129	-101	83	-18
<b>Closing balance at March 31, 2006</b>	<b>1,910</b>	-	<b>-44</b>	<b>29,422</b>	<b>31,288</b>	<b>517</b>	<b>31,805</b>
<b>Opening balance at January 1, 2007</b>	<b>1,910</b>	<b>45</b>	<b>1,585</b>	<b>30,497</b>	<b>34,037</b>	<b>507</b>	<b>34,544</b>
Reclassifications	-	-	-	52	52	-52	-
Recognised income and expenses for the period	-	-	312	1,647	1,959	41	2,000
<b>Closing balance at March 31, 2007</b>	<b>1,910</b>	<b>45</b>	<b>1,897</b>	<b>32,196</b>	<b>36,048</b>	<b>496</b>	<b>36,544</b>

<b>KEY DATA</b>	2007	2006	2006
	Jan-March	Jan-March	Full year
Revenue, SEK M	9,466	8,247	26,103
Operating profit, SEK M	2,468	1,765	4,843
Adjusted EBIT, SEK M	2,711	2,876	5,198
Profit after net financial items, SEK M	2,268	1,634	5,208
Total assets, SEK M	96,303	94,962	93,366
Investments, SEK M	1,688	1,267	5,695
Operating margin, % <sup>1)2)</sup>	20.3	-	18.6
Adjusted EBIT margin, % <sup>1)2)</sup>	18.4	-	19.9
Profit margin, % <sup>1)2)</sup>	21.4	-	20.0
Return on equity, % <sup>1)2)</sup>	12.6	-	11.6
Return on capital employed, % <sup>1)2)</sup>	12.0	-	11.3
Earnings per share, SEK <sup>3)</sup>	8.79	6.35	20.13
Equity/assets ratio, %	38	34	37
Electricity sales, GWh	10,885	9,951	33,096
Gas sales, GWh <sup>4)</sup>	2,177	3,241	7,556
Heat sales, GWh	2,991	3,417	7,914

- 1) Refers to most recent 12-month period.
- 2) Profitability figures for 2006 Jan-March are not calculated since they are based on a moving 12-month period that is not available under IFRS.
- 3) The number of shares in the Parent Company amounts to 191,000,332.
- 4) Of which internal sales 753, 993, 1,795.

**DEFINITIONS AND CONCEPTS:****Operating margin**

Operating profit as a percentage of the period's sales.

**Adjusted EBIT margin**

Adjusted EBIT as a percentage of the period's sales.

**Profit margin**

Profit after financial items as a percentage of the year's sales.

**Return on equity**

Profit for the period divided by average shareholders' equity.

**Return on capital employed**

Profit before financial expenses divided by average capital employed.

**Return on total capital**

Profit before financial items divided by average total capital.

**(1) ACCOUNTING PRINCIPLES**

This interim report was prepared in accordance with IAS 34 Interim Reporting. In accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, the comparison year 2006 was recalculated according to IFRS for first-time adoption. The interim report for the first quarter of 2007 is the first financial report prepared in accordance with IFRS.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Business Combinations***

IFRS 3, "Business Combinations," is applied retrospectively to the accounting for business combinations that occurred after May 1, 2001. The goodwill maintained from this period does not include any intangible assets that must be reported separately under IFRS. Business combinations are reported using the purchase method, under which the purchase price is offset against the proportional share in the net assets of the acquired company (capital consolidation). In so doing, the values at the date of the exchange are used as a basis. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their full fair values, regardless of the extent that is attributable to minority interests. Intangible assets must be recognized separately from goodwill if they are clearly separable or if their recognition arises from a contractual or other legal right. If the purchase price paid exceeds the proportional share in the net assets at the time of acquisition, the positive difference is recognized as goodwill. A negative difference is immediately recognized in income.

**Revenue**

Operating revenue is reported at the time of delivery, excluding energy taxes and value-added taxes. Consulting and contracting work on fixed –price contracts are recognized as profit by degree of completion. Contract work on current account is recognized on an ongoing basis.

