

ANNUAL REPORT 2004

INVESTMENTS FOR THE FUTURE

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December Electricity Market Report

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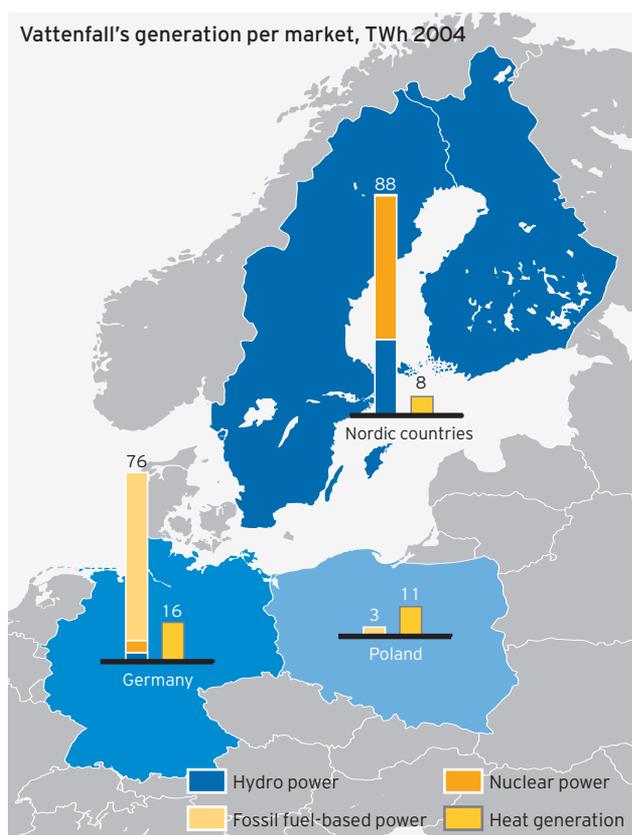
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THIS IS VATTENFALL

Vattenfall is Europe's fifth largest generator of electricity and the largest generator of heat. The Group's sales amount to SEK 113,366 million. Vattenfall's vision is to be a leading European energy company. The Group currently has operations in Sweden, Finland, Germany and Poland. Vattenfall acts in all parts of the electricity value chain – generation, transmission, distribution and sales. Vattenfall is also active in electricity trading and generates, distributes and sells heat. The Group has about 33,000 employees and the parent company, Vattenfall AB, is wholly owned by the Swedish State.



Operations in the Nordic countries

Generation. Generates roughly 20 per cent of the electricity consumed in the Nordic countries. Most generation takes place in eight nuclear reactors and in approximately 100 hydro power stations. Generated electricity is sold at market price, either to Vattenfall's sales units or marketplaces such as Nord Pool through Vattenfall Trading Services.

Distribution. Distributes electricity to 1.3 million customers in Sweden and Finland.

Sales. Sells electricity and energy-related services to domestic customers, energy companies, the industrial sector and other companies.

Heat. Owns and operates heating installations in the Nordic countries and in the Baltic States and is responsible for sales of district heating and so-called thermal heat.

Services. Conducts consulting, contracting and R&D activities within the energy, infrastructure and industrial sectors.

Operations in Germany

Mining & Generation. Generates roughly 17 per cent of the electricity consumed in Germany. Most generation takes place in modern, large-scale lignite-fired plants and, to a certain extent, in jointly-owned nuclear power plants. Generated

electricity is sold at market price, either to Vattenfall's sales units or marketplaces such as EEX through Vattenfall Trading Services.

Transmission. Owns and operates the transmission grids in eastern Germany and Hamburg.

Distribution. Distributes electricity to 3.4 million customers, primarily in Berlin and Hamburg.

Sales. Sells electricity and energy-related services to domestic customers, resellers, the industrial sector and other companies.

Heat. Produces and sells heat. Operates district heating systems, two of the largest systems in Western Europe, in Berlin and Hamburg.

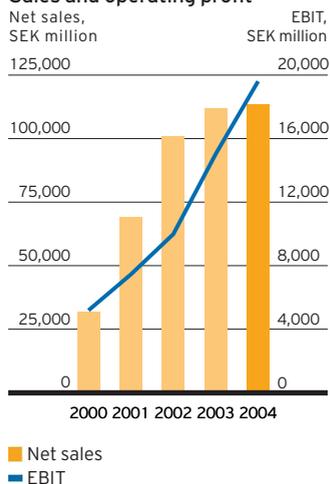
Operations in Poland

Distribution and Sales. Vattenfall owns 75 per cent of Poland's largest privately-owned network company, GZE, which has 1.1 million customers, primarily in the southern part of the country.

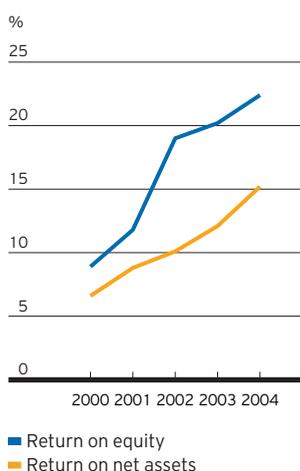
Heat. Vattenfall owns 75 per cent of EW, a company that also generates electricity. The company has about 27 per cent of the Polish heat market.

Joint Group operations Vattenfall Trading Services, Vattenfall Treasury and Vattenfall Insurance are central support functions to manage the Group's risks and offer market access.

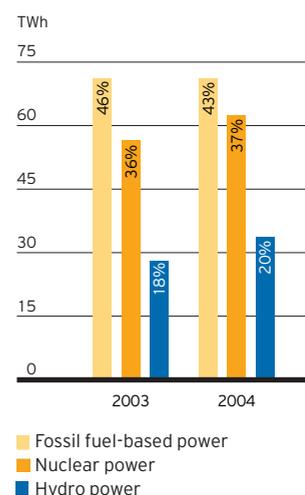
Sales and operating profit



Returns



Total electricity generation¹



1) These volumes include windpower, biofuel and waste totalling 0,2 TWh for 2003 and 0,6 TWh for 2004.

Key figures

	2004	2003	2004 ¹
Net sales, MSEK	113,366	111,935	12,586 MEUR
Operating profit (EBIT), MSEK	19,607	15,296	2,177 MEUR
Profit before tax and minority interests, MSEK	17,359	12,360	1,927 MEUR
Net profit, MSEK	11,776	9,123	1,307 MEUR
Earnings per share, SEK	89.42	69.27	10 EUR
Return on equity, %	22.4	20.2	
Return on net assets excl. items affecting comparability, %	15.2	12.1	
Total assets, MSEK	256,915	264,965	28,524 MEUR
Equity/assets ratio, %	27.8	23.4	
Funds from operations (FFO), MSEK	24,159	18,804	2,682 MEUR
Investments, MSEK	12,601	11,356	1,399 MEUR
Electricity generation, TWh ²	167.1	155.8	
Heat production, TWh	34.5	35.6	
Average employees in the Group	33,017	35,296	

1) Exchange rate 9.007 SEK/EUR.

2) Of electricity generation, Vattenfall has 70 TWh (61) of its disposal, and the remainder goes to minority owners.

External net sales per market, MSEK

	2004	2003
Nordic Countries	39,899	41,520
Germany	66,046	62,570
Poland	7,421	7,845
Total	113,366	111,935



EBIT per market, MSEK

	2004	2003
Nordic Countries	11,543	8,535
Germany	7,487	6,318
Poland	589	443
Total	19,607³	15,296



Net assets per market, MSEK

	2004	2003
Nordic Countries	57,415	56,367
Germany	58,350	62,171
Poland	7,187	6,270
Total	122,952	124,808



3) Incl. eliminations of -12 MSEK.

In 2004, Vattenfall succeeded in meeting all targets established at Group level for value creation. The Group's best ever result exemplifies this. Many challenges remain, however.

2004 was also a year of investments. Investments in all our markets and – most of all – in our common future. Investments in order to ensure a safe and reliable power supply, a good environment, improved service to our customers and improved relations with the societies in which Vattenfall operates.

We consider them investments towards our vision of becoming a leading European energy company.



Investments have been made in all markets and within different areas. Among other things, Vattenfall has begun consolidating the brand within the Group and investments have been made in increased security of supply in electricity networks, power plant optimisation, customer satisfaction and the carbon dioxide-free power plant. Together, these investments shall ensure the Group's continued success.

VATTENFALL READY TO INVEST FOR THE FUTURE

With continued profitable growth, Vattenfall can create the necessary resources for future-oriented investments within both electricity generation and improved security of supply. Major investments are also being made to improve customer service.

Strong set of annual accounts

2004 was a new record year for Vattenfall. Financial performance improved in all Vattenfall segments

- Net sales increased by 1.3 per cent to SEK 113,366 million
- Operating profit increased by 28.2 per cent to SEK 19,607 million
- Net profit after tax increased by 29.1 per cent to SEK 11,776 million

Lower electricity prices led to only a marginal increase in sales in 2004. The substantial increase in operating profit is explained in part by substantially increased electricity generation volumes and in part by advantageous hedging outcomes. Electricity generation in the Nordic countries went exceptionally well, with record levels in generation and availability in our nuclear power plants and greatly increased hydro power generation. The cost-cutting programme in German operations, the aim of which is to provide considerable annual savings, has proved successful. When the programme was completed at the end of 2004, the established goal had been exceeded and the annual savings amount to EUR 519 million (almost SEK 4.7 billion). Operations in Poland have continued to develop very positively. Highly streamlined operations and substantial cost-reductions have led to a considerable improvement in profit.

Growth creates resources

The strong set of annual accounts show that Vattenfall's strategy to grow in unison with development in the European market is the correct path to follow. This growth enables Vattenfall to make more effective use of resources and allows costs to be borne by a greater volume. This growth also provides a broader knowledge base for more efficient solutions, more efficient processes and improved customer offerings.

Through growth we create resources that can be used for future-oriented investments, which in turn can create

additional resources in the future. We have taken advantage of the new opportunities that the reformed European electricity market offers and have established a positive spiral that will provide good future conditions.

Major investment programmes are now underway in both electricity generation and electricity distribution and extensive efforts are being made to improve customer service. The company's financial position has improved considerably. It has been possible to use the strong cash flow to repay debt. The consolidation programme is near completion and Vattenfall can now take further steps towards the vision of becoming a leading European energy company that creates value through profitable growth. To be leading means that we shall be 'Number one' for the customer and for the environment, that growth will increase our ability to offer attractive solutions.

Act globally – think locally

Our operations are essentially local. Electricity and heating systems supply energy to millions of users. As markets have been opened up, solutions and environmental impact are no longer restricted by borders.

During the 1990s, we learnt that we must think globally and act locally. The three primary driving forces behind energy supply are all gaining an increasingly global dimension. Here I am referring to environmental impact, in particular the greenhouse effect, to the primary energy supply and to technological development. Together these three create the framework within which local needs and conditions can be balanced out with good solutions.

However, a viable energy company acting in an open market must know how to work this equation the other way around as well. We must act globally in order to create the resources, human capital and financing that are necessary and then use these to think locally.

Vattenfall has in several cases a strong local presence in areas with weak local economies, such as Norrbotten in Sweden, Lausitz in Germany and Silesia in Poland. Via

Vattenfall, conditions are created in these areas that enable them to compete in a European market. We think locally and act globally.

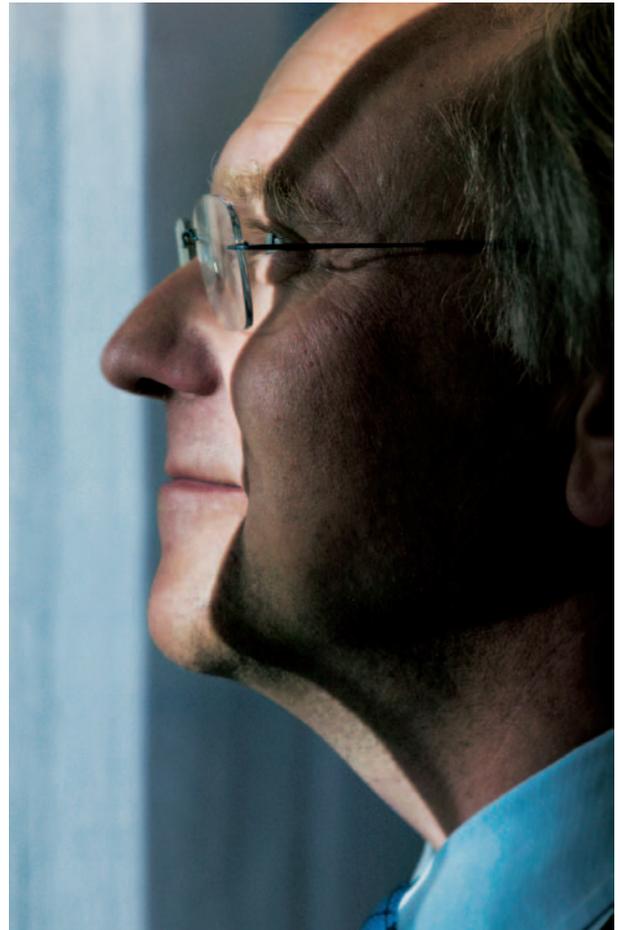
The greenhouse effect

The most overshadowing environmental problem of our time is the ongoing climate change. The climate problem is by its very nature global and long-term. If we do not take control of our emissions, we will be forced to make drastic changes to the conditions under which we – and more so our children and grandchildren – live. Economics, energy and the environment are intertwined and, in my opinion, it would be irresponsible not to take this problem most seriously. Ending the use of fossil fuels, however, is not a viable solution – neither globally nor on a European level. We must solve the problem with emissions from the combustion of fossil fuels both technically and economically. The emission-free coal-fired power plant must become a reality! The world is completely dependent on this form of energy and this will continue to be the case for a very long time. Fossil fuels are a prerequisite for growth in developing countries. Investments in research and development must be focused and greatly increased in order to develop new technologies and techniques. The climate issue will most likely bring to the table reassessment and further development of nuclear power. Gradually, the transport sector will make the transition to carbon dioxide-free engines, probably via hybrid vehicles to fuel cells using different energy sources. To create a global price for emissions is a prerequisite if we are to see positive development. Trading in emissions is an important step, but this alone is not enough to solve the problem.

Vattenfall works intensively with climate issues and our growth allows us to participate and influence development in Europe. We are pushing for the creation of sustainable pricing for carbon dioxide emissions. We are working with development. We are working with renewable energy. We are working to create the necessary conditions for our customers to use our products in an effective manner. One prerequisite for our success is that we have the resources and can continue to work along the positive spiral that we have established.

Electricity networks

Society has developed at a fast pace, and today all impor-



tant societal functions are dependent on the constant availability of electricity. Vulnerability has increased considerably faster than the reliability of electricity networks. At the beginning of January 2005, parts of Sweden were hit by a terrible storm. Even if this was the worst storm for 100 years, the consequences we witness when electricity networks are put out of operation are unacceptable. If we combine all the effects, the total costs are absurd. We must reconsider and make our networks significantly more robust.

The storms of recent winters have had much impact on how we at Vattenfall reason and act. We have initiated an extensive investment programme to rectify the problems and we have made a good deal of progress. At the same time, we have introduced a disruption guarantee to compensate our customers. We are doing what we can

within the current framework, but looking at existing and future requirements this will not be sufficient. We must ensure that the networks are upgraded throughout with a higher level of functionality based on a user perspective. And here too we have made good progress. At the beginning of 2004, Vattenfall decided to invest a further SEK 2 billion in improving operational reliability in its Swedish networks, bringing the total investment to SEK 10 billion over a five-year period. Moreover, compensation was increased to Swedish households losing power due to network disruptions. We invest almost all of Distribution Sweden's operating profit, that is, profit before financial expenses and tax, in our Swedish network operations.

The considerable expansion of wind power in Germany has led to the need for extensive development in the German electricity networks. Vattenfall has decided to expand the capacity of its high-voltage network by 3,000 MW with an investment of approximately EUR 260 million (approximately SEK 2.3 billion).

In Sweden, Finland and Germany, the authorities have introduced – or plan to introduce – new models for regulating network tariffs. New approaches and collaborative efforts are necessary if we are to reduce the vulnerability of our electricity networks. This places major demands on combining the local and global perspectives in a sensible fashion. It also places stringent demands on being able to mobilise sufficient resources.

Customised solutions

Vattenfall was the first Swedish electricity company to discontinue invoicing household customers in arrears for electricity consumed more than one year ago. We have also continued to invest in remote-readable meters in Sweden and Finland. We are moving forward forcibly with this work so that all of Vattenfall's 1.3 million Nordic network customers are provided with remote reading. In this way, advance charges can be abolished and replaced with invoicing of actual electricity consump-

tion. Open markets place stringent demands on both the upgrading of systems and the updating of knowledge.

Vattenfall is willing and able to invest for the future

Vattenfall's growth and development in tandem with market development is beginning to show results. Today Vattenfall is:

- An international company.
- A company with plentiful resources (considerably more than when incorporated in 1992) able to compete in the European arena.
- A leader in Sweden with regards to renewable energy. Vattenfall has broad expertise centered on electricity and heat.

Vattenfall plays an important role in opening up for competition and efficiency. Experience gained in Sweden has provided a solid foundation for considerable streamlining, which is reflected in the good profitability attained in the German market. By applying Vattenfall's knowledge to open markets in neighbouring countries, technical and market know-how has contributed to breaking old monopolies and to a more efficient electricity supply in Europe – completely in line with the intentions of the EU's internal market. Vattenfall represents innovative thinking in the European energy sector.

By taking advantage of the possibilities that an increasingly open European electricity market offers, Vattenfall is able to present a very strong set of annual accounts for 2004. Growth provides strength; strength that we use in lasting investments for the future.



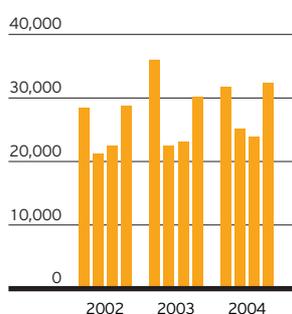
Lars G Josefsson
President and Chief Executive Officer

STRONG RESULT FOR VATTENFALL

Sales increased by 1.3 per cent to SEK 113,366 million (111,935)

Net sales, quarterly

MSEK
50,000

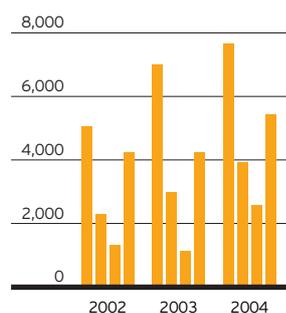


Lower electricity prices led to only a marginal increase in sales in 2004.

Operating profit increased by 28.2 per cent to SEK 19,607 million (15,296). Net profit increased by 29.1 per cent to SEK 11,776 million (9,123)

Operating profit, quarterly

MSEK
10,000



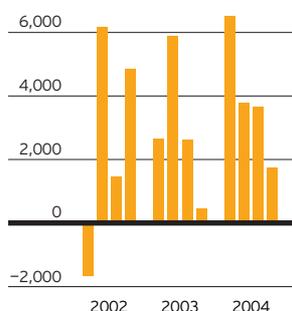
The improvement in operating profit is explained in part by substantially increased electricity generation volumes and in part by advantageous hedging outcomes. Cost savings and a significant improvement in profit in Poland contributed to this improvement.

Earnings per share increased by 29 per cent to SEK 89.42 (69.27)

Free cash flow amounted to SEK 15,684 million (11,606)

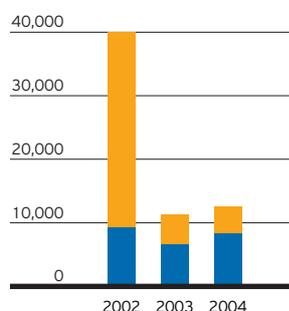
Free cash flow¹, quarterly

MSEK
8,000



Investments

MSEK
50,000



1) Cash flow from operating activities less maintenance investments.

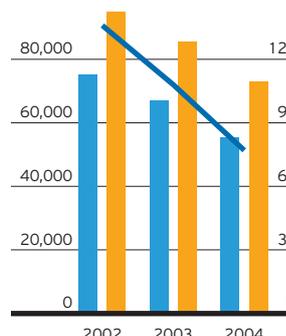
■ Maintenance investments
■ Growth investments

Net debt was reduced by more than SEK 11.5 billion to SEK 55.4 billion (66.9)

Net debt was reduced considerably during the year. The Group was in a period of consolidation and cash flow has mainly been used to repay debt.

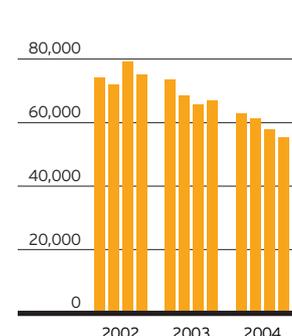
Indebtedness

MSEK
100,000



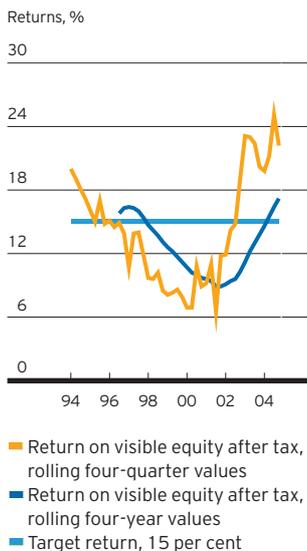
Net debt, quarterly

%
150
100,000



■ Net debt
■ Total debt
■ Debt/equity ratio, net, %

Targets and outcomes



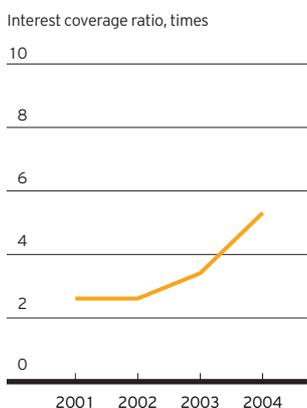
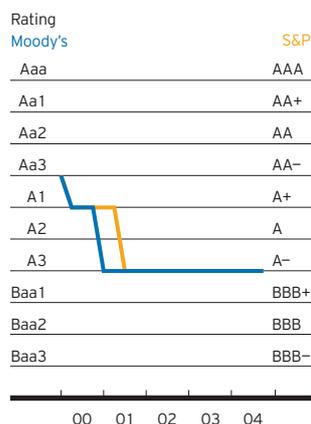
Profitability

Target: The owner's long-term profitability goal is 15 per cent on visible equity after tax. Recalculated to the Group's long-term profitability requirement, expressed as return on net assets, this is the equivalent of a yield of about 11 per cent before tax.

Outcome: Return on visible equity after tax for 2004 amounted to 22.4 per cent (20.2). Return on consolidated net assets excluding items affecting comparability amounted to 15.2 per cent (12.1).

Rating

Target: Vattenfall's ambition is to retain a credit rating in the Single A category.
Outcome: In 2004, Vattenfall retained its ratings in the Single A category with a stable outlook.



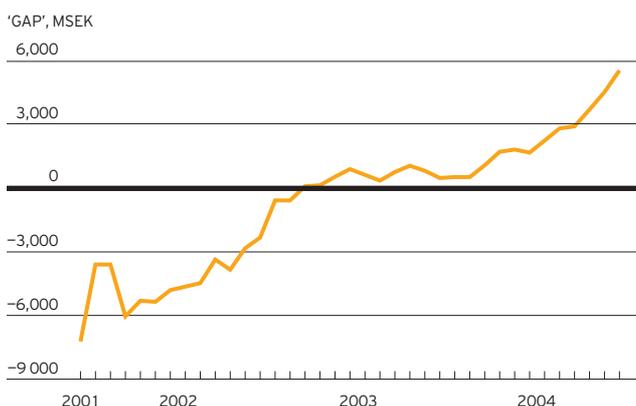
Interest coverage ratio

Target: The owner's goal is that the interest coverage ratio shall be 3.5 to 5.

Outcome: The outcome for 2004 was 5.3 (3.4).

Dividend policy

The intention is to maintain a stable, long-term dividend which, under normal circumstances, shall equal one third of net income.



Value creation

Target: The profitability requirement set by the owner is recalculated to individual targets for value creation for each business unit. The difference between the value created by the business unit and this requirement is referred to as the Gap. If the result is less than the requirement, measures must be taken to close the gap. If the result exceeds the requirement, the business unit can look for profitable expansion possibilities.

IMPORTANT EVENTS

Business Group Nordic established

The business units in the Nordic countries were gathered under Business Group Nordic. The Group is now organised into two Business Groups; one for the Nordic countries and one for Continental Europe. Poland remains a separate business unit.

Barsebäck 2 to close

In October, the Swedish government decided to suspend negotiations with the Swedish nuclear power operators regarding the phasing out of nuclear power in Sweden and to close the Barsebäck 2 nuclear reactor. In December, the Swedish government announced that Barsebäck 2 is to be closed by 31 May 2005.

Nuclear power generation record

Availability in Vattenfall's Swedish nuclear power plants was at record level in 2004 and nuclear power generation increased by almost 12 per cent compared with 2003.

Vattenfall invests in electricity networks, nuclear power and hydro power

At the beginning of 2004, Vattenfall decided to invest a further SEK 2 billion in improvements to its Swedish electricity networks. In total, SEK 10 billion is to be invested over a five-year period. Compensation for network disruptions was increased for Swedish households that have suffered power loss. Further, Vattenfall has decided to invest SEK 6 billion to increase the power output of the five newest nuclear power reactors by a total of 750 MW and SEK 0.5 billion to increase generation in hydro power plants.

Major investment in wind power

Sweden's largest wind power plant, Olsvenne 2, was commissioned for commercial operation in June. Vattenfall's plant represents the new generation of wind power technology. Vattenfall also plans to invest SEK 1.5 billion in an off-shore wind power park in Öresund, off the coast of Skåne in the south of Sweden, which is expected to become operational in 2007. This investment will increase Swedish wind power generation by 40 per cent.

Investments in new German power plants assessed

In Germany, additional electricity generation capacity in the amount of 40,000 MW will be required by 2020. Vattenfall is therefore examining possible power plant investments. Among more concrete projects we find a combined heat and power plant (CHP) in Hamburg and a lignite-fired power plant in eastern Germany, together providing 1,410 MW.

Strengthening the German transmission grid

The considerable development of wind power in Germany has led to the need for extensive expansion in the German electricity networks. Vattenfall has decided to expand capacity in its high-voltage network by 3,000 MW with an investment of approximately EUR 260 million (SEK 2.3 billion).

New models for network regulation

In Sweden, Finland and Germany, the authorities have introduced – or plan to introduce – new models for regulating network tariffs.

Increased holding in Polish GZE

Ownership in the Polish sales and distribution company Górnośląski Zakład Elektroenergetyczny (GZE) was increased from 54 per cent to 75 per cent.

Simplicity for the customer

Vattenfall was the first Swedish electricity company to discontinue invoicing household customers in arrears for electricity consumed more than one year ago. Vattenfall has continued to invest in remote-readable meters in Sweden and Finland. All of Vattenfall's 1.3 million Nordic network customers will have such meters installed. By the end of 2004, 105,000 such meters had been installed.

Vattenfall announced bid for Danish Elsam

At the end of the year, Vattenfall announced its interest in acquiring the Danish power company Elsam.

Storm caused major network disruptions

At the beginning of 2005, Sweden was hit by a widespread storm with hurricane-force winds. The damage to forests and infrastructure was enormous. Vattenfall's costs for electricity network repairs, disruption guarantees and additional work are estimated at approximately SEK 500 million.



INVESTMENTS IN SECURITY OF SUPPLY

"WE ARE WORKING TO PROTECT THE NETWORKS FROM BAD WEATHER"



Vattenfall initiated an extensive investment programme to rectify the problems after the much publicised power disruptions in Sweden a couple of years ago. Those working within the programme include Per-Olof Olofsson, whose task is to identify and take measures in prioritised areas. In practice, this means areas where power lines run through forests, which involves about 60 per cent of the lines, and lines that are very exposed to wind and slush.

“In the most exposed areas we run the power lines underground. Where the use of underground lines is difficult, we insulate them with electricity posts. In those places where the power lines are in relatively bad condition, we replace them with insulated lines, which can cope with falling trees.”

Within five years, Vattenfall expects – in principle – to be rid of problems wherein major disruptions knock out entire areas. Until that time, as contingency organisation has been appointed with the task of ensuring that power failures are kept as short as possible and disruption guarantees will be offered to customers.

However, it is not only an issue of reducing disruptions. In the long-term, it also has to be easier and more economical to maintain the network.

“In the long run, we will also reduce maintenance requirements for power lines and pylons and, of course, reduce troubleshooting costs,” says Per-Olof Olofsson.

WELL ON THE WAY TO REALISING OUR VISION

After the extensive acquisitions that Vattenfall initiated about five years ago, recent years have been characterised by financial and operational consolidation. Profitability in the Group and business units has been followed up through the Close the Gap programme. In Germany, comprehensive consolidation work has been conducted with the acquired operations.

At the end of 2004, Vattenfall had achieved all previously established Group targets for consolidation work. Vattenfall is therefore ready for the next phase towards the vision to become a leading European energy company.

We shall continue our current profitable growth. Growth shall mainly take place through acquisitions, but also through the expansion of our own generation capacity.

Parallel to this, we will continue our work to strengthen the Group's competitive edge. During 2005 and thereafter, Vattenfall will continue to the next step in the integration work with the acquired units – realising synergies across national borders and establishing 'One Vattenfall'. Joint Group projects are already underway for this express purpose. We shall also continue the work to become 'Number one' for the customer and the environment and to be an attractive employer.

Our objective is that Vattenfall shall become the benchmark company that our industry sees as a good example and as a measure of success.

Follow-up of the challenges of 2004

Gap closing

For three years, Vattenfall has conducted a profitability programme called 'Close the Gap'. The gap referred to is the difference between our long-term requirement of a return on net assets of 11 per cent and our attained return. The requirements are then split between the business units based on the criteria relevant to each unit. The profitability programme has been a success and resulted in greatly reduced costs and improved cash flow. Most business units reached their targets in 2004. As a whole, the Group fulfilled the goal of reporting a total return of 15.2 per cent.

Integration of acquired operations

Through the acquisitions in Germany and Poland in 2000–2003, Vattenfall more than tripled its sales. At the time of the acquisitions, profitability in the acquired units was very much poorer than Vattenfall's profitability requirement and intensive consolidation work was initiated. In 2004, the integration process in both Germany and Poland continued to develop positively. Germany exceeded its target operating profit for the year. Profitability in our Polish operations is still below target, but profit improved markedly in 2004, much due to continued cost reductions.

Focus on core activities

Vattenfall's core business encompasses the entire value chain from generation to sale. Operations that do not belong to core activities within electricity and heating, or that are not expected to achieve the profitability requirements within a reasonable time, may be divested. In 2004, Vattenfall sold all shareholdings in A-train, as well as the shares in the Russian company Mosenergo and the Chinese company Hebei Hanfeng Power Generation.

Continued reinforcement of risk management

The deregulation of the energy markets has placed new and increased demands on energy companies' risk management. The electricity price risk is one of the most central in this market, although the management of other risks, such as political risk, environment risk and operational risk, is also important for the company's continued

success. At Vattenfall, risk management is performed on an ongoing basis and among the more major changes during 2004 we can mention the creation of a joint Group trading unit, Vattenfall Trading Services, headquartered in Hamburg.

Increased investments in security of supply

During 2004, Vattenfall worked hard to improve the security of supply. In Sweden, a five-year investment and maintenance programme totalling SEK 10 billion is underway in order to, among other things, run cables underground and insulate them. In Germany, work has begun to strengthen the high-voltage network in order to cope with the input from wind power generation.

Active role to improve the environment

Demands from the public, politicians and customers regarding sustainable development in society are greater than ever. Even formal requirements from the EU increase the demands on energy generation, through, for example, trading in emission allowances. Vattenfall plans to invest within the areas of renewable electricity generation by building a large off-shore wind power park in Öresund, off the coast of Skåne in the south of Sweden. Vattenfall also invests considerable sums in increasing the power output of existing nuclear – and hydro power plants, generation that causes almost no emissions.

'Number one for the customer' efforts continue

Being 'Number one for the customer' is one of the most important challenges for Vattenfall. Since 2002, a pilot project has been underway in Sweden and Finland for increasing customer satisfaction with improved service, quality and customer care. Among other things, easier to read electricity bills were introduced and remote-readable electricity meters were installed. An end to invoicing Swedish household customers in arrears for electricity consumed more than a year ago and the introduction of a Customer Ombudsman in Sweden are other investments intended to strengthen the customer's position.

2005 AND BEYOND

Even if 2004 was in many ways a record year for Vattenfall, there is still much to do on the path towards our vision. Profitable expansion and integration with acquired companies will continue. As will the work with our customers, the environment and our employees, –all of which have a central role in our work to become the industry benchmark.

Continuing with profitable growth

Our long-term goal is to increase our market share in the integrated European energy market (EU 25 and Norway and Switzerland). We expect continued pressure to cut prices within the industry. Through further expansion, Vattenfall intends to meet the demand for price-cutting by continuing to realise cost synergies and strengthening our position in the market, thereby improving our position as regards our competitors.

We expect our expansion to continue in both our current primary markets and in the neighbouring countries, such as Norway, Denmark, Benelux, France, Switzerland, Austria and the Czech Republic. Even if Vattenfall still strives to be an integrated power company, we take a positive stance towards possibilities to increase our generation capacity. Vattenfall already has a strong position within electricity generation and heat production and additional expansion could strengthen our position in the wholesale link of the chain. We expect acquisitions to provide the majority of growth, but also plan to expand existing production plants.

Generation and sales of electricity and being active within the entire value chain for heat will continue to be our focus areas. We also consider gas to be an interesting area as growth is expected to exceed that of the market in general and gas will increasingly contribute to electricity generation and heat production. In order to gain a good competitive edge within gas, the capacity to purchase large volumes is required, so large size will be a prerequisite in this area too.

Business performance: Benchmark of the industry

Vattenfall's vision is to be a leading European energy company. Size is an important competitive advantage in our market in order to be able to utilise economies of scale. With the acquisitions in Germany and Poland, a step was taken towards this vision when Vattenfall's sales

were trebled. Size, however, is only one aspect of being leading. Leading also means being the benchmark company, the measure with which other companies in the industry compare themselves.

So far, work with acquisitions has mainly been focused on attaining lower costs per generated unit by incorporating, optimising and concentrating units in the Group. This work is almost complete. For Vattenfall's part, the major challenge remains to make greater use of the substantial synergies found in our operations.

The next step in development is therefore to fully utilise the available possibilities in terms of both cross border economies of scale and the use of collective knowledge within the Group. The goal is that each segment of Vattenfall's operations shall be able to serve as a benchmark within our industry.

The synergies that Vattenfall expects to realise are economies of scale, such as within purchasing and IT infrastructure, and knowledge base advantages, such as within risk management and maintenance. Several programmes are already underway in these areas. Vattenfall Trading Services provides one example of how risk management in generation and sales can be optimised. Within the area of maintenance, a programme is underway with the ambition of improving efficiency and quality. Other ongoing programmes include the centralisation of fuel management, a review of administrative functions and the development of joint Group key figures for comparative purposes.

In order to increase knowledge exchange within the Group, several benchmarking projects have been initiated, such as within electricity networks and heating operations.

Customers, the environment and our employees 'Number one for the customer'

Today, Vattenfall has approximately six million customers. All of our operations are dependent on their trust. In the Nordic countries, for example, the entire energy sector has for some time now been met by much distrust from

- Continued profitable growth
- Business Performance:
Be the benchmark of the industry
- Become 'Number one' for the customer and the environment
- Be the employer of choice

consumers. If we are to be able to develop our business, we must gain broad and solid trust from our customers. To this end, over the coming years we will continue to invest in becoming 'Number one for the Customer'. Based on Vattenfall's extensive knowledge and experience of deregulated markets, with their demands for high levels of service and accessibility, we will continue to work aggressively to become the first choice for energy customers.

'Number one for the environment'

The most serious environmental problem of our time, the ongoing climate change, is a global problem. Vattenfall is working to improve the environment and our ambition is to become the industry leader within environmental issues within the areas covered by our operations. Our coal-fired generation plants in Germany are among the world's most modern and provide, with the exception of carbon dioxide, limited emissions to the atmosphere. Almost half of our total electricity generation comes from renewable energy sources, such as hydro, or nuclear power, generation which generally have very low emissions and release practically no greenhouse gases.

This, however, is not sufficient. Within the EU, far-reaching measures, based on the Kyoto protocol, have long been planned to reduce carbon dioxide emissions and at the beginning of 2005, trading in emission allowances began.

We continue our work to optimise our plants, to increase the use of energy sources with low or no emissions and to be a driving force in the development of the carbon dioxide-free coal-fired power plant to strengthen our position on environmental issues, in line with our ambition to become 'Number one for the environment'.

An attractive employer

Dedicated and competent employees have an important role in Vattenfall's development. Our ability to attract, involve and develop the employees and competence that we need is therefore a highly prioritised area. Especially with consideration for the fact that many Vattenfall employees will retire over the next ten years. Vattenfall will continue to work intensively with both managerial and competence development. At present, a number of joint Group projects are underway, including a project intended to create a common idea of leadership.



INVESTMENTS IN CUSTOMER SATISFACTION

**"THE NEW ELECTRICITY METERS
ENABLE US TO MEASURE CONSUMER
CONSUMPTION IN REAL-TIME."**



As a part of 'Number one for the Customer' in Finland, Vattenfall has collaborated with TeliaSonera on developing a system for the collection of consumption data, based on the mobile telephone system. With remote reading of electricity consumption in real-time, we will be able to bill actual consumption instead of estimated consumption as has previously been the case.

Aarne Sievi has led the project from Vattenfall in Tammerfors, Finland.

"Pilot installations of electricity meters have already been made and in May 2005 we will begin to install remote readers for all of Vattenfall's 360,000 network customers in Finland," says Aarne Sievi.

Reactions so far have been very positive.

"Customers have contacted us to see if the system is already available. They have also been active and given us many new ideas regarding additional services for the system," says Aarne Sievi.

It is not, on the other hand, only Vattenfall's customers that will be able to benefit from the system. Vattenfall's operations will also gain further refined tools.

"We will have more exact information about electricity network performance, such as information about transmission losses. This information will make it easier to develop and maintain the electricity networks than it was before and improve network efficiency," says Aarne Sievi.

THE EUROPEAN ENERGY MARKET

The European energy market is going through comprehensive restructuring. From having been national monopoly markets, the entire European market will now be open to competition by 2007. Market actors are adapting themselves to this new market. Of Vattenfall's primary markets – the Nordic countries, Germany and Poland – the Nordic countries and Germany are deregulated while the Polish market is still regulated.

Historically, the energy sector has been strictly regulated, but for the last 15 years a wave of change has swept over the world's energy markets. In Europe, deregulation began in England and Wales. Today, several electricity markets are completely open to competition, see map page 17. In accordance with the EU's electricity market directive, all countries shall have deregulated their markets to 100 per cent by 2007 at the latest. The advent of market mechanisms has brought greater efficiency and an increased customer focus. Deregulation has given consumers the opportunity to freely choose their electricity suppliers and has brought increased ability to customise price and risk profiles. For electricity providers, the requirement of market levels in returns on assets has, in many cases, led to privatisation and the public listing of companies. The changes have also brought pressure to cut prices and costs, lower margins and increased competition. Market development has stimulated the capital intensive energy companies within the energy sector to grow, in particular through mergers and acquisitions across national borders. Vattenfall has also followed this development and expanded its operations throughout Europe. Five years ago, Vattenfall had almost all of its operations in Sweden. Today, turnover is four times as

much and more than two thirds of our employees are found in Germany and Poland.