E.ON Sverige applies gross trading on the Nord Pool spot market as of June 1, 2006. All of the produced electricity is offered and sold over the exchange and all electricity needed for delivery to end-users is purchased. In the income statement net presentation is applied where sales and purchases within the same price area and hour is shown as either net sales or net expense.

Connection fees effective from 1996, have been deferred and recognized as revenue over five years. Effective 2005, connection fees have been deferred over the underlying asset's useful life.

**Goodwill and Other Intangible Assets**

Goodwill is not periodically amortized; it is instead tested for impairment on an annual basis. Impairment testing must also be performed between these annual tests if events or changes in circumstances indicate that the carrying amount of the respective cash-generating might not be recoverable.

The annual testing of goodwill for impairment, as required by IAS 36 Impairment of Assets, is carried out in the fourth quarter of each fiscal year.

Intangible assets other than goodwill are amortized over their useful lives unless their lives are considered to be indefinite. Any intangible asset that is not subject to amortization must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. This impairment test for intangible assets with indefinite useful lives consists of a comparison of the recoverable amount of the asset with its carrying amount. Should the carrying amount exceed the recoverable amount, an impairment loss equal to the difference is recognized in other operating expenses. If the reasons for previously recognized impairment loss no longer exist, such impairment loss is reversed.

**Emission Rights and Electricity Certificates**

Under IFRS, emission rights and electricity certificates held under national or international emission-rights and quota systems for the settlement of emission tax liabilities and quotas are reported as intangible assets and are not subject to periodic amortization. Emission rights and electricity certificates are capitalized at their acquisition costs when issued for the respective reporting period as (partial) fulfillment of the notice of allocation from the responsible national authorities, or at acquisition.

Provisions are recorded for emissions made and quotas for electricity certificates. The amount of this provision is the carrying amount of the emission

rights or electricity certificate held. Expected shortfalls in emission rights and electricity certificates are recognized pro rata at fair value. The expenses for the formation of the provision are reported as cost of materials.

As part of operating activities, emission rights and electricity certificates are also held for proprietary trading purposes. Emission rights and electricity certificates held for proprietary trading are reported under other operating assets and measured at the lower of acquisition cost or fair value.

### ***Property, Plant and Equipment***

Property, plant and equipment are measured at acquisition or production costs, including decommissioning or restoration costs that must be capitalized, and are depreciated over their expected useful lives, generally using the straight-line method.

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that an asset may be impaired. In such a case, in accordance with IAS 36, the carrying amount of the respective asset is compared with its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. Should the carrying amount exceed the recoverable amount, an impairment charge equal to the difference between the carrying amount and the recoverable amount is recognized. If necessary, the remaining useful life of the asset is adjusted accordingly. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed. Such reversal shall not cause the carrying amount to exceed that which would have been presented had no impairment taken place during the preceding periods. If a recoverable amount cannot be determined for an individual asset, the recoverable amount for the smallest identifiable group of assets (cash-generating unit) that may be assigned to the relevant asset is determined.

Interest on debt apportioned to the construction period of qualifying assets is capitalized as a part of their cost of acquisition or construction. The additional cost is depreciated over the expected useful life of the related asset.

Repair and maintenance costs are expensed as incurred.

### ***Financial Instruments***

Financial instruments are reported at fair value as of the trading date. Other investments and securities are measured in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IAS 39 requires that a security be accounted for according to its classification as held-for-trading, available-for-sale, a loan or receivable, or held-to-maturity. Management determines the classification of the financial assets at initial recognition.

Derivative financial instruments must be classified as financial instruments held for trading. They are reported under other operating receivables and liabilities. There are no additional trading items under financial instruments.

Securities classified as available-for-sale are carried at fair value on a continuing basis, with any resulting unrealized gains and losses, net of related deferred taxes, reported as a separate component of stockholders' equity until realized. They are subsequently measured at amortized cost, using the effective interest method. Realized gains and losses are recorded based on the specific identification method. Unrealized losses that are other than temporary are recognized in the line item "Write-down of securities and equity investments."

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Debt instruments subject to the application of IAS 39 are measured at amortized cost. Initial measurement takes place at fair value less transaction costs. The residual carrying amount is subsequently adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in net interest income. Realized gains and losses on such securities are respectively included in "Other operating income" and "Other operating expenses."