The price of electricity reflects a functioning market

Unlike as in a regulated market, prices in a competitive market are determined by supply and demand. Electricity producers sell their electricity in a market where actors, including consumers, can make active choices to hedge themselves against price increases and take advantage of price decreases. Price variations depend, to a large degree, upon which type of energy dominates in the power system. In the Nordic countries, hydro power makes up a major portion of the electricity supply, while coal-based power dominates in Germany and Poland. In the Nordic countries, prices are directly affected by the water supply, which makes the Nordic market very volatile, since the water supply depends on the amount of rainfall. However, during periods of low water supply, Nordic electricity prices are also affected by coal-fired power plants and thereby indirectly by price developments in the coal market.

Deregulation in generation and sales

As a rule, in the old monopoly structure, the entire value chain, consisting of generation, transmission, distribution and sales, belonged to the same company. After deregulation, generation and sales have been opened to competition while transmission and distribution, which are natural monopolies, will remain strongly regulated even in the future. This regulation shall, according to the EU, be administered by an independent regulator and may be implemented in accordance with different models.

New role for network operators in deregulated market

The role of network operators has changed with deregu-

Vattenfall's market position

	Sweden	Finland	Germany	Poland
Generation	1 ⁴	1 ⁴	3	7 ¹
Electricity trading	Top 3 ⁴	Top 3 ⁴	Top 3	–
Distribution	2	2	4	6 ²
Sales	1	2	3	6 ²
District heating	4 ⁴	4 ⁴	1	1 ³

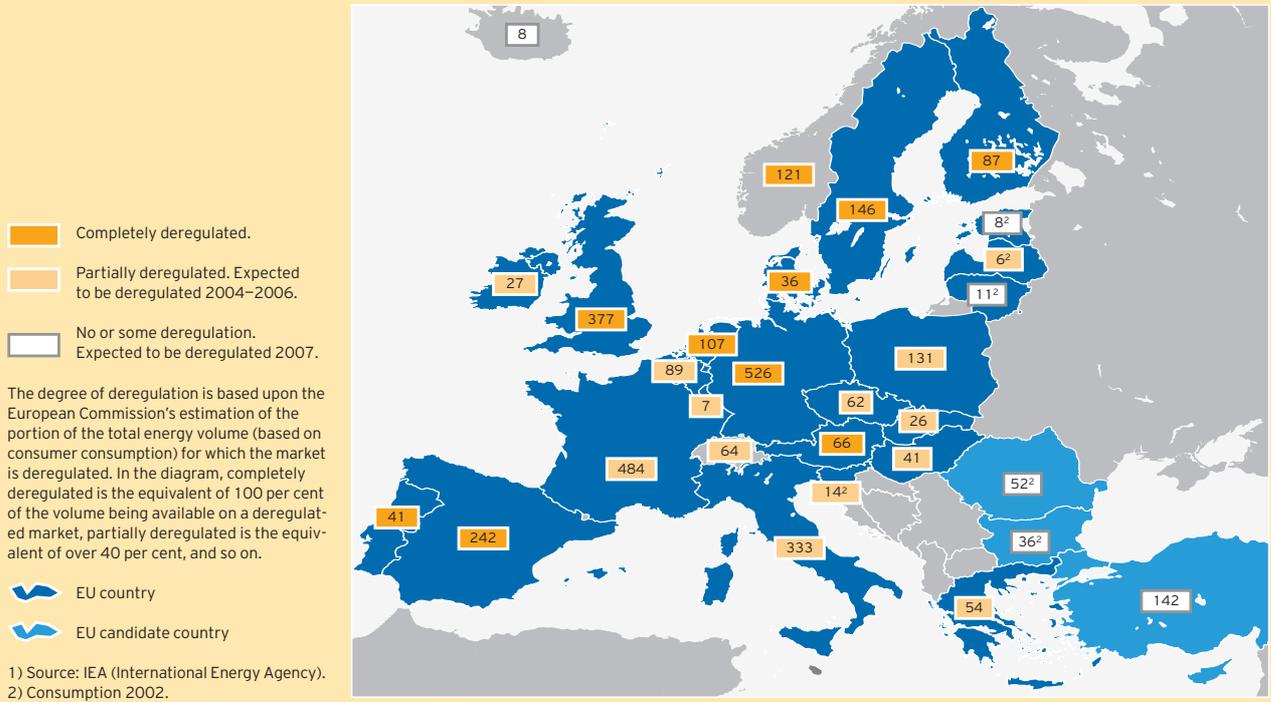
1) Fourth market position if only privatised companies are included.

2) First market position if only privatised companies are included.

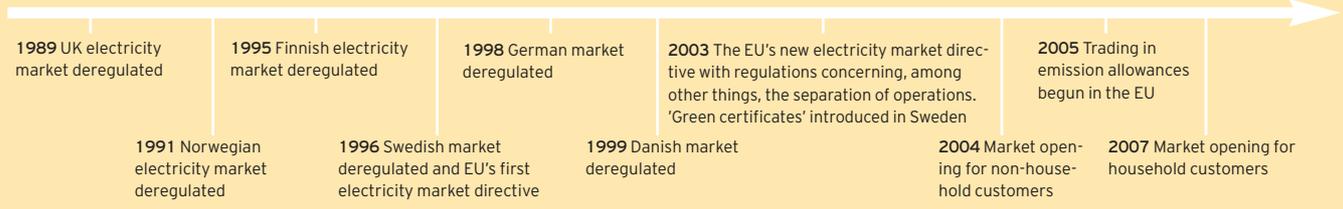
3) Only heat generation.

4) In the Nordic countries.

The European electricity market (Consumption¹ 2004, TWh)



Important events 1989–2007



lation. Network operations are a natural monopoly since it would not be economically feasible from a societal point of view to introduce market competition by, for example, building parallel sets of power lines. Fees for using the networks are therefore monitored and regulated by an independent authority. The principles governing regulation vary between countries. In certain cases, fees and network tariffs are approved directly by the authority in advance, so-called ex ante regulation. In other cases, the network operators set the fees and the network authority checks them subsequently, so-called ex post regulation. Models can also be cost-based or incentive-based.

As a rule, cost-based regulations do not provide incentives for the network companies to reduce costs. In other models, the network company's income is regulated instead, which motivates companies to reduce costs.

Common to all legislation and monitoring models, however, is that they must:

- Enable network access for all users.
- Provide operators a reasonable return on invested capital.
- Provide network operators the possibility and incentive to increase efficiency and security of supply.
- Protect the customer from being abused by the monopoly.

In Germany, Finland and Sweden, network pricing models are currently being developed. In Sweden, a calculation model, the 'Performance Assessment Model', has been developed. This model estimates the benefit to the consumer and, in accordance with the model, a reasonable cost for the network area in question. This cost is then used as the basis by the regulator when evaluating a company's network tariffs. In Finland, a new regulatory model was introduced in January 2005. In Germany, the government has decided on the main points of the network regulations within the scope of the new energy law (EnWG). Until now, the parties in the German electricity market have themselves voluntarily formed the rules,

which has made it difficult to achieve transparency in network tariffs. Regulation is expected to start in mid-2005. A transition to some form of incentive model is to take place within two years of regulation. In Poland, important steps towards a deregulated market have been taken with the establishment of an independent network operator, PSE Operator, which is a subsidiary of the Polish national grid operator PSE. The next step in the Polish deregulation process involves, among other things, regional distribution companies, which must separate distribution and sales activities by the middle of 2007.

Changes in the European energy offering

Generation capacity still exceeds consumer demand in Europe. Over time, this excess capacity will disappear, in part as aging facilities are retired and in part because consumption is expected to increase throughout all of Europe. Southern Europe is expected to show the highest growth, at approximately 2.5 to 3 per cent a year, while Northern and Western Europe are expected to show lower growth. In Eastern Europe, growth is estimated to be approximately 1.8–2 per cent a year. In Sweden, there is a political agreement stating that nuclear power, which at present provides approximately half of all electricity generated, shall be phased out. In Germany, there is an agreement between the nuclear power producers and the government regarding the phasing out of nuclear power and, in addition, major parts of fossil-based energy generation in Europe needs to be replaced before 2020. Assuming that no changes in these agreements take place, we face a capacity gap where an estimated 350,000 MW will need to be replaced in Europe (EU 25) by 2030. The fact that environmental requirements are being tightened at the same time as capacity is scheduled to be lowered poses a major challenge since, according to predictions, capacity in the renewable energy sector will continue to represent less than 15 per cent during this time period.

The internal market will continue to develop

The European Union has had a major impact on the development towards increased competition in energy markets through the so-called directives that have been passed and thereby must be introduced into national legislation. Additional legislation is introduced on an ongoing

basis. At the same time that it is creating an internal energy market, the EU also has to deal with increased environmental requirements, in part in response to the threat of global climate changes. The Kyoto protocol means that the EU has obliged itself to reduce emissions of greenhouse gases by a total of 8 per cent by 2008/2012 compared with 1990. As a result, trading in carbon dioxide emission allowances was introduced in 2005.

Despite harmonisation work within the EU, the progress made in deregulation varies greatly between countries. For that reason, the European Commission and other bodies continue to push for the deregulation of energy markets and integration across borders. At the beginning of 2004, the European Commission established guidelines for how the internal energy market should be developed in the medium-term. Among other things, the EU states that cross border trade should be stimulated in order to increase competition, and thereby economic efficiency, in the energy sector. National markets shall be integrated to form larger regional markets. The Nordic countries are seen as having the most well developed regional market. One area which the European Commission identified as lagging behind considerably when it comes to deregulation is the natural gas market. To date, it is difficult to speak in terms of a relatively representative market price for gas. One problem is that access to transport on equal terms varies, which is an important prerequisite for a transparent gas market.

New EU countries will eventually have great influence

On 1 May 2004, an additional ten countries were granted membership into the EU. These countries have thereby agreed to open up and deregulate their energy markets. Their combined electricity consumption totals around 300 TWh, which means that the combined European electricity market totals approximately 2,900 (EU 25) TWh. Eventually, integration of these countries will have great impact on the future European energy market. Poland's entry into the EU in May, for example, opened the Polish market to actors from other EU countries by eliminating the import and export monopolies. New rules for cross border trade will lead to increased trade between countries.



INVESTMENTS IN ONE COMMON BRAND

"WE WANTED TO PROVIDE A FEELING OF ENERGY"

Today's international Vattenfall has primarily grown through the acquisitions that have been carried out during the past five years. Intensive work has been underway since then to integrate these operations with one another. One part of this work is the edification of 'One Vattenfall' and the introduction of a common, cohesive brand.

This is not only a question of developing consumer awareness regarding Vattenfall, but is also very much a question of, for example, creating a common cultural platform and transparency with regard to stakeholder groups. Regardless of region, stakeholders should be able to know what to expect from Vattenfall. In addition, the introduction of a brand provides considerable efficiency advantages.

In Poland, for example, the Vattenfall brand began its introduction during 2004. There, consumers have also been literally given an

understanding of what they can expect from Vattenfall. Part of this introduction to the brand entailed Vattenfall installing infrared heating and extra lights in bus shelters around Warsaw and in Silesia.

"We wanted to do something other than the usual print campaign, something that showed our business and how it contributes to society," says Piotr Kedzierski, who worked on the project.

The bus shelters are only part of the brand introduction in Poland, but have been very much appreciated.

"The reactions from the public have been very positive," Piotr Kedzierski continues.

"This is the first time an energy company has done such a comprehensive brand campaign in Poland, so for many it also serves as an introduction to the energy sector."

CONSOLIDATION AND FOCUS ON CORE BUSINESS

For a number of years, the prevalent strategy among the major European energy utilities was growth through the acquisition of companies outside their own domestic markets. But since 2002/2003, large utilities have instead focused on consolidation and integration of acquired companies, divesting non-core operations and reducing debt.

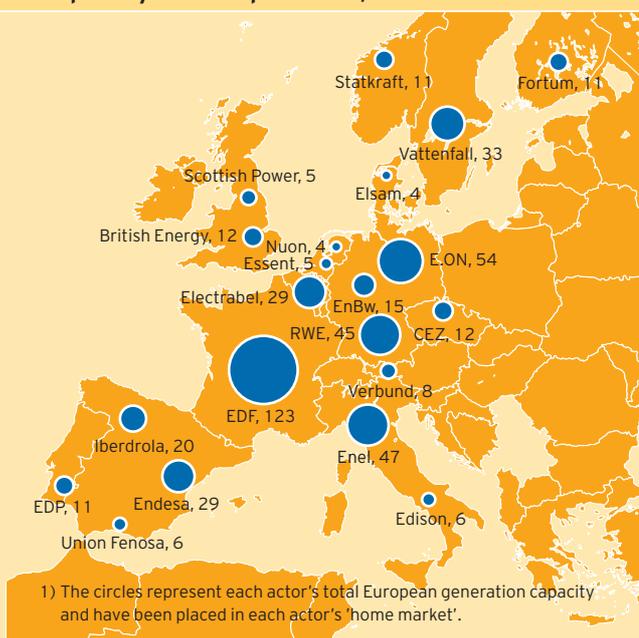
The changes in the major European actors' strategies that began during 2002 continued during 2004. From having invested in rapid international growth during a succession of years, primarily through debt-financed acquisitions, which resulted in dramatically weakened balance sheets, these actors have changed focus. Now they focus on the consolidation and integration of acquired companies, cash flow improvement, divestment of non-core business and debt reduction.

Actors can be roughly divided into the following four categories:

- Vertically integrated utilities that have invested in growth outside their respective domestic markets, like French EDF, German RWE and E.ON, Swedish Vattenfall and Spanish Endesa.

- Utilities that have attained strong positions in regional markets, like Enel in Italy, Fortum in the Nordic countries, Iberdrola in Spain, Essent and Nuon in Benelux, EDP in Portugal, Scottish Power and Scottish and Southern Energy in Great Britain.
- Multi-utility companies, such as French Suez and Veolia, with several product areas in addition to electricity and gas, such as water, waste disposal and transport, and with operations in several geographical markets. The British gas and electricity supplier Centrica can also be considered part of this group.
- Other utilities, such as the municipality-owned German Stadtwerke, specialised utilities such as French gas supplier Gaz de France, British transmission and gas network company National Grid Transco, Norwegian hydro power producer Statkraft, and a number of more-or-less local actors, such as German EnBW and EWE, Spanish Union Fenosa, Belgian Electrabel (half owned by Suez) and others.

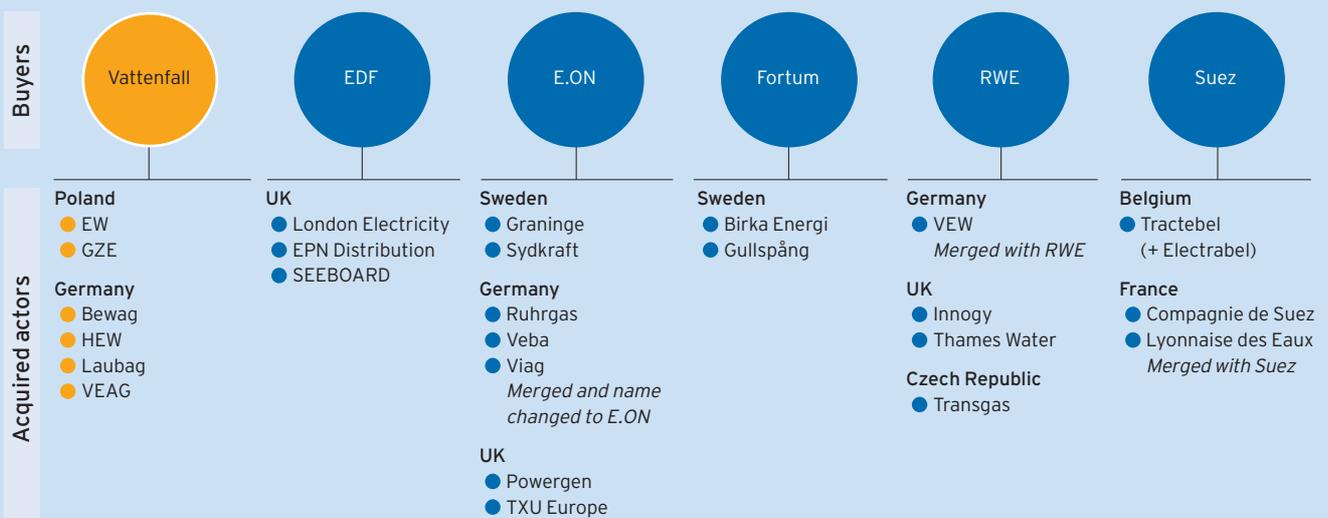
European actors, electricity generation capacity in Europe 2003, GW¹



Strong earnings trend during 2004

In general, companies have succeeded well with the desired restructuring, helped by rising energy prices and effective price hedging strategies that led to increased profitability. Several companies have also been able to improve their debt profile by amortising their debt, extending the maturity of their debt portfolio, taking advantage of lower interest rates and renegotiating credit facilities. During the year, the rating agencies upgraded more energy companies than they downgraded, unlike recent years where the downgrades outnumbered the upgrades. Prudent financial strategies have benefited bond investors and other lenders. At the same time, however, shareholders' demands for increase in value have led to several of the major utilities announcing more generous dividend distributions and even buying back shares. At the same time that large utilities have indeed expressed a will to grow more, they have also more or less uniform-

Major structural deals in the European energy market since 1999



Market share, %

	Nordic Gen. Volume 380 TWh	Gen. Germany Volume 490 TWh	Distr. Sweden 5.2 million cust.	Distr. Finland 2.2 million cust.	Distr. Germany ~40 million cust.	Heat Poland Volume 48.9 TWh
Vattenfall	21	16	17	12	8	27
E.ON/Sydkraft	8	29	20	7	17	
RWE		37	-		18	2
Fortum	14	-	17	13	-	-
Statkraft	11	-	-	-	-	-
Helsinki Energi	2,4	-	-	11	-	-
EnBW	-	11	-	-	12	-
Polish State	-	-	-	-	-	30
Other	43	7	46	57	45	41

ly declared that they have no intention of inflating bid amounts to the previous unrealistically high levels. As a rule, the utilities have also committed to maintaining a certain minimum rating level.

Those power generators whose production assets are less sensitive to rising fuel prices, such as nuclear power, hydro power and lignite-based plants, have gained improved margins in electricity generation due to the fact that market prices for electricity have increased, as a result of dramatic rises in oil and coal prices and other factors. Parallel to this, their own production costs have remained almost unchanged.

Those markets which are now next in line for consolidation are located primarily in Eastern Europe and Russia. In these areas, the energy sector is subject to deregulation and restructuring and growth is high. E.ON and Enel, among others, made considerable acquisitions in Hungary and Slovakia during 2004. Smaller acquisitions have been made in this region by Gaz de France, Fortum and RWE. In the Nordic countries, it is primarily the Danish market which is subject to consolidation. The Danish government's ambition is to create a large national energy company that can meet the competition from major international actors. With this goal as motivation, they have supported the state-owned gas company Dong's attempt to merge itself with the largest Danish electricity company, Elsam. In the Netherlands, the government has proposed that network operations be separated from the integrated utilities, which has caused turbulence as this is expected to lead to a weakened

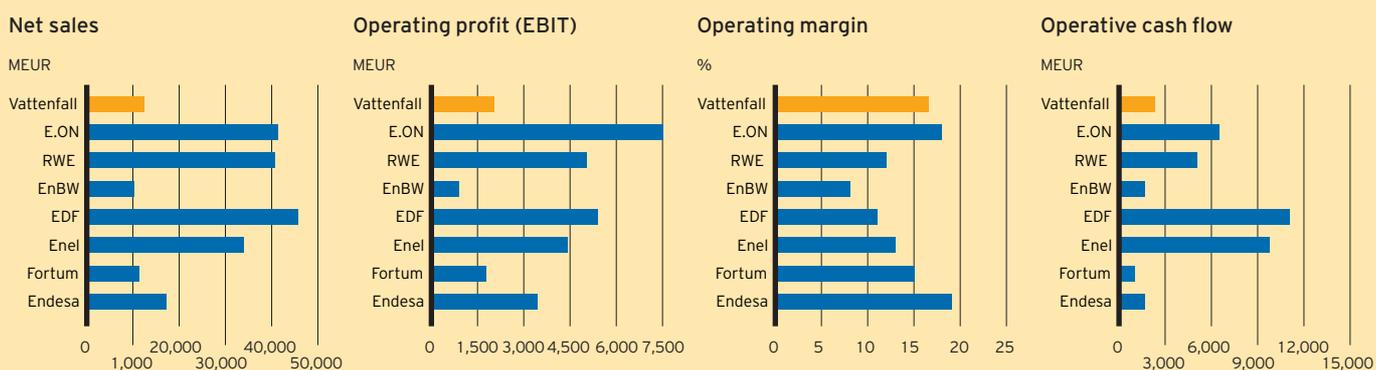
financial position. But this has also created expectations regarding consolidation and changes in ownership structures. In Spain, the government has indicated that it looks positively upon consolidation among the Spanish actors.

Preparations for new privatisation

During the year, no extensive privatisations took place. On the other hand, the French government has decided

to partially privatise Europe's largest electricity utility, EDF and the gas utility Gaz de France. The decision to list EDF during 2005 has been preceded by widespread protests from employees, who fear worsened employment and retirement conditions. Intensive discussions between company management and the French government have taken place regarding the necessary capitalisation and all signs indicate that the government will take over EDF's

Competition overview (As of 30 September 2004 unless otherwise stated)

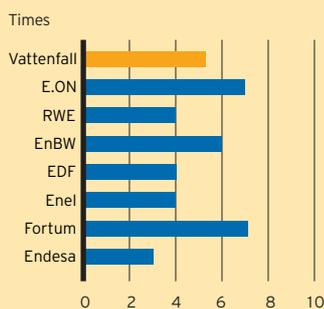


	Vattenfall	E.ON	RWE	EnBW
Country	Sweden	Germany	Germany	Germany
Listed	Not listed 100% state-owned	Listed	Listed	Listed (EDF owns 45%)
Electricity sales, TWh	203 (2003)	387.6 (2003)	300 (2003)	127 (2003)
Number of customers	5.8 million	Electricity: 27 million Gas: 17 million	Electricity: 21 million, Gas: 11 million, Water: 70 million (population served)	4.5 million
Primary products	Electricity, heat	Electricity, gas	Electricity, gas, water	Electricity, gas, water
Primary markets	The Nordic countries, Germany, Poland	Central Europe, the UK, the USA, the Nordic countries, Eastern Europe	Germany, the UK, the USA, Eastern Europe	Germany
Strategies	<ul style="list-style-type: none"> Focus on electricity and heat in the Nordic countries, Germany and Poland Realise synergies across national borders and create "One Vattenfall" Continued value creating growth in neighbouring areas 	<ul style="list-style-type: none"> Focus on electricity and gas – take advantage of synergies Integration under the motto "One E.ON" Continued expansion – focus on Central – and Eastern Europe 	<ul style="list-style-type: none"> Multi-utility Take advantage of synergies between electricity and gas Continued consolidation – reduce costs and improve financial position 	<ul style="list-style-type: none"> Refocusing on electricity operations in Germany Improve profitability and restore financial balance with substantial cost-cutting Continued divestment of non-core operations

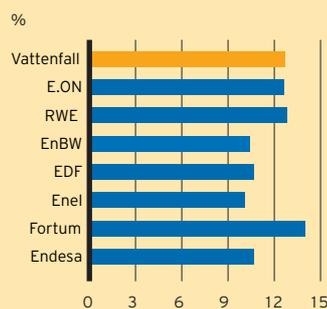
very large pension obligations. In Italy, the government has reduced its ownership in Enel from 61.3 per cent to 42 per cent during the year and in Finnish Fortum, oil operations will be separated from the group during the spring of 2005. In new EU member state Poland, it is the government's ambition to continue its privatisation of the energy sector, even if interest from potential foreign investors has been limited, partially due to the current

uncertainty regarding the scope of regulation and excessively high pricing. In the Netherlands, privatisation of national grid operator TenneT and integrated utilities like Essent and Nuon is being discussed. In Portugal, EDP's attempt to take over the state-owned Gás de Portugal has been rejected by the EU's anti-trust authority.

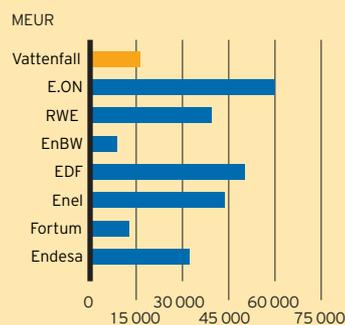
Interest coverage ratio



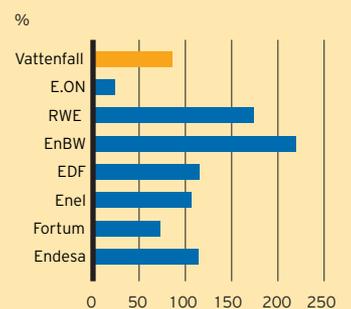
EBIT/Capital employed



Capital employed



Debt/equity ratio, net

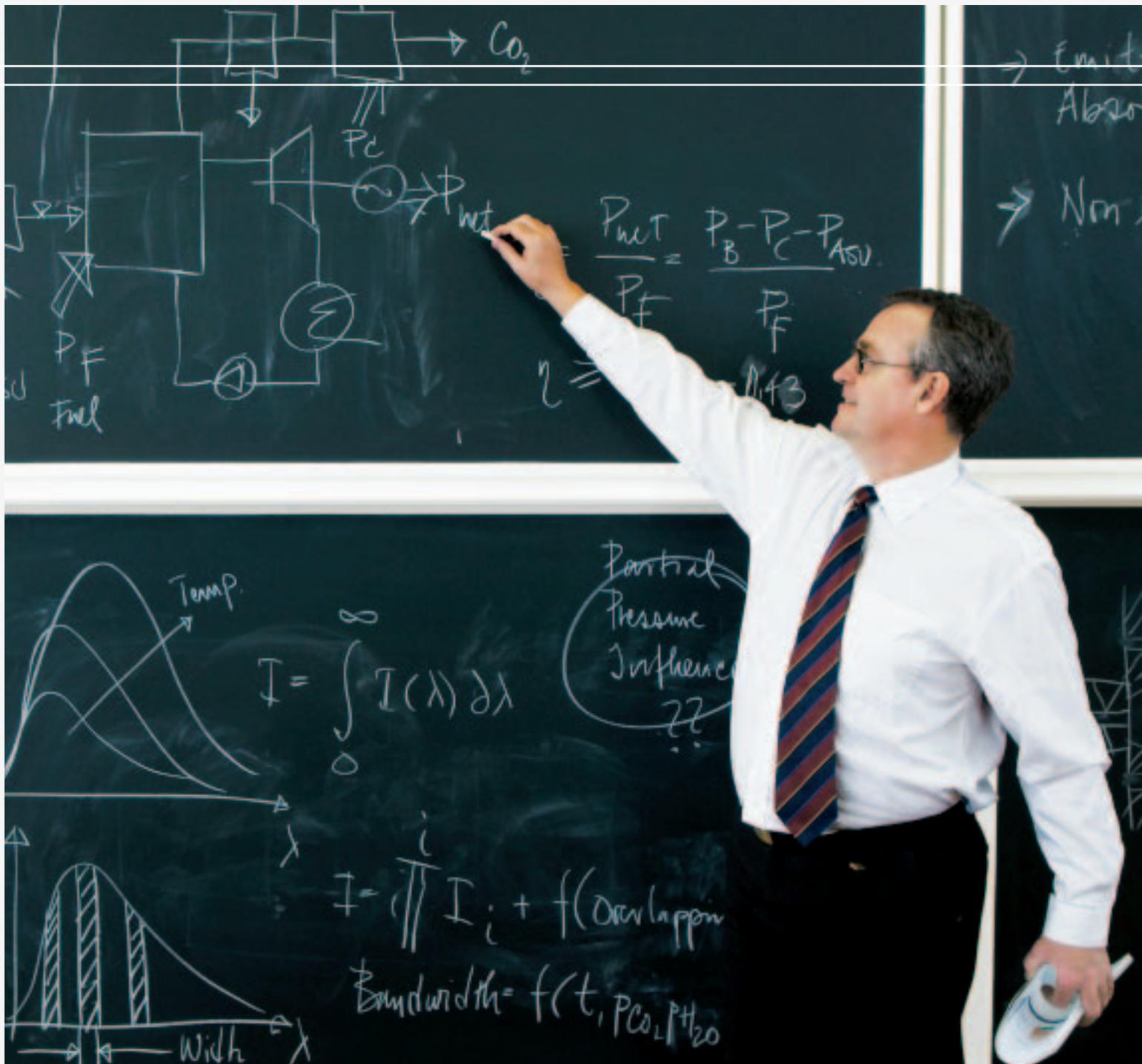


EDF	Enel	Fortum	Endesa
France	Italy	Finland	Spain
Not listed, but planned for 2005/2006	Listed. 42% state-owned	Listed 59.3% state-owned (Dec. 2004)	Listed
519 (2003)	152 (2003)	44.7 (2004)	132 (2004)
42 million (of which 27 in France)	Electricity: 30 million, Gas: 1.9 million, Telecom: 28.3 million	1.4 million (network customers)	11 million Spain 11 million Latin America
Electricity	Electricity, telecom, gas	Electricity, oil, gas, heat	Electricity, gas, telecom
France, the UK, Germany (Italy, Spain, Latin America)	Italy, Spain, (Slovakia)	The Nordic countries, the Baltic States	Spain, Portugal, Latin America, Italy, France
<ul style="list-style-type: none"> • Preparing for privatisation • Widen product portfolio to include gas and energy services, for example • Improve profitability • Divest non-core operations 	<ul style="list-style-type: none"> • Regional expansion but focus on Italy and Eastern Europe • Focus on core operations – energy (electricity, gas) • Divest telecom operations (WIND) 	<ul style="list-style-type: none"> • Expansion in the Nordic countries, and Russia • Separate oil operations 	<ul style="list-style-type: none"> • Shifted focus from multi-utility to core operations electricity and gas (possible telecom divestment) • Consolidation of assets in Spain and Latin America • Investments in new production capacity (CCGT & renewable energy)

Rolling 12-month values as of 30 September 2004 for all except EDF (June 2004).

Main source: Barclays Capital. Sources for Products/Primary markets/Strategies: Moody's, S&P, Vattenfall.

Definitions: Capital Employed (Total Capital) = interest-bearing debt + equity incl. minority interests. Operative cash flow = FFO +/- changes in working capital.



INVESTMENTS IN TECHNOLOGY FOR REDUCED EMISSIONS

"IF WE TAKE CLIMATE ISSUES SERIOUSLY, WE HAVE TO DO SOMETHING."

Lars Strömberg works at Vattenfall with the development of the carbon dioxide-free power plant. This is part of Vattenfall's work with managing the environmental impact its own operations. Another important part is Vattenfall's work with renewable energy sources, see page 33–35. Of current world energy consumption, a little over 13 per cent is derived from renewable sources while more than 80 per cent comes from fossil fuel. The International Energy Agency (IEA), the International Energy Agency, predicts that renewable energy sources, such as wind power, will continue to represent less than 15 per cent of world consumption for another 20 to 30 years.

For this reason, work is underway on methods for creating coal-

fired power plants with low or no emissions. Carbon dioxide and the other combustion by-products are collected and the carbon dioxide is liquefied and pumped down into the bedrock. The goal is to have an initial large-scale demonstration facility ready by 2015, and the construction of a smaller pilot facility will begin in 2005.

"We don't need to invent anything new; it's more a matter of developing and adapting," says Lars Strömberg.

"Initially, storage will take place in the same geological formations where gas and oil have been stored for millions of years. The technology for storing carbon dioxide in this way has already been tried on a large scale and the risk of leakage must be judged as very small."

PRICING IN VATTENFALL'S MARKETS

Electricity prices are still set on a regional level to a large extent. Within Vattenfall's markets, the Nordic countries have progressed the furthest towards a well functioning market. In Germany, development is towards increased transparency and greater liquidity. In Poland, development has only just begun.

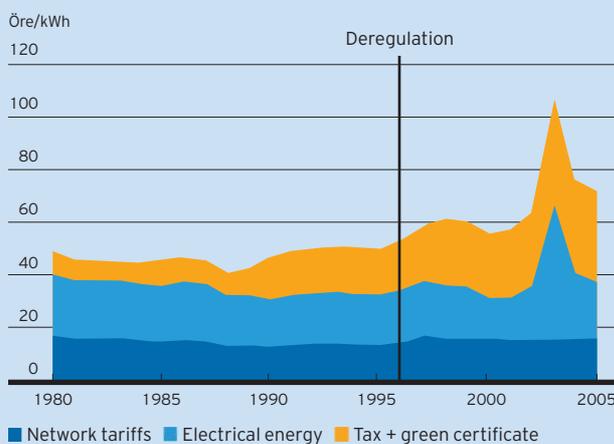
The price of electricity is still, to a large extent, dependent upon local generation conditions. In central Europe, where fossil-based power is predominant, the price of electricity is mainly determined by fuel prices, primarily coal and gas, and generation capacity. In the Nordic countries, where hydro power stands for a very large portion of power generation, it is the water supply that has the largest impact on price trends. The price of coal is also influential. During 2005, trading in emission allowances was introduced in Europe, which in the long term is expected to drive the price of electricity up. As the allocation of emission allowances on a national level for the first trading period of 2005–2007 covers – for the most part – the demand, no dramatic price increase is initially expected. Emission allowances for the first trading period have been distributed free of charge to power producers. For the second trading period, 2008–2012, the total volume of emis-

sion allowances is expected to be reduced, and a certain portion to be auctioned off to the highest bidder. Trading in emission allowances is then expected to clearly affect the electricity markets with increased prices, especially in those countries which have a high proportion of fossil-based energy generation. One problem is that different countries apply different principles in connection with the allocation of these rights, which may lead to decreased efficiency and unfair competition.

The price of electricity is based on the last generated unit

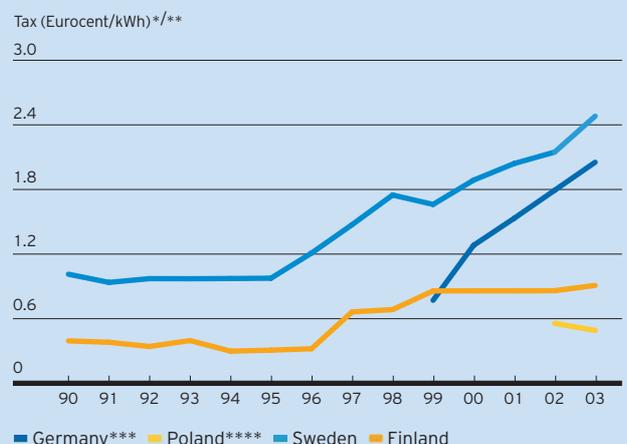
In a well functioning market, it is the marginal cost, in other words, the variable cost for the last generated unit, which determines the market price. In the Nordic countries and in Germany, wide scale trading takes place on the NordPool and EEX electricity exchanges, which

Electricity prices and taxes in Sweden



Electricity price trend in 1990 monetary values for a small, electrically heated house in Sweden before and after deregulation, expressed in öre/kWh (100 öre = SEK 1).
Source: Svensk Energi.

Taxes on household electricity (VAT/other fees not included)



*) Prices in EUR to facilitate comparison, 1 eurocent = approximately SEK 0.09.
**) During the years 1990–1998, the conversion factor from national currencies to ECU has been used to attain prices in EUR.
***) Energy tax on electricity introduced in 1999.
****) Energy tax on electricity introduced in 2002.
Source: Swedpower.

quote market prices daily. Production facilities are brought online in accordance with a prioritisation system which is usually called 'merit order dispatch' and which means that the facility which has the lowest variable cost is put in use first. When demand rises, increasingly expensive types of generation are brought into operation. This also explains why the electricity prices on the Nordic market are affected so strongly by water levels. When water levels are low, more costly forms of energy must be used to a larger extent or electricity must be imported, which is immediately reflected in rising prices on NordPool. The price for the last generated unit represents market equilibrium, that is, the point where supply meets demand. This market price is then used for all delivery since the spot market is designed as an auction market. In the forward market, the price is also set as a function of supply and demand, but the price applies only to the individual contract. Forward prices reflect the market's expectation concerning the future price of electricity. Deregulation of the different markets has brought more effective pricing.

In those countries where deregulation has progressed the furthest and where trade is well developed, such as in

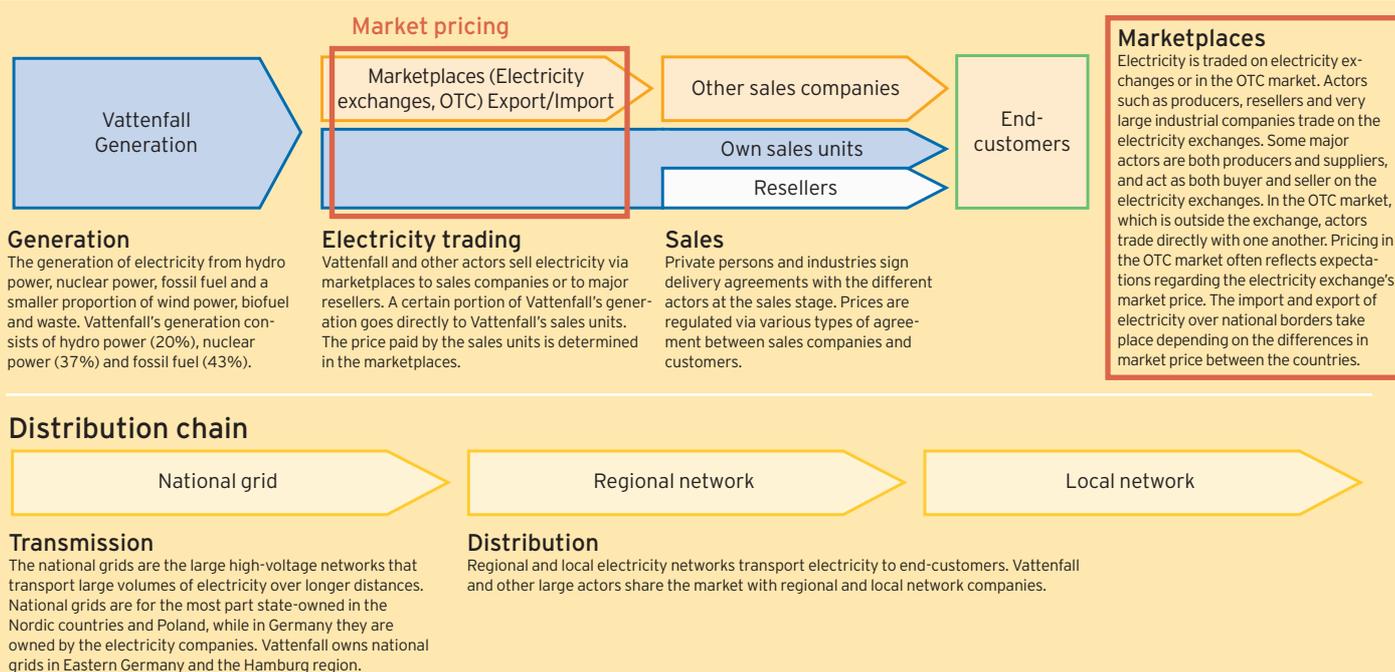
the Nordic countries, market prices are used as a reference in connection with sales to end-customers. In Germany, many contracts are still traded outside the energy market, on the so-called OTC market (Over The Counter). In practice, however, there is currently no price difference seen between the German electricity exchange prices and OTC prices for long-term standard contracts.