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include current available-for-sale securities, checks, cash on hand and bank balances. Bank balances and available-for-sale securities with an original maturity of more than three months are recognized under Current Investments. Cash and cash equivalents with an original maturity of less than three months are considered to be cash and cash equivalents, unless they are restricted.

Restricted cash with a remaining maturity in excess of twelve months is classified as "Financial receivables and other financial assets."

#### ***Non-current Assets Held for Sale and Discontinued Operations***

Individual non-current assets or groups of assets held for sale and any directly attributable liabilities (disposal groups) are reported separately in the Consolidated Balance Sheet, whereby the assets and liabilities must be intended for sale in a single transaction.

Discontinued operations are components of an entity that are either held for sale or have already been sold and can be clearly distinguished from other corporate operations, both operationally and for financial reporting purposes. Additionally, the component classified as a discontinued operation must represent a major business line or a specific geographic area of the Group.

Non-current assets that are held for sale either individually or collectively as part of a disposal group, or which belong to a discontinued operation, are no longer depreciated. They are instead accounted for at the lower of the carrying amount

and the fair value less any remaining costs to sell. If the fair value is less than the carrying amount, an impairment loss is recognized.

The income and losses resulting from the measurement of components held for sale which meet the aforementioned criteria for discontinued operations at fair value less any remaining costs to sell, as well as the gains and losses arising from the disposal of discontinued operations, are reported separately on the face of the income statement under "Income/Loss from discontinued operations, net," as is the income from the ordinary operating activities of these divisions. Prior-year income statement figures are adjusted accordingly. The cash flows of discontinued operations are reported separately in the cash flow statement with prior year figures being adjusted accordingly. However, there is no reclassification of prior year balance sheet line items attributable to discontinued operations.

### ***Provisions***

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"), provisions are recognized when there is a legal or constructive present obligation as a result of a past event, it is probable that obligation will be settled, and a reliable estimate can be made of the amount of the obligation. The provision is recognized at the expected settlement amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts, if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material; future cost increases that are foreseeable and likely to occur on the balance sheet date must also be included in the measurement. Long-term obligations are discounted at the market interest rate applicable as of the respective balance sheet date. The accretion amounts and the effects of changes in interest rates are generally presented as part of financial results. A reimbursement related to the provision that is virtually certain to be collected is capitalized as a separate asset. No offsetting within provisions is permitted.

Obligations arising from the decommissioning and restoration of property, plant and equipment are capitalized during the period of their occurrence in the form of a discounted provision, provided that the obligation can be reliably estimated. The carrying amounts of the affected property, plant and equipment are increased by the same amounts. In subsequent periods, these increases in carrying amounts are amortized over the prospective remaining useful lives of the assets, and the provision is accreted to its present value on an annual basis.

Changes to estimates arise particularly when there are deviations from original cost estimates, when changes to the maturity or the level of relevant obligation take place, and also as a result of the regular adjustment of the discount rate to current market interest rates. The adjustment of provisions for the decommissioning and restoration of property, plant and equipment for changes to estimates is generally recognized by way of a corresponding adjustment on the asset side, with no effect on income.

E.ON Sverige's subsidiary OKG AB, which owns and operates the Oskarshamn nuclear power plant with reactors 1-3 has, with the transition to IFRS, made a provision for expenses associated with spent nuclear fuel that will remain at the end of the useful life of the respective reactors.