In certain markets, it is still not uncommon not to use the market price as a reference in connection with sales to end-customers. This makes it difficult for new actors to establish themselves in these markets.

Squeeze on profitability in sales and electricity network operations

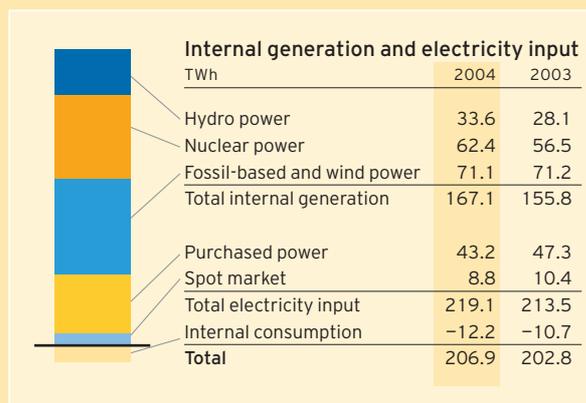
Despite the fact that the household market is still characterised by low customer mobility, deregulation led to intense competition between electricity suppliers with regard to price and product offerings. This led to margins in sales operations being squeezed to low levels.

Network operations are regulated and authorities pressure network operators to reduce network tariffs, which squeezes profitability and risks dampening the

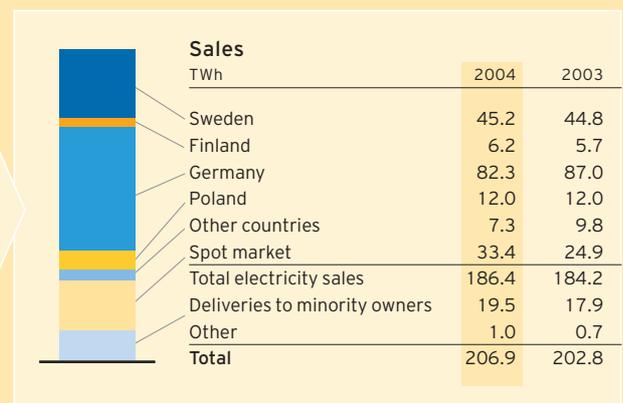


Volumes

Vattenfall's electricity generation



Vattenfall's electricity sales



incentive to invest. From a customer perspective, it is important that the regulation models provide an incentive to invest and maintain good quality.

Electricity suppliers are the link between the electricity exchange and the end-customer

Most customers, regardless of whether they are private individuals or industrial customers, use an electricity supplier to purchase their electricity. Electricity suppliers are responsible for acquiring electricity, normally through the purchase of electricity on exchanges, and packaging it for the end-customer. Dependent upon the demands and risk profile the consumer desires, different forms of contracts are offered, such as variable rate or fixed prices for various time periods. Without an electricity supplier, customers would themselves be forced to trade on the electricity exchange, which would be both costly and risky. Some form of financial security is required to obtain permission to trade on the electricity exchange, as is a minimum volume. Electricity suppliers charge a certain percentage of the electricity price in exchange for this service.

The Nordic market

NordPool – the Nordic electricity exchange
The price of electricity in the Nordic countries is primarily set on the Nordic electricity exchange, NordPool, which is owned by the national grid operators Svenska

Kraftnät in Sweden and Statnett in Norway. The market area covers Sweden, Norway, Finland and Denmark. NordPool comprises two marketplaces. The first – the spot market – is an auction-based trading place where different actors can purchase and sell physical deliveries of electricity on an hourly basis for the coming day. In addition to the spot market, there is also a market for trade in standardised financial contracts, in which futures or forwards are traded up to three years ahead of time. NordPool's trade and liquidity are good. More than 300 actors traded during 2004, trading 167 TWh on the spot market, an increase of 40 per cent compared with 2003. Total electricity consumption in the Nordic countries in 2004 was 391 TWh. The volume of NordPool's financial market in 2004 was 590 TWh, an increase of 8 per cent compared with 2003, which is partly due to the fact that a number of new actors appeared during the year. For more information regarding Vattenfall's trading activities, see page 49.

Dramatic increases in electricity prices due to low water levels, high coal prices and increased taxes
The first year after deregulation in Sweden, in January 1996, prices throughout all of the Nordic countries were at a relatively high level, but then fell strongly to very low levels for four years until 2001/2002. These developments are explained by the hydrological balance. 1996 was a relatively dry year while the following years were charac-

terised by high levels of precipitation. Well filled reservoirs led to drastically reduced market prices. Many of the actors that had prepared themselves for continued low electricity prices were quite surprised when electricity prices shot sky high in 2002; price increases caused by the low water levels after an unusually warm and dry summer and autumn in combination with rising coal prices. Not until the end of 2004 did water levels return to their normal levels, which also led to lower price levels. In Sweden, electricity taxes since deregulation have increased by approximately 150 per cent, in Denmark by 100 per cent, and in Finland and Norway by 80 and 75 per cent respectively. More than 40 per cent of a private customer's electricity bill is currently comprised of taxes and fees.

The German market

The German electricity exchange

German electricity trade began in 2002 on the European Energy Exchange, EEX, in Leipzig. Turnover and liquidity has increased but is still lower than NordPool. At the end of 2004, there were 123 actors active on the EEX, compared with 112 the previous year. The largest trade volumes outside the exchange are still found in the so-called OTC market, but both the spot market and financial trade on the EEX continue to develop.

In practice, there is no price difference between German electricity exchange prices and OTC prices for long-term standard contracts. In 2004, a total of 397 TWh was traded on the EEX, of which 60 TWh on the spot market and 337 TWh on the financial market. In all, volume increased by 6 TWh compared with the previous year. The EEX strives to increase liquidity and has introduced the possibility for parties to clear their OTC contracts as a part of these efforts, which means that the counterpart risk is transferred to the exchange. Germany is Europe's electricity market with an annual electricity consumption of about 530 TWh, equivalent to 18 per cent of the EU's entire consumption. The market was deregulated in one blow in 1998 when all German electricity customers gained the right to choose their electricity supplier. The German market has since undergone a dramatic restructuring and the large German energy utilities are currently among Europe's largest companies (see also page 22–23). The largest portion of sales to customers is still provided through the various local energy

companies, most often the municipality-owned Stadtwerke. German electricity prices fell dramatically before and in conjunction with deregulation as a result of surplus capacity and because the established actors defended their market shares with aggressive price cuts towards customers in order to prevent new actors from gaining a foothold in the market. After the price turbulence of the first few years, the market stabilised and in 2004 an increase in prices was even seen. Strongly rising prices for raw materials and freight prices for coal, combined with substantial tax increases, are behind the price increases. Despite the latest price increases, however, consumer electricity prices are still lower than they were in the mid-1990s, before deregulation. Taxes and various fees currently comprise 40 per cent of customers' electricity costs. Among the factors which will affect the development of German electricity prices in the future is the expected lack of capacity in Germany, the resulting increased need for investment and the new European trading system for emission allowances.

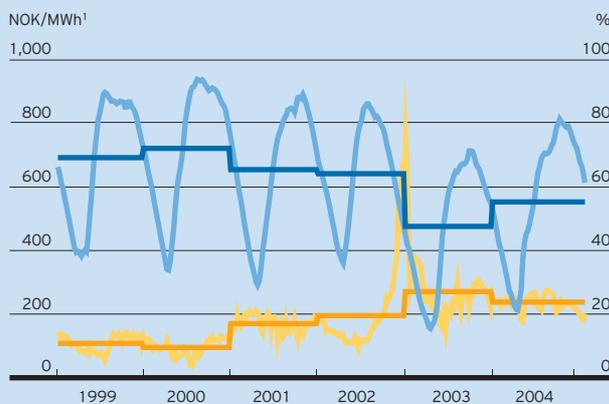
The Polish market

Low volumes on the Polish electricity exchange

Trade on the POLPX, the Polish Power Exchange, has been underway since 2000. Trade volume, however, is still low and liquidity poor. Trade also declined in 2004 compared with 2003 – from 2.6 TWh to 1.9 TWh, to be compared with total electricity usage in Poland of 131 TWh. The main reason for the low volume is that electricity producers sell about half of their net generation under long-term delivery contracts to PSE (Polish Power Grid Company). PSE then sells the electricity on to sales companies. In addition, sales companies, which sell electricity to end-customers, must purchase a certain part of their electricity from combined power and heating plants and renewable energy sources. As a result, only about 40 per cent of all electricity generated in Poland is available for trading. The Polish government has presented a revised plan to end the long-term delivery contracts. The plan must first be approved by the EU Commission, however, and then by the Polish parliament. A considerable share of the long-term delivery contracts between producers and PSE, however, end during 2005–2007, which can potentially improve market liquidity independently of the government's plan. An additional reason for the low volume of

Price trends

Price trends in the Nordic countries



The low precipitation of 2002 continued to affect electricity prices in the Nordic countries at the beginning of 2004. In 2004, levels stabilised and by January 2005, water levels were higher than normal, which was reflected in the electricity price trend. The very dramatic price increase at the end of 2002 reflects both the low reservoir levels and the colder than normal weather conditions.

- Spot price (NOKSYS), NordPool weekly average
- Spot price (NOKSYS), NordPool annual weekly average
- Water level in Nordic reservoirs as a percentage of maximum possible
- Water level in Nordic reservoirs as a percentage of annual maximum average

Source: NordPool, Vattenfall
 1) Exchange rate: 1 NOK=1,0880 SEK, 1 NOK=0,1208 EUR
 1 SEK=0,1110 EUR, 1 EUR=9,0070 SEK

Price trends in Germany



The effect of the price of coal on the price of electricity in Germany is especially noticeable in the forward market. Electricity producers buy coal in advance and sell, in the same way, their electricity generation in advance in order to hedge prices against changes that can have a negative impact on profitability. In this way, prices can be hedged, for example, two years before the actual deliveries are to take place. During 2003 and 2004, coal prices increased in the world market and German electricity price trends developed accordingly. The deviating trend during the last quarter can be explained by other factors, including trading in emission allowances. The diagram shows developments in forward contracts for coal and German forward prices for 'off-peak'² electricity for delivery in 2005 and 2006 respectively.

- EI 2005 OffPeak (€/MWh)
- EI 2006 OffPeak (€/MWh)
- Coal 2005 (API2) (€/t)
- Coal 2006 (API2) (€/t)

2) 'Off-peak' means prices for the hours between 9pm and 8am.
 Source: EEX, Tradition Financial Services, Vattenfall.

trade is the conditions under which actors without their own generation or network assets must trade on the POLPX. Polish electricity prices to household customers are still regulated. Discussions concerning deregulation of the Polish electricity market have been underway since the beginning of the 1990s. Until 2000, the price of electricity was set by the authorities. For that reason, the price of electricity also fell in real terms between 1994 and 1998. Since 2001, however, electricity providers no longer need to wait to get their prices approved, which has led to rising prices. Prices are still lower compared on an international level,

but the difference is expected to disappear during the coming years. With a medium-term perspective, prices may also rise due to the relatively low reserve capacity – in practice, only 10 per cent. Reserve capacity can in turn be affected by the expected increase in consumption in Poland and the need to replace old generation facilities.

Electricity usage per capita in Poland is at present only 40 per cent of the EU average, but is estimated to increase by 1.8 per cent per year. A considerable portion of capacity stems from the 1960–80s and must be replaced by 2017 in order to meet the EU's environmental requirements.

TRUST AND RESPONSIBILITY

Having good, firmly established trust on the part of customers, the general public, politicians, authorities and the media is a central issue for Vattenfall. Creating this trust requires active and responsible environmental efforts.

Vattenfall's task is to deliver electricity and heat at competitive prices. We must also maintain high quality, in an increasingly electricity-intensive society. At the same time, the importance of progress within the environmental area has grown to be one of the key issues with which to win increased trust. Energy supply is connected to considerable social responsibility. The way in which Vattenfall (and other energy companies) is perceived by the media, politicians, investors, public institutions and authorities strongly affects public opinion.

For Vattenfall, setting the goal of becoming a leading company within the environmental area is therefore both a necessity and an opportunity. A necessity because our operations are very capital intensive and the economic value of our assets must be secured. But also because, as one of the major actors in the European energy market, Vattenfall's behaviour is continually scrutinised with a critical eye. It presents an opportunity since it is a prerequisite for obtaining the trust of customers, maintaining good relationships with authorities, pursuing permits and recruiting qualified personnel.

The energy challenge – safe, reliable, inexpensive energy without undesired effects

Today, 64 per cent of the world's electricity needs are met

with fossil fuel, such as coal, oil and gas, and 17 per cent with nuclear power. At Vattenfall, 42 per cent of our generation is based on fossil fuel and 37 per cent is based on nuclear power.

The reason that these types of energy make up such a large portion of the world's electricity generation is that both have qualities that make them attractive in many ways. Above all, they can provide large amounts of energy at a relatively low cost and with great reliability. Neither the combustion of fossil fuel nor nuclear power is dependent upon the weather, as wind power is, nor are they dependent on natural regional conditions, as hydro power is.

Despite these good qualities, both energy types have undesirable effects. The combustion of fossil fuel creates large amounts of carbon dioxide emissions and contributes to global warming. This is one of the greatest challenges currently facing our society. Nuclear power leaves radioactive waste, which must be safely stored away from our living environment for one hundred thousand years.

Since our society is currently dependent on these types of energy, Vattenfall works in several areas to deal with the undesirable effects. Vattenfall both works with the development and optimisation of existing techniques and invests heavily in renewable forms of energy.

With more efficient and cleaner processes, the nega-

EU measures against greenhouse gas emissions

The Kyoto protocol

Requires EU member states to reduce their total greenhouse gas emissions by 8 per cent before 2012 compared with 1990.

The EU system for trading in emission allowances

A tool for meeting the EU's obligations under the Kyoto protocol in a cost-effective manner.

Emission allowances trading

Trading in emissions allowances.

Emissions

Emissions of greenhouse gases into the atmosphere.

Greenhouse gases

Carbon dioxide (CO₂), methane (CH₄), nitric oxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF₆). Initially, trade will only concern carbon dioxide.

Trading periods

2005–2007 and 2008–2012.

Allocation/National allocation plans

Developed by each member state with information on the total number of emission allowances and their distribution.

Start of the trading system

Trading within the EU began on 1 January 2005.

Vattenfall and the environment: Modern facilities and a large proportion of hydro power

In keeping with the ambition to be 'Number one for the environment', Vattenfall is developing opportunities to reduce carbon dioxide emissions from fossil fuel-fired power plants. There are primarily three types of measure available.

- Optimisation of existing facilities. By increasing the efficiency in the process, emissions per unit of energy are reduced.
- Increased use of energy sources with less carbon dioxide emissions per unit of generated energy, such as biofuel (biofuel does not increase the net levels of carbon dioxide, since biofuel is included in a natural cycle).
- Separation of carbon dioxide from the combustion process and permanent storage in geological formations. Several processes and sub-systems for this are in commercial operation in other industries, such as the oil industry, primarily on a smaller scale.

Considerable investment in research and development (R&D), primarily in the combustion of biofuel and the separation and storage of carbon dioxide. The latter technique has been judged to hold great potential for reaching cost levels that are competitive within the framework of the emission trading system. Development takes place both within Vattenfall and in large collaborative programmes where Vattenfall works together with equipment manufacturers, other energy companies and universities and colleges. Efforts cover the entire

chain, from separation processes through transport solutions to techniques and knowledge building regarding the storage of carbon dioxide in geological formations. Vattenfall has also taken the initiative in leading a larger EU programme for the development of separation techniques. The overall goal is to be able to build a large-scale demonstration facility, 'The carbon dioxide free power plant', to show the viability of the technology (see case on page 24).

Efficient utilisation and less environmental impact

Vattenfall's production facilities for fossil fuel are among the world's most modern. The majority of the fossil fuel Vattenfall uses is used in combined heat and power plants in Germany and Poland, providing efficient fuel utilisation with less environmental impact as a result. As Vattenfall has a high proportion of hydro and nuclear power in the Nordic countries, the combined emission levels are low, which provides a competitive advantage in the European energy market.

Vattenfall also owns or partially owns six nuclear power plants (a total of eleven reactors) in Sweden and Germany. Nuclear power provides approximately 40 per cent of Vattenfall's electricity generation. Nuclear power produces practically no carbon dioxide emissions. Availability and reliability are good and the technology is cost-effective.

tive effects of the combustion of fossil fuel can be considerably reduced while the positive aspects, in the form of cost-efficiency and reliability, are retained. Maintenance investments in nuclear and hydro power are being made to increase efficiency.

In the area of renewable energy, Vattenfall is planning large investments in such areas as wind power. In 2004, for example, Sweden's largest wind power park, Olsvenne 2, was put into operation. Vattenfall also plans to invest SEK 1.5 million to build Örestad wind power park, comprising 48 wind turbines.

Through Svensk Kärnbränslehantering, Vattenfall promotes the development of methods for final storage of spent nuclear fuel.

Trading in emission allowances introduced

The EU's influence in shaping the new electricity market has increased progressively during recent years. There are

two main factors behind the EU's increased involvement: the strong belief that a more efficient electricity market can speed up the slow economic development in Europe and the ambition to lead development towards a sustainable and responsible society.

The ongoing climate change is one of the issues that dominate the European environmental debate today. In order to reduce emissions that produce the so-called greenhouse effect, the EU is introducing a system for trading in greenhouse gas emissions. The system came into effect at the beginning of 2005, and initially covers only carbon dioxide.

The basic mechanism of the system is that all incinerators over a certain size must have the number of emission allowances corresponding to their carbon dioxide emissions, and that these allowances can be traded within the entire EU. Each EU country has an emission budget in accordance with the so-called burden sharing agreement of the EU's undertakings in the Kyoto protocol.

Each country has an authority that allocates emission allowances to the facilities participating in the system. The principles for allocation are decided within each member state, but must not conflict with the EU rules on government subsidies and competition. In almost all EU countries there will be a shortage of emission allowances. Year by year, the allocation will be reduced in accordance with the agreed emission reductions.

As their scarcity increases, the market price of emission allowances will rise. Plants will always have to weigh up the options of buying emission allowances or taking physical measures to reduce emissions.

In this way, physical measures will be steered towards where they are most cost-effective. The price of emission allowances will be determined by their scarcity, that is, the collective reduction of emissions in accordance with the EU's emission budget, and the costs of achieving these reductions. Estimations of the future prices for emission allowances vary greatly.

The price of emission allowances will affect the price of electricity. According to Vattenfall's calculations, an emission allowance price of EUR 5/ton will equate to an increase in the electricity price of EUR 2–3/MWh. If the price is EUR 10/ton, the increase will instead be EUR 4–7/MWh.

Uncertainty surrounding the future of nuclear power

At the end of 2004, the Swedish government decided that Barsebäck 2 will close on 31 May 2005.

Between 2013 and 2023, the majority of the remaining nuclear power units in Sweden and Finland will have been in operation for 40 years.

Reinvestments would make it possible to further extend their lifetimes. However, some of the oldest and smallest units may be closed for financial reasons before 2020. This would mean a reduction in capacity of between 4 and 22 TWh. The Finnish government has recently given the go-ahead for construction of a fifth nuclear power plant, which will provide a capacity of 12 TWh annually as of 2009/10. Germany currently has 18 active nuclear power plants, but a political agreement has now been reached to cease electricity generation based on nuclear power.

In most countries, capacity will also disappear as old fossil fuel-fired power plants reach the end of their lifespans and have to be phased out.

What will replace all this capacity, and how will it be done? Most likely, the degree of environmental impact and the level of taxes and fees will determine which type of new electricity generation is possible. Many different techniques and new types of power plants are available. Which techniques are finally chosen will depend on how the investors assess the long-term possibilities of financial profitability in each individual case.

The planning and construction of a new power plant takes a long time. A suitable location must be found and purchased, a permit must be obtained, environmental aspects must be documented and approved, project planning must be carried out and contracts must be negotiated. Because the market has not yet experienced long-term capacity shortage, no knowledge of the effects can be expected. To summarise, we can say that the uncertainty surrounding the future of nuclear power and even the phasing out of old fossil fuel-fired power plants creates uncertainty in investment planning and in Europe's future electricity price development.

Emissions considerably reduced

Today, Vattenfall's operations produce considerably less emissions than they did in 1990, which is the comparative year for the Kyoto protocol. Carbon dioxide emissions are now 29 per cent lower for every kWh of heat generated and 36 per cent lower for every kWh of electricity generated. In comparison, according to the Kyoto protocol, the EU is to reduce emissions by 8 per cent. Our operations in Germany represent the greatest reduction and comprise a full 90 per cent of the total reduction in emissions in the German electricity and heat industry. Even if other sectors are included, Vattenfall's German operations still represent about a sixth of the reductions achieved thus far in Germany.

Emissions have been reduced by almost 58 million tons, which can be compared with Sweden's total emissions of 60 million tons. Emissions of dust particulates has declined by 99 per cent, and acidifying emissions have also been reduced by some 90 per cent. Vattenfall continues to work towards further reducing emissions. More information is available in Vattenfall's Corporate Social Responsibility Report 2003 (Vattenfall's Corporate Social Responsibility Report 2004 will be published in September 2005).

RENEWABLE ENERGY SOURCES

Vattenfall works with many different types of renewable energy, primarily biofuel, hydro power and wind power. They comprise an important part of the development of an energy system that supports sustainable development in society. Vattenfall's ambition is to have a leading role in renewable electricity and heat production.

The importance of renewable energy sources increases as the business conditions develop. Vattenfall's ambition is to have a leading role in renewable electricity and heat production in prioritised markets where the commercial prerequisites are present. By standing at the forefront and driving development forward within the framework of its commercial activities, Vattenfall can contribute to ecologically and financially sustainable development.

Of current world energy consumption, a little over 13 per cent is derived from renewable sources and about 7 per cent from nuclear power. The remaining roughly 80 per cent comes from fossil fuel. The proportion of renewable energy in Vattenfall's heat production is currently slightly more than 20 per cent (15 per cent 2002) while the figure for electricity generation is approximately 20 per cent (18 per cent 2002). The proportion of electricity generated using renewable energy sources, excluding hydro power, is 0.4 per cent.

Vattenfall's work with renewable energy

Since 1997, Vattenfall has invested almost half a billion SEK in R&D within the field of renewable energy sources, mainly within hydro power, biofuel-fired plants and wind power. Moreover, we examine the possibilities offered by other systems, such as wave power technologies, in order to meet and prepare ourselves for future demands on our energy production. Possibly even more important, during the same period,

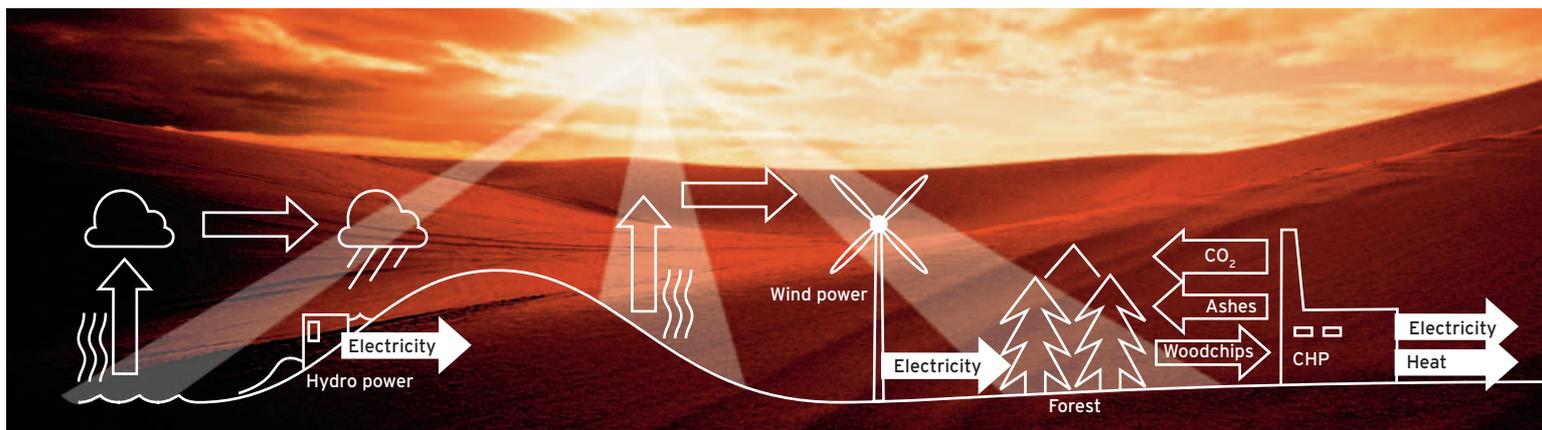
Vattenfall has invested more than SEK 5.5 billion in production capacity for renewable energy sources in the Nordic countries alone. Vattenfall is examining the possibilities for making additional, larger investments in renewable energy. Such investments require stable and long-term support systems. If these efforts are implemented, the investment sums will be of the order of several billions of SEK.

As well as pursuing the large-scale commercial development of hydro power, wind power and biofuel, Vattenfall actively monitors the research and development of technologies that could comprise a part of a future energy system. Vattenfall also participates in both Swedish and German programmes in areas involving such things as wave power, hydrogen gas, black liquor gasification, fuel cells, geothermal power and solar power.

Renewable fuel

Vattenfall operates approximately one hundred plants using renewable fuel in Sweden, Finland, Germany and Denmark, making Vattenfall the world's largest buyer and user of biofuel. In Vattenfall's Swedish heat and CHP production, renewable fuel comprises around 75 per cent of the energy supply. When expanding heat production facilities in the Nordic countries, biofuel is the natural choice for Vattenfall. Renewable fuel comprises a considerable portion of heat production in Finland. In Germany and Poland, however, with the exception of waste, renew-

Renewable energy sources make use of solar radiation falling on the Earth and do not consume finite natural resources.



able fuel cannot currently compete with coal in district heating production due, for example, to limited supply contra demand and limited systems for the extraction and transport of renewable fuel.

With great dedication, Vattenfall has worked with bio energy for 30 years. Current development work, concerning, for instance, the combined combustion of different fuels, aims to increase availability, reduce environmental impact and cut maintenance costs. Experience from our Nordic operations is relayed to our combined heat and power plants in Warsaw, Poland and other places. Vattenfall is currently establishing a new facility in Hamburg with a capacity of 20 MW based on recycled wood within the framework of the German subsidy system. In Uppsala, Sweden, a new waste-fired unit (400 GWh/year heat) was commissioned in January 2005.

Hydro power

In Sweden, Vattenfall has about 90 hydro power plants, about 40 of which are small-scale, while in Finland we have twelve hydro power plants, mostly small-scale. The hydro power plants in Sweden and Finland provide about 33 TWh during a normal year. In Germany, Vattenfall has twelve hydro power plants, mostly pumped storage power stations.

Vattenfall's earlier major expansion ventures and existing large holdings of hydro power assets have given us a very good understanding of how new environmentally-friendly hydro power facilities ought to be designed. Two investment programmes, totalling SEK 6.5 billion, are underway and involve hydro power station maintenance work and upgrades in order to increase production, improve environmental performance and reduce maintenance costs. Together, these investments will provide an additional 300 GWh a year by 2013, and this electricity generation will be entitled to Swedish green certificates.

Wind power

In the Nordic countries, Vattenfall has 45 wind power plants, generating a total of about 60 GWh, almost 10 per cent of Sweden's total wind power production of nearly 700 GWh. In December 2004, we acquired the rights to construct an additional wind power park at Lillgrund in Öresund, off the south coast of Sweden. This wind power park will multiply Vattenfall's holdings and is planned to comprise 48 wind turbines with a combined capacity of

about 330 GWh, which will increase Sweden's total wind power generation by more than 40 per cent. Through the acquisition of building permits for Lillgrund, Vattenfall has taken the step from small to large-scale wind power generation. On its own initiative, Vattenfall has also developed a 60 GWh off-shore wind power project outside Karlskrona, Sweden, and we expect to receive all necessary permits in 2005. Several additional acquisitions and proprietary wind power development projects are planned for the near future.

Shore-based wind power is now a relatively mature technology with high availability. The technology is still developing towards increasingly larger turbines, which provide better utilisation of wind resources and result in reduced production costs. The next large development step is the establishment of off-shore wind power, which will be accompanied by improved wind and generation conditions, but will also entail increases in technical difficulties and costs.

During the past 30 years, Vattenfall has driven development forward by building and evaluating new technology together with manufacturers. The development areas that Vattenfall is currently working on are primarily focused on off-shore wind power and the integration of wind power plants with the electricity system.

Finland, Poland, Sweden and Germany – Varying conditions

The EU has established a goal that by 2010, 12 per cent of our energy shall stem from renewable energy sources, compared with 6 per cent in 1997. The equivalent figure for electricity generation is 22.1 per cent by 2010, compared with 13.9 per cent in 1997.

As far as possible, electricity generation is based on the resources available in each country. In the Nordic countries, for example, the conditions for hydro power electricity generation are very good, as is the supply of biofuel. In Germany, on the other hand, coal is the primary energy source.

The use of renewable types of energy is also governed by the formulation of each country's legal and economic frameworks, as well as operating costs and capital costs for the different techniques. New production, and renewable production in particular, generally entail greater costs than existing production. In order to facilitate investments in

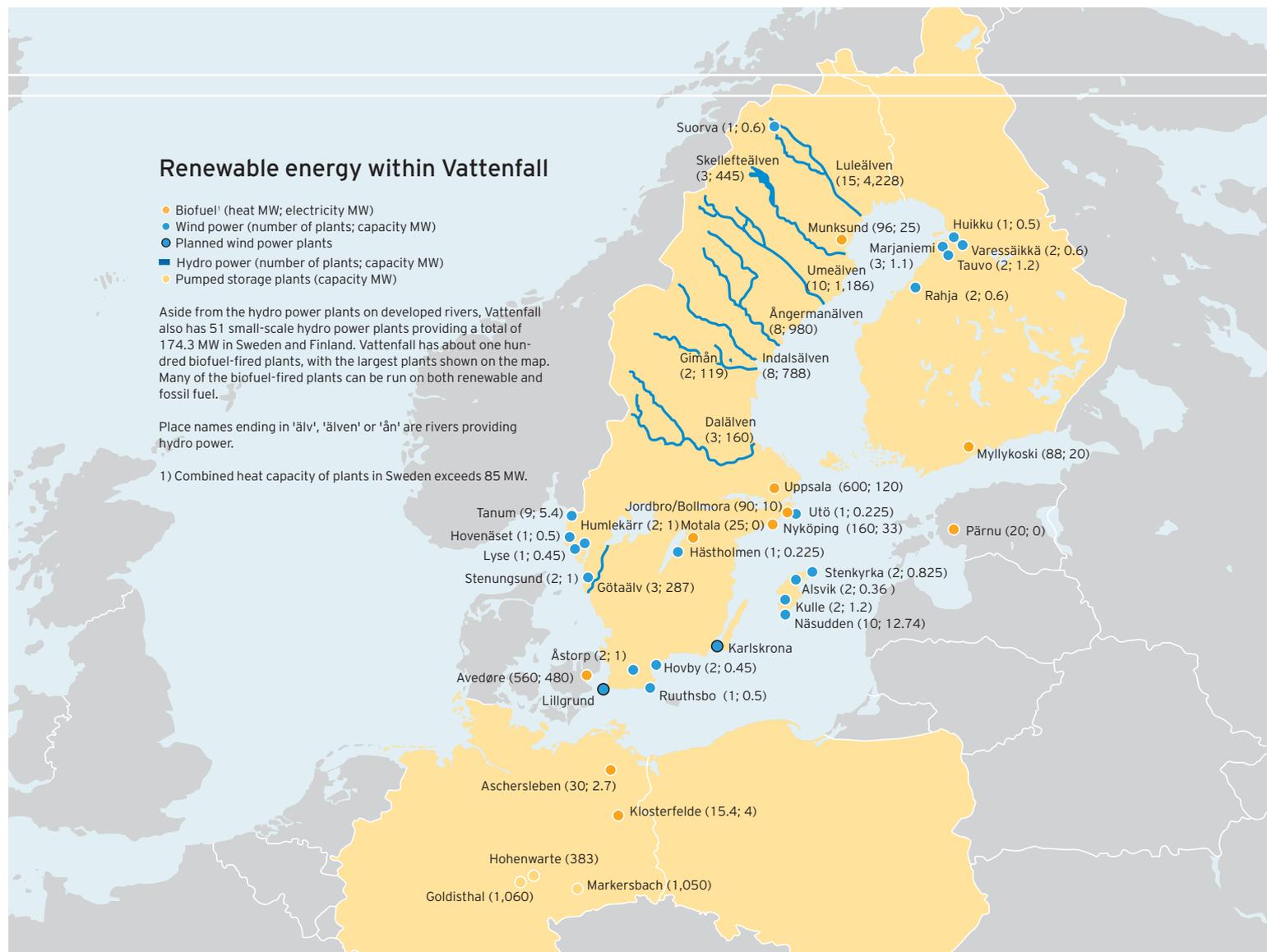
Renewable energy within Vattenfall

- Biofuel* (heat MW; electricity MW)
- Wind power (number of plants; capacity MW)
- Planned wind power plants
- Hydro power (number of plants; capacity MW)
- Pumped storage plants (capacity MW)

Aside from the hydro power plants on developed rivers, Vattenfall also has 51 small-scale hydro power plants providing a total of 174.3 MW in Sweden and Finland. Vattenfall has about one hundred biofuel-fired plants, with the largest plants shown on the map. Many of the biofuel-fired plants can be run on both renewable and fossil fuel.

Place names ending in 'älv', 'älven' or 'ån' are rivers providing hydro power.

1) Combined heat capacity of plants in Sweden exceeds 85 MW.



renewable production, many European countries have introduced various subsidy systems. The recently introduced European trading system for carbon dioxide emission allowances also moves matters in this direction.

Nordic Countries

The 'green certificate' system was introduced in Sweden in 2002 with the aim of adding 10 TWh of new electricity generation from renewable energy by 2010. Vattenfall's assessment is that this goal can be reached by the middle of the next decade. This new production can be expected to comprise equal parts wind power and biofuel-fired generation within industry and combined power and heating plants. Vattenfall, for example, has taken its first step towards this goal with the planning of the wind power park at Lillgrund.

With more widespread acceptance for wind power construction and with additional improvements in the way permits and authorisation are dealt with in Sweden, the rate of development in wind power generation could be further increased.

Germany

In Germany, a solution has been chosen wherein the owner of renewable production is guaranteed a certain

pre-determined income per kWh while the investment is repaid, which has led to considerable increases in the construction of shore-based wind power. Germany is now the world's largest wind power user and renewable production represents about 5 per cent of total production. Today, the extent is so great that the necessary expansion of electricity transmission capacity in order to cope with the wind power is lagging. An important issue now is to gain the prerequisites, primarily permits, to erect new power lines within a reasonable time, but also to ensure network stability and operation.

Poland

Poland has chosen a solution wherein electricity suppliers must buy a pre-determined amount of renewable production in proportion to their sales. This proportion will be increased gradually from 2.85 per cent in 2004 to 9 per cent in 2010. In order to reach this goal, expansion will most likely be necessary in biofuel-fired production as well as in hydro power and wind power, which in turn will place heavy demands on the development of market mechanisms and regulations.



INVESTMENTS IN INTEGRATION

**"WHEN YOU'RE COORDINATING
OPERATIONS THAT RUN 24 HOURS
A DAY, SEVEN DAYS A WEEK,
THERE'S NO ROOM FOR ERROR!"**



Per Svensson, manager of the Cross Border Trading unit, is one of the people who have worked with the launch of newly established Vattenfall Trading Services. Just as with many other parts of the power industry, these are operations that never sleep. They handle Vattenfall's electricity trading over cables that run between the various countries and regions. Among other things, this means that this unit ensures that the result of investments in cables is hedged by buying and selling forwards in the respective areas where price differences are favourable.

The practical challenges notwithstanding, during 2004 Vattenfall centralised its trading operations into one unit.

"We get a better overview and better use of resources. The coordination of Vattenfall's cable investments enables the development of work methods and tools that, hopefully, will in turn lead to increased profitability."

The goal of this union is also to enable an expansion of operations. "Our location in Hamburg makes it easier to expand to other countries in Europe and thereby become a pan-European actor."

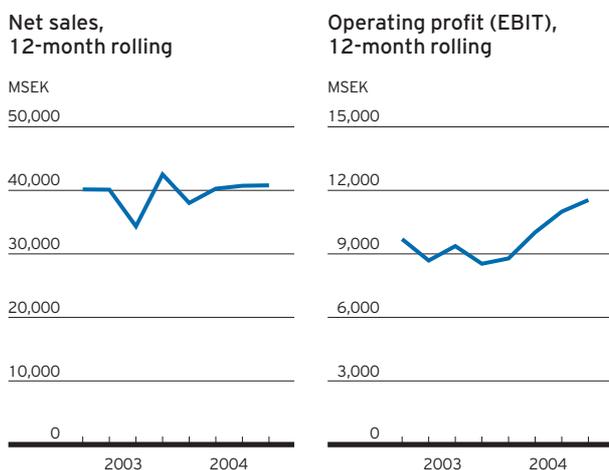
THE NORDIC COUNTRIES: RECORD NUCLEAR POWER AVAILABILITY LEVEL AND LOWER MARKET PRICES

Despite falling electricity prices, Nordic operations have developed very strongly, mostly thanks to record high generation within nuclear power and successful price hedging. The year was otherwise characterised by comprehensive measures designed to increase trust and customer satisfaction and by continued uncertainty regarding nuclear power.

Vattenfall generates, distributes and sells electricity and heat in the Nordic countries. Electricity trading is also pursued in order to hedge prices for generation and sales. Vattenfall also sells telephony and broadband services, as well as consulting and contracting services, primarily within the energy sector. Transmission, that is, the transfer of electricity via high-voltage networks, is not included in Vattenfall's operations, but is run in Sweden by the state-owned company Svenska Kraftnät and in Finland by Fingrid. Vattenfall's market position in the Nordic coun-

tries is number one in electricity generation, number two in distribution and number one and two in Swedish and Finnish electricity sales to end-customers respectively. Nuclear power and hydro power comprised 65.0 and 34.3 per cent respectively in 2004, and form the basis of Vattenfall's electricity generation. Fossil fuel, biofuel and waste are also used, especially in heat generation. Vattenfall also invests heavily in wind power. Operations are organised in a number of business units which are coordinated under Business Group Vattenfall Nordic.