According to the Law relating to the financing of future costs for spent nuclear fuel, etc. (1995:1544), the E.ON Sverige Group has a responsibility for demolition and providing a final repository for the demolished materials and spent fuel from the nuclear power plants in Oskarshamn, corresponding to its ownership share in the subsidiary OKG AB, and for the entire Barsebäck nuclear power plant, by agreement with the Swedish government, Vattenfall and E.ON Sverige. In accordance with previous accounting principles, this obligation has not been accounted for in the balance sheet. The provision refers partly to a fixed amount for demolition and dealing with tangible fixed assets and construction of a final repository, and partly a flexible amount for transport and encapsulation of the spent nuclear fuel. The commitment for the fixed portion is valued using a present value computation and is accounted for as a provision and capitalized at the same time as a tangible fixed asset that is depreciated over its useful life. The periodic change of the current value is reported in the income statement as a financial expense. A change in the provision based on a lower discount rate and/or increased estimated costs is credited to the provision and debited to tangible fixed assets, while an increased discount rate and/or reduced estimated costs are debited against provisions and credited to fixed assets, down to a limit of SEK 0 for fixed assets, with any remaining amount credited to the income statement. Changes in fixed assets are depreciated over the same period as the remaining useful life of the nuclear power plant. Since the Barsebäck plant is no longer in production, any changes shall be recognized in the income statement during the same year. Commitments for the variable portion are valued using the present value computation and accounted for as a provision that is built up over time in relation to the spent nuclear fuel.

According to the Law relating to the financing of future costs for spent nuclear fuel, etc., a fee is paid to the Swedish Nuclear Waste Fund. Since the E.ON Group lacks controlling influence over the Swedish Nuclear Waste Fund, a financial claim is reported regarding fund assets as a right for reimbursement. The financial claim is reported at the lower of the provisions or the market value of the asset. Returns on the Swedish Nuclear Waste Fund are reported as financial revenue.

When there is an asset that corresponds to the provision, the yield on the asset is used as the discount rate for that provision.

#### ***Derivative Instruments and Hedging Activities***

IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") contains accounting and reporting standards for derivative financial instruments, including certain derivative financial instruments embedded in other contracts, and for hedge accounting.

Derivative financial instruments and embedded derivatives that must be separated from their host contracts are measured at their fair values at initial recognition and in subsequent periods. Gains and losses from fair-value fluctuations are immediately recognized in income.

Instruments commonly used are foreign currency forwards, swaps and options, interest-rate swaps, interest-rate options and cross-currency swaps. In commodities, the instruments used include physically and financially settled forwards and options based on the prices of electricity, gas, coal, oil and emission rights. As part of conducting operations in commodities, derivatives are also acquired for trading purposes. Income and losses from these derivative proprietary instruments are shown net in the Consolidated Statement of Income.

IAS 39 prescribes requirements for designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Company does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risks are recognized in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is recognized in stockholders' equity and is reclassified into earnings in the period or periods during which the transaction being hedged affects income. If the hedged underlying transaction ceases to exist, the hedging result is reclassified into income immediately. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognized immediately in the income statement.

The fair values of derivative financial instruments are reported under Accounts receivables and other current assets and operating liabilities. Changes in fair value of derivative instruments that must be recognized in income are classified as other operating income or expenses. Gains and losses from interest-rate derivatives are included in interest income. Certain realized amounts are, if related to the sale of products, included in "Revenue" or "Cost of raw materials and consumables used."

During the normal course of business, the Company is exposed to foreign currency risk, interest rate risk, and commodity price risk. These risks create volatility in earnings, equity, and cash flows from period to period. The Company makes use of derivative financial instruments in various strategies to eliminate or limit these risks.

**New standards and interpretations**

IASB and IFRIC have issued the following new standards, which are not applicable for 2007 and are not applied in advance: IFRS 8 Operating Segments, IFRIC 11 Group and Treasury Share Transactions and IFRIC 12 Service Concession Arrangements.

In conjunction with the change of accounting principles to IFRS, the format for the income statement was changed from a functionally categorized to an expense-categorized income statement. An income statement by nature of expense provides a better description of the Group's operations.

**(2) RECONCILIATION OF SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD BETWEEN SWEDISH ACCOUNTING PRINCIPLES AND IFRS**

The E.ON Sverige Group previously applied the recommendations issued by the Swedish Financial Accounting Standards Council, which agree with IFRS in all significant respects. The following tables describe the differences in shareholders' equity and profit for the period, as well as differences in cash and cash equivalents, between the Swedish accounting principles and IFRS. See also Note 2 in E.ON Sverige's Annual Report for the 2006 fiscal year.

<b>Shareholders' equity, SEK M</b>	<b>Jan. 1, 2006 March 31, 2006 Dec. 31, 2006</b>		
<b>Shareholders' equity according to Swedish accounting principles</b>	<b>32,232</b>	<b>34,070</b>	<b>34,172</b>
IFRS 3 Business Combinations – goodwill and water rights	-700	-636	-490
IAS 17 Leasing/IFRIC 4 Determining Whether an Arrangement Contains a Lease	-4	-4	-4
IAS 18 Revenue – connection fees	-516	-511	-509
IAS 19 Employee Benefits – zeroing of actuarial gains and losses	-32	-31	-32
IAS 23 Borrowing Costs – capitalization of interest	274	283	290
IAS 28 Investment in Associates	31	31	31
IAS 36 Impairment of Assets	-	-	-101
IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	-175	-177	-378
IAS 38 Intangible Assets	171	165	157
IAS 39 Financial Instruments: Recognition and Measurement – derivatives	-3,180	-5,873	-1,562
IAS 39 Financial Instruments: Recognition and Measurement – other assets	2,117	2,101	1,767
Deferred tax on differences reported in the income statement	553	841	442
Deferred tax on differences booked against equity	440	909	141
Minority share on the above differences	178	120	113
<b>Shareholders' equity attributable to Parent Company shareholders according to IFRS</b>	<b>31,389</b>	<b>31,288</b>	<b>34,037</b>

<b>Profit, SEK M</b>	<b>Jan. 1, 2006 - March 31, 2006</b>	<b>Jan. 1, 2006 - Dec. 31, 2006</b>
<b>Profit for the period according to Swedish accounting principles</b>	<b>1,841</b>	<b>3,442</b>
IFRS 3 Business Combinations	64	210
IAS 18 Revenue	5	7
IAS 19 Employee Benefits	1	3
IAS 23 Borrowing Costs	9	16
IAS 36 Impairment of Assets	-	-101
IAS 38 Intangible Assets	-6	-14
IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	-2	-203
IAS 39 Financial Instruments	-1,013	551
Deferred tax on differences in profit for the period	288	-111
Minority share on the above differences	-58	-65
<b>Profit for the period attributable to the Parent Company shareholders according to IFRS</b>	<b>1,129</b>	<b>3,735</b>

<b>Cash flow, SEK M</b>	<b>Jan. 1, 2006</b>	<b>March 31, 2006</b>	<b>Dec. 31, 2006</b>
Cash and cash equivalents according to Swedish accounting principles	849	<b>1,564</b>	529
Cash and cash equivalents according to IFRS	511	<b>506</b>	425

### (3) INCOME TAX

Effective tax for the quarter is calculated according to an income tax forecast for the full-year. For the comparison quarter in 2006, the effective income tax for the full-year 2006 was used.

**(4) SEGMENT REPORTING****Sales and operating profit by business sector**

<i>SEK M</i>	<i>Revenue</i>		<i>Operating profit</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>Jan-March</i>	<i>Jan-March</i>	<i>Jan-March</i>	<i>Jan-March</i>
Marketing	4,244	4,640	-35	98
Electricity Production	3,754	3,224	2,041	1,362
Heat and Waste	1,749	1,817	431	386
Distribution	1,877	1,972	-255	653
Services	734	452	25	3
Energy Trading	4,308	4,132	716	-595
Other	308	285	-455	-142
Internal sales	-7,508	-8,275	-	-
<b>Group</b>	<b>9,466</b>	<b>8,247</b>	<b>2,468</b>	<b>1,765</b>

**(5) IMPAIRMENTS**

During the later part of 2006, impairment of assets in E.ON Sverige's Heat and Waste business sector were recognized in an amount of SEK 872 M before tax.

**(6) BUSINESS COMBINATIONS**

The period's investments comprised of the acquisition of Kraftmontasje AS. Kraftmontasje AS operates within the business segment Services and has its domicile in Vestnes in Norway. The acquisition took place on January 3, 2007 and amounted to SEK 27 M. The Group acquired 100 percent of the shares. The acquisition had no material impact on the Group's assets and liabilities.