Vattenfall in the Nordic Countries



Key facts – Nordic Countries

		2004	2003	Change, %
Net sales	▼	40,794	42,514	-4.0
Operating profit (EBIT)	▲	11,543	8,535	35.2
Operating margin, %	▲	28.3	20.1	40.8
Net assets	▲	57,415	56,367	1.9
Return on net assets, %	▲	20.4	15.2	34.2
Electricity generation capacity, MW	▲	16,878	16,756	0.7
Heat generation capacity, MW	▼	3,523	3,662	-3.8
Electricity generation, TWh	▲	88.4	77.8	13.6
Heat generation, TWh	▼	7.6	7.9	-3.8
Number of electricity customers	▼	934,235	948,235	-1.5
Number of network customers	▲	1,278,310	1,264,000	1.1

Best result ever

Sales decreased by 4 per cent to SEK 40.8 billion (42.5). Sales were affected negatively by falling market prices, the fall being due to the vastly improved water supply. At the end of 2004, the deficit in the hydrological balance had been improved to a surplus of 4.3 TWh, compared with a deficit of 14.2 TWh at the end of 2003. Operating profit increased by 35.2 per cent to 11.5 billion SEK (8.5). The fact that operating profit increased despite falling electricity prices can be primarily explained by increased generation volumes, but also by the fact that generation had been hedged at advantageous prices. The Generation business unit contributed especially well to the good results. The nuclear power plants exhibited absolute world-class availability and both Forsmark and the Ringhals Group posted their best generation results ever. The

	Challenges 2004	Measures 2004	Forecasts and strategy
Generation	<ul style="list-style-type: none"> Extend lifetime, further improve safety and efficiency within existing power plants. Maintain high availability during ongoing maintenance work. Nuclear power negotiations were suspended by the Swedish government in October without agreement being reached. The government then decided to close Barsebäck 2 by 31 May 2005. Amendments to financing legislation governing nuclear waste (Note 7). 	<ul style="list-style-type: none"> Continued optimisation of generation within existing nuclear power facilities and hydro power facilities. Investments in among other things new turbines that increased power output. Continued work for an improved environment – building permits and permission for Sweden's largest wind power project – Örestad – have been obtained. 	<ul style="list-style-type: none"> Maintenance programme for nuclear power and hydro power. Safety upgrades for dams. Increased utilisation of existing generation facilities. Construction of Örestad 120 MW wind power park. Closing of Barsebäck 2 on 31 May 2005. Continued evaluation of renewable energy sources which meet green certificate requirements.
Distribution	<ul style="list-style-type: none"> Improved trust among customers. Fewer and shorter disruptions. New regulatory model, the Performance Assessment Model. 	<ul style="list-style-type: none"> New network disruption guarantee. Continued installation of remote-readable meters: 105,000 meters in total. Expanded investment and maintenance programme and strengthened contingency organisation. Actively provided feedback about the new regulatory model. 	<ul style="list-style-type: none"> Optimise and simplify management of customer issues with a genuine customer focus. Implement quality improvements in the electricity networks. Continued installation of remote-readable meters for all network customers.
Sales	<ul style="list-style-type: none"> Ensure growth through increased quality that increases customer satisfaction. Create understanding and acceptance for pricing. Retain market share within reseller segment. Ensure long-term competitive edge through increased cost-efficiency. Ensure successful implementation of new business system. 	<ul style="list-style-type: none"> End to invoicing in arrears for consumption more than a year old for household customers (corporate customers 3 years) within our own network areas. Optimise collaboration within the Group for increased customer satisfaction by creating total energy solutions for customers. Began implementing new business system. 	<ul style="list-style-type: none"> Continue our work to increase customer satisfaction. Increase customer benefits with total energy solutions based on customer needs. Further improve information about the customer's possibility to select their agreement type. Finalise the implementation of the new business system.
Heat	<ul style="list-style-type: none"> Find a long-term solution for peat producer Härjedalens Miljöbränsle AB. Construction of a waste incinerator in Uppsala, Sweden expected to be completed ahead of plan. 	<ul style="list-style-type: none"> Divestment of Härjedalens Miljöbränsle AB. Continued operation with new owners. Waste incinerator in Uppsala completed. Automated reading introduced for single family homes. 	<ul style="list-style-type: none"> Work to increase customer satisfaction. Optimisation of fuel composition. Growth through acquisitions for long-term profitability. Waste incinerator in Uppsala commissioned.
Services	<ul style="list-style-type: none"> Market level profitability in all operations. Continued growth and increased external sales. 	<ul style="list-style-type: none"> Developed maintenance agreement with Vattenfall's largest customers. Recruitment of strategic resources to manage the large reinvestment programme in the energy sector. Functional maintenance agreement with external process industry. 	<ul style="list-style-type: none"> Ensure resource and expertise supply for the future. Continued development of maintenance services. Market for consulting and development services continues to look good throughout the energy sector.

basis for the year's good results comprises the very efficiently implemented outages during the summer with, among other measures, turbine replacements in the Forsmark plant. Hydro power generation increased by almost 17 per cent thanks to the considerably improved water supply.

Different paths in Nordic energy policies

Uncertainty regarding the future of Swedish nuclear power was seen throughout the year. In October, the Swedish government broke off negotiations with the nuclear power operators regarding the phasing out of nuclear power in Sweden and in December, the government decided to

close Barsebäck 2 on 31 May 2005. The reactor is 74 per cent owned by Vattenfall via Ringhals AB. The Finnish government has, unlike the Swedish, decided to give permission to build a fifth nuclear power reactor, which will provide a capacity increase of 12 TWh as of 2009. In Sweden, the state energy authority (STEM) has finished its development of a new regulatory model, the so-called Performance Assessment Model, for evaluation of network fees (see page 17 for a description of the model). At the end of the year, STEM announced that they had selected 40 network companies for closer inspection regarding network tariffs in 2003. Vattenfall Sveanät AB, which has now been merged with Vattenfall Eldistribution AB, is one of these companies. Finland has also begun using a new regulatory model in conjunction with the amendment of its electricity market legislation. The model calculates a reasonable return. If the model shows the return to be too high, then this is to be compensated for via pricing.

Considerable investments for the future

Vattenfall runs several comprehensive investment programmes in the Nordic countries, comprising a total of SEK 42 billion over 10 years:

- SEK 10 billion in Distribution in a five-year investment and maintenance programme to strengthen security of supply. This programme was expanded in 2004 from 8 to SEK 10 billion, primarily to increase disruption prevention measures.
- Investments within renewable energy, including the planning of a large off-shore wind power facility in Öresund for SEK 1.5 billion. These facilities are estimated to be in operation in 2007.
- SEK 18 billion in maintenance investments in nuclear power, planned for a lifetime of at least 40 years, and SEK 6 billion in measures to increase efficiency.
- SEK 6 billion in reinvestments for the maintenance of hydro power and improved dam safety over the next 10 years and an additional SEK 0.5 billion to increase generation in hydro power plants in conjunction with the maintenance investments being made.
- Investments in remote-readable electricity meters continue; by the end of 2004, a total of 105,000 meters had been installed in the Nordic countries. All of Vattenfall's 1.3 million Nordic network customers will have such meters installed.

Limited initial impact from emissions trading

In 2005, the previously described trade in emission allowances for carbon dioxide began in Europe (see description on pages 30–32). The Nordic countries have had their respective allocation plans approved by the EU. Since Vattenfall's generation mix in the Nordic countries primarily consists of carbon dioxide free hydro power and nuclear power, Vattenfall does not need any emission allowances for this generation. On the other hand, Vattenfall's heat operations generate certain levels of carbon dioxide emissions. In accordance with the Swedish allocation plan, Vattenfall has not been given emission allowances for these operations full out and must therefore purchase such allowances in the market.

Customer satisfaction in the Nordic consumer market

Vattenfall has approximately 934,000 electricity customers, approximately 1,280,000 network customers and 16,600 heating customers in the Nordic market. The energy sector as a whole has, during the year, been subject to debate and criticism focused on such factors as poor billing practices, high prices and disruptions in supply. Criticism has primarily been directed towards the largest companies. Vattenfall takes this criticism very seriously and is devoting extensive resources to improve trust and customer satisfaction. In order to strengthen the customer's standing, for example, Vattenfall appointed a Customer Ombudsman in Vattenfall Nordic in 2004, ceased billing in arrears for household customer consumption more than 12 months old and improved disruption compensation for power cuts. In order to measure customer satisfaction within the Group, we use a model based on the Customer Satisfaction Index (NKI). In the Swedish market, we also compare the result with a Swedish quality index (SKI), an independent instrument to measure and analyse how customers judge goods and services in Sweden. In the autumn of 2004, Vattenfall recorded a value of 57.5, which is a clear improvement, but still low if we compare ourselves with smaller electricity suppliers and other sectors. These independent surveys are an important part of our work towards our goal of becoming 'Number one for the customer'.



INVESTMENTS IN HYDRO POWER

"THINGS ARE WORKING PERFECTLY NOW"

Clary Brandum is an operations engineer at Storuman. From this location, other hydro power units, including the one in Bastusel, by the Skellefte River, are run. During the summer of 2004, the generator and facilities were shut down for renovation. Clary Brandum, together with the other operations engineers, had experienced the old generator's problems with overheating and short-circuiting. A renovation and upgrade were, for that reason, required and financially and environmentally advantageous as well. Recurrent shut-downs are expensive, in terms of both production losses and troubleshooting.

Since the station is a single unit station, a stop means that generation ceases completely. For that reason, the decision was made for a

complete overhaul of the entire facility.

"We made sure we replaced all the important components, but also that we replaced such things as lighting and ventilation systems in the facility. We even improved the fire cell division, so staff safety has also been improved," says Patrik Nilsson, who led the project. Hopefully, there will be no shutdowns for a while. The work that has been done should ensure the station's operation for an additional 40 years.

Even if work with running in the new facilities will continue for some time, the effect can already be seen.

"We no longer have the operating problems we had previously. We haven't had any overheating," says Clary Brandum.

GERMANY: INTEGRATION WORK HAS PROVIDED STRONG RESULTS

Vattenfall is the third largest electricity producer in Germany and runs operations throughout the entire value chain. Operating profit has improved greatly thanks to a very successful cost-cutting programme.

Vattenfall generates, transmits, distributes and sells electricity and heat in Germany. Trading is also pursued in electricity and energy-related raw materials in order to hedge prices for generation and sales. Vattenfall's market position in Germany is number three in electricity generation, number three in electricity sales to end-customers, number two in transmission and number four in electricity distribution. Within district heating, Vattenfall is the largest actor with the longest district heating network in Europe. Vattenfall's generation in Germany consists of approximately 89 per cent fossil fuel-based power, which is produced in some of the world's most modern and cleanest lignite-fired plant.

The remaining electricity generation is comprised primarily of nuclear power and hydro power. Operations are organised according to a value chain in the same way as in the Nordic countries and are run according to the same principles. Business Group Vattenfall Europe coordinates the German business units.

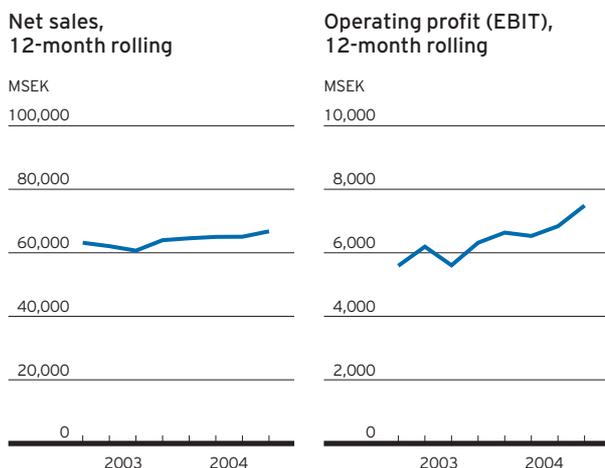
Strong improvement in financial performance

Sales increased by approximately 4 per cent to SEK 66.8 billion while operating profit increased by 18.5 per cent to SEK 7.5 billion (6.3), primarily explained by the extremely successful cost-cutting programme, which resulted in annual savings of EUR 519 million (approximately SEK 4.7 billion). Return on net assets improved to 12.5 per cent as against 10.2 in 2003. Both electricity and heat generation were, in terms of volume, largely unchanged compared with 2003. The Mining & Generation, Distribution and Heat business units reported very good results. Even Sales improved its operating profit, but still shows reports a loss. Transmission reports lower operating profit than in 2003 as a result of higher costs due to the increased input of wind power to the network. Two smaller district heating companies in Berlin, with a combined capacity of 320 MW, were acquired for about SEK 440 million during the year.

Extensive investment needs in the German market

As previously mentioned (see page 18), there is an agreement in Germany regarding the phasing out of nuclear

Vattenfall in Germany



Key facts – Germany

		2004	2003	Change, %
Net sales	▲	66,761	63,974	4.4
Operating profit (EBIT)	▲	7,487	6,318	18.5
Operating margin, %	▲	11	10	10.0
Net assets	▼	58,350	62,171	-6.1
Return on net assets, %	▲	12.5	10.2	22.5
Electricity generation capacity, MW	▼	15,112	15,148	-0.2
Heat generation capacity, MW	▲	8,380	8,090	3.6
Electricity generation, TWh	▲	75.5	74.6	1.2
Heat generation, TWh	▼	15.5	15.7	-1.3
Number of electricity customers	▲	3,006,271	2,947,743	2.0
Number of network customers	▲	3,393,000	3,323,000	2.1

	Challenges 2004	Measures 2004	Forecasts and strategy
Mining & Generation	<ul style="list-style-type: none"> • Guarantee the availability of facilities during heavy loads. • Develop strategy for continued development of conventional power plants. • Prepare for trade in emission allowances which begins in January 2005. 	<ul style="list-style-type: none"> • Preliminary plans for new power plants in Lausitz and Hamburg area. • Decision regarding the further development of lignite extraction and transport capacities. • Goldisthal pump power plant in operation. • Commissioning of the Lauta thermal waste treatment plant. • Construction of interim storage for spent nuclear fuel in Brunsbüttel and Krümmel. 	<ul style="list-style-type: none"> • Further development of modern, efficient and environmentally-friendly power plants. • Attain 'Cost Leadership' in each plant. • Consistently take advantage of the opportunity to optimise our portfolio in the wholesale market. • Continued work with long-term hedging of generation. • Retained market share in Germany.
Transmission	<ul style="list-style-type: none"> • Handling increased input of wind power-based electricity. • Ensure a fair distribution of EU-related network expansion costs. 	<ul style="list-style-type: none"> • Active participation in EU changes as partner to political and industry organisations. • Investments in network expansion after increased volume of wind power. • Formation of a department for EU/ Network clearing for management of increased EU risks. • Communication to customers and market actors of increased costs due to EU. • Participated in development of new electricity legislation. 	<ul style="list-style-type: none"> • Increased cost-efficiency with retained security of supply in the networks. • Continued comprehensive investment programme to expand the networks for the transmission of wind energy and to ensure an effective European electricity market. • Ensure access to reserve and balancing power.
Distribution	<ul style="list-style-type: none"> • Increased efficiency to ensure profitability in a regulated market. • Create conditions for functional and legal unbundling of operations. • Pressure to cut network tariffs due to proposed electricity network regulation. 	<ul style="list-style-type: none"> • Functional unbundling where business units are divided into network operators and network service. • Optimisation of processes in purchasing, IT and order management to minimise costs. 	<ul style="list-style-type: none"> • Increased transparency and increased control of network operations with the new EU guidelines. • Implementation of the portion of 'legal separation' to comply with the requirements of the regulator and new electricity legislation. • Appoint a 'Compliance Officer' to ensure equal treatment of all network users. • Continued high reliability in distribution parallel to improved customer service.
Sales	<ul style="list-style-type: none"> • Higher acquisition prices. • Insufficient profitability in agreements with corporate customers. Improve profitability within this segment under the Vattenfall brand. • Amendments to the German energy law (EnWG). 	<ul style="list-style-type: none"> • Alignment of old agreements to market conditions to enable effective risk management. • Requested tariff adjustments for private customers and small company segment based on our cost profile. 	<ul style="list-style-type: none"> • Improve profitability despite increased market competition. • Increased costs as a result of increased amount of wind power. • Establish a customer service centre to meet neutrality requirements as a result of separation of business units. • Invest in expanded IT functionality and more effective management of customer issues in order to become 'Number one for the Customer'. • Actively participate in reworking the new energy legislation (EnWG) and implement the new rules.
Heat	<ul style="list-style-type: none"> • Prepare for trade in emission allowances, which began in January 2005. • Ensure efficiency in heating operations. • Hedge fuel costs in a volatile market. • Uncertainty regarding continued subsidies for the environmental-friendly combined power and heating plants (KWK-Anlagen). 	<ul style="list-style-type: none"> • The acquisition of the Fernwärme Märkisches Viertel GmbH and Spitzenheizwerks Lange Enden GmbH district heating plants in Berlin. • The 'Contracting' and 'Waste to Energy' divisions integrated with sections of the Heating unit. • Customer concentration in the heating network in Hamburg and Berlin. 	<ul style="list-style-type: none"> • Consistently take advantage of the marketing possibilities in the areas of Heat and 'Contracting'. • Continued investments in networks and generation plants and opening of new growth possibilities. • Increased customer satisfaction by offering high quality products and support. • High availability at plants through goal-oriented training of required personnel.

power, which today stands for 158.2 TWh of the total 570 (2004) generated TWh in Germany. In addition, there is a great need for the replacement of outdated fossil-based power generation over the coming 10–20 years. In all, approximately 40,000 MW must be replaced. Vattenfall, with its modern fossil-based facilities and a limited proportion of nuclear power generation, is well equipped for the future but has still decided to test investments in two new large plants, Boxberg (a lignite-based plant in eastern Germany) and Moorburg (a thermal power plant in Hamburg). With the support of EU legislation (Erneubare-Energien-Gesetz), the government has decided to increase the percentage of renewable energy to 20 per cent by 2020 and, as a result, wind power generation has increased dramatically. Since wind power generation is affected by weather conditions, which leads to irregular supplies to the electricity networks, there are occasional heavy loads. Large investments in the transmission network are required in order to remove bottlenecks and ensure transmission capacity. Vattenfall is currently carrying out two large construction projects within its transmission network, an extension of the southwest transmission link between Halle and Schweinfurt and the northern one between Schwerin and Hamburg, at a cost of approximately EUR 260 million. As a result of the increased wind power generation and these major investments, transmission and balancing power costs in the German market are increasing. For this reason, Vattenfall is raising its transmission tariffs by 19 per cent as of 2005.

New unit for nuclear power operations

To optimise and more easily benefit from the collective knowledge within Vattenfall's nuclear power operations,

these operations were restructured during 2004. The Brunsbüttel and Krümmel nuclear power plants, for which Vattenfall has management responsibility, and management of Vattenfall's minority holdings in the Brokdorf and Stade power plants (closed 2003) were integrated with the new unit, Vattenfall Europe Nuclear Energy.

Intensive debate on price increases

As a result of increased taxes due to EU legislation and other factors, the German network operators' costs have increased. For this reason, Vattenfall, like a number of other utilities, announced price increases during the autumn. Vattenfall's sales units also announced price adjustments. Price increases have given rise to intensive debate. Vattenfall's prices, however, are well founded and Vattenfall expects all price monitoring bodies to provide approval.

Allocation of emission allowances complete

Allocation of emission allowances in accordance with the German national allocation plan means that Vattenfall has been given, in principle, a full allocation for the first trading period 2005–2007. In this way, Vattenfall's earlier efforts to reduce carbon dioxide emissions have been recognised. Vattenfall's coal-fired power plants in eastern Germany are among the most modern fossil fuel-fired plants in Europe and Vattenfall's German operations represent a full 90 per cent of the total reduction in emissions within the German electricity and heat industry.



INVESTMENTS IN THE ELECTRICITY NETWORK

"WE'RE COUNTING ON 11,000 MW OF WIND POWER IN 2011"

The project to strengthen the German transmission network has begun with the aim of adapting the electricity network so that it can handle the increasing electricity generation from renewable energy sources. The reason behind this is the new legislation regarding renewable energy sources which came into effect in the year 2000. Its goal is to increase the amount of electricity that is generated from renewable energy sources, such as wind power. Among other things, electricity network operators are charged with purchasing electricity from such sources at fixed prices. The goal is that by 2010, 12.5 per cent of overall generation shall be renewable.

Generation capacity in wind power has increased rapidly since the law came into effect.

"Electricity from wind power has increased from 4,200 MW per year in 2002 to 5,400 MW in 2003 in Vattenfall Europe Transmission's area. We're counting on 11,000 MW in 2011 and this increased amount of wind power requires an equal expansion of the electricity network,"

says Dr. Yvonne Saßnick, who has worked with the project.

The electricity network will also need to be strengthened to be able to transport electricity from coastal areas with low consumption, where the wind power is generated. Since wind power is dependent on the weather, reserve capacity is also required in order to guarantee network stability.

"We will extend the southwest transmission link between Halle and Schweinfurt and the northern one between Schwerin and Hamburg. In total, an increase in capacity of 3,000 MW at a cost of more than EUR 260 million," says Saßnick.

And the investments in transmission capacity will not only help consumers get access to wind power generated electricity.

"The project contributes to strengthening the stability of the electricity network and the reliability of the north-western part of Vattenfall Europe's area. In addition, the project contributes to the development of European trade in electricity," Saßnick points out.

POLAND: DEREGULATION EXPECTED TO GAIN SPEED AFTER ENTRY TO EU

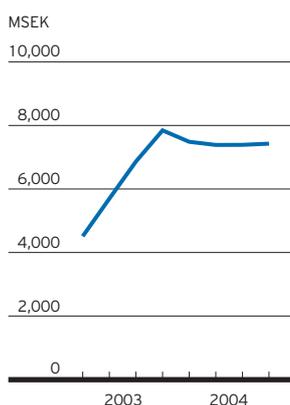
Deregulation has only just begun in Poland. Several steps towards a free market have been taken during 2004 and entry into the EU is expected to increase the speed of change even more. Optimisations and cost-cutting have led to dramatic improvements in financial performance for Vattenfall.

Vattenfall generates, distributes and sells electricity and heat in Poland. Heat (and to a lesser extent even electricity) are generated through the company Elektrociepłowni Warszawskie (EW), of which Vattenfall now owns 75 per cent. Distribution and sales of electricity take place through the company Górnośląski Zakład Elektroenergetyczny (GZE), in which Vattenfall increased its share from 54 per cent to 75 per cent during the year. Vattenfall is the largest heating producer in Poland, with a market share of 27 per cent. Vattenfall is the largest foreign investor

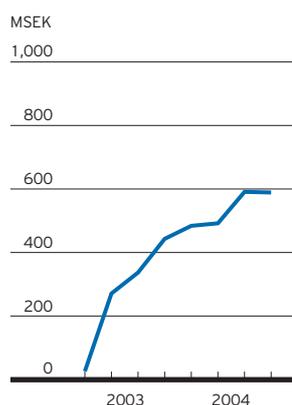
in the Polish energy sector, with a total market share of approximately 7 per cent. Through EW, Vattenfall's market position in the area of electricity generation is number seven (3 per cent) with regards to the overall market and number four with regards to only the privatised companies. The majority of the distribution companies are state-owned. Of the 33 distribution companies, only two companies have been privatised so far. Through GZE, Vattenfall is the largest distribution and sales company in Poland among the privatised companies. All in all, Vattenfall holds sixth position in the market.

Vattenfall in Poland

Net sales, 12-month rolling



Operating profit (EBIT), 12-month rolling



Key facts - Poland

		2004	2003	Change, %
Net sales	▼	7,427	7,845	-5.3
Operating profit (EBIT)	▲	589	443	33.0
Operating margin, %	▲	8	6	33.3
Net assets	▲	7,187	6,270	14.6
Return on net assets, %	▲	8.4	6.9	21.7
Electricity generation capacity, MW	▶	928	928	0.0
Heat generation capacity, MW	▶	4,824	4,824	0.0
Electricity generation, TWh	▼	3.2	3.4	-5.9
Heat generation, TWh	▼	11.4	12.0	-5.0
Number of electricity customers	▲	1,100,127	1,095,099	0.5
Number of network customers	▲	1,101,477	1,096,359	0.5

Streamlining has shown results

Despite somewhat lower volumes and increased fuel costs, operations continued to show very positive development. Sales dropped somewhat but operating profit increased by 33 per cent, mainly due to optimised operations and considerable cost-cutting. Return on net assets improved to 8.4 per cent against 6.9 in 2003. Both heat and electricity generation decreased by approximately 5 per cent as a result of higher temperatures.

Adaptation to the EU's environmental directive

The Polish energy sector is obligated to implement the LCP (Large Combustion Plant) directive to reduce emissions. Since many of Poland's power plants are old, com-

Challenges 2004

- Prepare for entry into the EU on 1 May 2004 and market deregulation.
- Optimise operations in the acquired companies.
- Improve financial performance.

Measures 2004

- Divestment of EW's service and maintenance company (EW Services).
- Increased ownership in GZE, from 54 to about 75 per cent, and in EW, from about 70 to about 75 per cent.
- Personnel reduction by 15 per cent.
- Merger of the two service companies within GZE.
- Implementation of digital system for network information at GZE.
- Introduction of the Vattenfall brand.

Forecasts and strategy

- Continue to optimise operations.
- Increase customer satisfaction in all operations.
- Increase market share through acquisitions.
- Create Vattenfall Trading Services Poland and separate generation and distribution within GZE.
- Prepare for trade in emission allowances which is expected to begin in 2005.
- Plan investments to meet stricter environmental requirement.
- Implement new billing system.
- Continue the introduction of the Vattenfall brand.

prehensive investments are required to comply with these directives. To enable Poland to meet this challenge, a transition period stretching to 2017 has been granted for some of the power plants. Generation of electricity from renewable energy sources will increase in Poland with the goal of 7.5 per cent of electricity generation to be renewable by 2010. National legislation supports this goal and requires power suppliers to gradually increase the percentage of renewable electricity. Proof of origin, in other words, the certificate that shows where power is generated, is one step in this effort and will be introduced in 2005. Network operators will also be obligated to prioritise the transport of green electricity produced in their respective network areas.

Structural changes

The Polish government is currently working with the horizontal integration of companies by consolidating the state-owned companies and thereby creating larger units. For example, three power plants – Bełchatów, Opole and Turów – have been consolidated into one company (BOT), which is the largest electricity producer in Poland with a market share of about 30 per cent. In a similar way, 31 local distribution companies are now being consolidated into six regional companies. With regard to dereg-

ulation at the sales stage, it is still difficult to change suppliers in the Polish market. The EU rules that stipulate that all corporate customers in Poland shall be able to freely choose their supplier have not yet been fully implemented. The goal is for all consumers, regardless of size, to be able to freely choose their supplier by 2007.

Trading in emission allowances (carbon dioxide)

Poland has decided on a national plan for the reduction of carbon dioxide emissions. The national allocation plan has been presented to the EU Commission for approval. It is believed that the plan will meet the electricity producers' needs for the first trading period of 2005–2007.

The Vattenfall brand in Poland

Vattenfall is one of the first foreign companies to establish itself in the Polish energy market. With Poland's entry into the EU, the rate of deregulation will increase and Vattenfall has an advantage in its experience and early presence in Poland. During the year, a decision was made to introduce the Vattenfall brand and a project has been underway for this express purpose, see page 19. The ambition is that by 2007, when even private consumers will be able to freely choose their supplier, Vattenfall should be a familiar name.

FACTS ABOUT VATTENFALL

	2004				2003			
	Nordic Countries	Germany	Poland	Total	Nordic Countries	Germany	Poland	Total
Generation capacity, electricity and heat, MW¹								
Hydro power	8,386 ²	2,894		11,280	8,386 ²	2,907		11,293
Nuclear power	7,242 ³	771 ⁶		8,013	7,212 ³	771 ⁶		7,983
Fossil fuel-based power	1,004 ⁴	11,371	928	13,303	900 ⁴	11,439	928	13,267
Wind power	31 ⁵	41		72	31 ⁵			31
Biofuel, waste	215	35		250	227	31		258
Total Electricity	16,878⁷	15,112	928	32,918	16,756⁷	15,148	928	32,832
Total Heat	3,523	8,380	4,824	16,727	3,662	8,090	4,824	16,576
Electricity and heat generated, TW								
Hydro power	30.3	3.3		33.6	25.8	2.3		28.1
Nuclear power	57.5	4.9		62.4	51.6	4.9		56.5
Fossil fuel-based power	0.1	67.2	3.2	70.5	0.3	67.4	3.4	71.1
Wind power	0.1			0.1	0.1			0.1
Biofuel, waste	0.4	0.1		0.5	0.1			0.1
Total Electricity	88.4⁸	75.5	3.2	167.1	77.8⁸	74.6	3.4	155.8
Total Heat	7.6	15.5	11.4	34.5	7.9	15.7	12.0	35.6
No. of electricity customer	934,235	3,006,271	1,100,127	5,040,633	948,235	2,947,743	1,095,099	4,991,077
No. of network customer	1,278,310	3,393,000	1,101,477	5,772,787	1,264,000	3,323,000	1,096,359	5,683,359
Electricity Networks								
Transmitted volume, TWh	113.0	28.5 ⁹	10.6	152.1	106.8	28.2 ⁹	10.2	145.2
Number of km								
Transmission grid	n.a.	10,000	n.a.	10,000	n.a.	10,000	n.a.	10,000
Distribution network	188,067	75,000	27,543	290,610	185,656	75,000	27,650	288,306
Number of employees								
Full-time equivalents	8,735	20,864	3,309	32,908 ¹⁰	8,531	21,719	4,935	35,185 ¹⁰
Total emissions to air, tonnes								
Carbon dioxide					1,333,089	68,849,416	6,422,500	76,605,005
Sulphur dioxide					1,169	50,213	32,165	83,547
Nitric oxide					3,102	42,923	10,106	56,131
Particles					597	1,516	1,961	4,074

1) Refers to 100% of the plants in those cases where Vattenfall owns more than 50 per cent.

2) Vattenfall's share totals 7,935 MW for 2004 and 2003.

3) Vattenfall's share totals 5,119 MW for 2004 and 5,100 MW for 2003.

4) Vattenfall's share totals 990 MW for 2004 and 886 MW for 2003.

5) Vattenfall's share totals 30 MW for 2004 and 2003.

6) Refers to 100% of the plants in those cases where Vattenfall owns more

than 50 per cent (100% Brunsbüttel). Vattenfall's share, based on all plants, totals 1,409 MW (Brunsbüttel 67%, Krümmel 50% and Brokdorf 20%).

7) Vattenfall's share totals 14,289 MW for 2004 and 14,178 MW for 2003.

8) Vattenfall's share totals 70 TWh for 2004 and 61 TWh for 2003.

9) Excl. transmission grid.

10) There are 109 employees (111) in other countries. The total number of employees in the Group is 33,017 (35,296).

EFFECTIVE RISK MANAGEMENT

Vattenfall has been very active in many European energy markets for several years. During 2004, the trading units within the Group were integrated to strengthen risk management, better utilise resources and enable increased value creation for the Group.

During 2004, the two former trading units in Stockholm and Hamburg were integrated into a single unit, Vattenfall Trading Services, with its head office in Hamburg and a regional office in Stockholm. During 2005, the Polish trading operation will also be integrated with the unit.

The unit focuses on offering risk management and portfolio management services, both within the Group and to external customers. The integration of the two units optimises and improves risk management and portfolio management, better coordinates and optimises IT-systems, and deepens specialists competence.

The integrated unit provides access to the electricity markets and other energy-related commodity markets for all of Vattenfall's business units and is the Group's joint representative in the various markets. This structure ensures the highest possible transparency for the risks that arise through Vattenfall's activities in different countries.

Vattenfall is active on the energy exchanges in the Nordic countries, Germany, Poland, France and the

Netherlands and is one of Europe's largest actors in terms of sales. Primarily, trade is in physical and financial electricity contracts, but also in various energy-related commodities, such as coal, gas and oil. Swedish green certificates and the recently introduced carbon dioxide certificates for emission allowances are also traded.

Vattenfall is market maker on NordPool and EEX, which means that we have agreed to always give both purchase and sales prices. In NordPool's own rankings, in 2004 Vattenfall was ranked highest of the exchange's actors, based on criteria such as pricing, flexibility, market making, reliability and speed in business.

Effective risk management

	2004	2003
External electricity trading volume	859 TWh	822 TWh
Market share, NordPool	Top-3	Top-3
Market share, EEX	Top-3	Top-3
Number of external counterparts	150	90

	Challenges 2004	Measures 2004	Forecasts and strategy
VTS	<ul style="list-style-type: none"> • Create a new unit, Vattenfall Trading Services, consisting of German 'Vattenfall Europe Trading GmbH' and Swedish 'Supply and Trading'. • Integrate Poland in Vattenfall Trading Services. 	<ul style="list-style-type: none"> • Created a new organisational structure under joint management with head office in Hamburg and a regional office in Stockholm. • Implementation of a joint trade and risk management system. 	<ul style="list-style-type: none"> • Further improve overall Group risk management. • Focus on being a Service Provider. • Geographic and product-related development steered by intra-group customers. • Implementation of a regional office in Gliwice, Poland during 2005. • Actively participate in market development.



INVESTMENTS IN EMPLOYEES

**"THE GOAL WAS TO DEVELOP
A COMPETENCE MODEL BASED
ON VATTENFALL'S LEADERSHIP
CRITERIA AND ASSESS OUR
LEADERSHIP SKILLS"**



During 2004, Vattenfall carried out a large leadership project in Poland; 320 managers from GZE in Gliwice and EW in Warsaw took part. Malgorzata Florczak and Tamara Staniowska, Human Resource managers at EW and GZE respectively, were responsible for the project.

"Deregulation of the Polish energy market affects Vattenfall's operations in Poland and, naturally, our employees as well. Meeting the challenges which Vattenfall faces in Poland builds on an understanding of the market and the need for changes that exist. We must examine the expertise and development needs which the current management has, in order to make it easier for them to run operations today and in the future," says Malgorzata Florczak.

The project began by defining leadership and assessment criteria. "Our goal was to see which types of behaviour, perspectives and work methods help our employees to implement company strategies," continues Tamara Staniowska.

Within the project, development opportunities for both individuals

and groups were therefore analyzed. Each participant went through an entire day of group exercises, presentations and assessments. The large number of participants made this a challenge in itself. But the largest challenge was the one that faced the participants themselves. This way of working was completely new to many.

"There were a lot of feelings involved, some people, for example, were worried about their positions. An important task for us was to explain and inspire participants to see the process as a development tool and not as a threat or tool to confirm their own expertise. Communication about the process was critical," emphasises Tamara Staniowska.

The employees' efforts will be evident over time, but one can already see tangible results.

"For example, we have now gained an understanding of the development needs we have. That gives us a good opportunity to meet changed needs in the future," concludes Malgorzata Florczak.

COMPETENCE, ORGANISATION AND MANAGEMENT

The considerable and rapid changes within the European energy market have placed new demands on Vattenfall's employees and their competence. The organisation must also be prepared for the large numbers of employees entering retirement over the next few years.

If Vattenfall is to successfully meet the major challenges before us, a crucial factor will be that we have good leaders and employees with the right competence and a strong of commitment. In 2002, work began to create common core values for the entire Group. All Vattenfall employees were given the opportunity to participate in these efforts and, in 2003, Vattenfall's core values were established – Openness, Accountability and Effectiveness – which are now the cornerstones in our corporate culture and philosophy. Vattenfall faces a period of five to ten years when large groups of employees will retire, at the same time that competition for younger prospective employees increases and interest in technology declines among younger people. To ensure a competitive organisation, we need to be 'The employer of choice' one that attracts and develops people with leading competence. An environment and culture where we are willing to learn and share our skills and knowledge create good conditions for good performance at work.

Three primary goals and strategies for the HR area have been formulated against this background:

- Ensure first class management planning and leadership.
- Ensure access to the expertise that meets our long-term needs.
- Ensure strong employee commitment.

Group-wide HR work takes place primarily in the form of projects and in networks across both national and organisational boundaries. These have a strong focus on sharing models, tools and experience. Local unions, works councils – and personnel representatives on all levels are important collaborative partners in the Group. Most contacts take place locally. On Group level, collaboration takes place via EWC, European Works Council – Vattenfall, which consists of approximately 20 personnel representatives and representatives from local trade unions from Finland, Poland, Sweden and Germany. Representatives for Group management meet EWC two times a year.

Managers are assessed throughout all of Vattenfall

The process to guarantee a supply of managers is of decisive importance to the Group's continued success. To ensure managerial succession, we must develop our managers both professionally and as leaders. Beginning 2005, this process is also one of the Group's follow-up measurements, or Group Performance Indicators. During 2004, approximately 500 senior managers and potential managers were identified and assessed based on our leadership criteria, goals attained and results in the My Opinion employee survey. As a result of these efforts, Vattenfall's future supply of managers looks positive. We are seeking to attain, however, larger diversity and international experience.

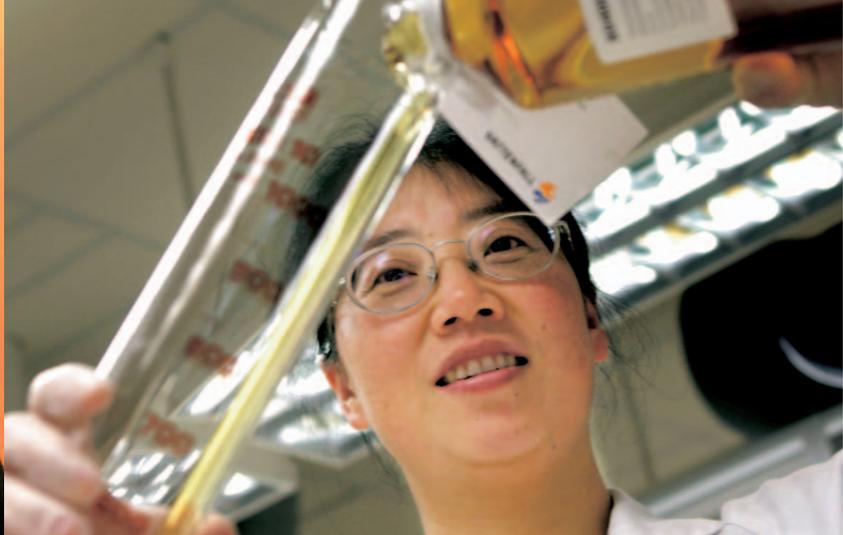
Vattenfall's group-wide leadership development programme is contained within our own management institute – the Vattenfall Management Institute (VMI). VMI is responsible for forming and carrying out leadership and managerial development programmes on a high, international level within those areas that are of strategic importance to the Vattenfall Group.

In total, there are five group-wide programmes, which all have the overall goals of:

- Creating a common view of leadership and developing managerial and leadership skills in the participants.
- Intensifying integration within the Group to create 'One Vattenfall'.
- Creating networks within the Group.

Programmes which have been carried out during 2004:

- Vattenfall Executive Management Programme – In 2004, a programme was conducted with 25 participants.
- Vattenfall Advanced Management Programme – In 2004, three programs were conducted with a total of 60 participants.
- Vattenfall Core Management Programme – In 2004,



Back row from the left; Airi Laakkonen, household customer sales, Helsinki, Finland. Manfred Wawrzynosek, Controlling, GZE, Gliwice, Poland. Camilla Sun, petro chemistry, Vattenfall Utveckling, Älvkarleby, Sweden.

seven programmes were conducted with a total of 140 participants.

- Vattenfall International Trainee Programme – One programme with 14 participants was begun in 2004.
- Vattenfall International Rotation Programme – The first programme with 19 participants was concluded in 2004.

Competence planning throughout the Group

The introduction of a strategic competence planning process was initiated in 2004. The process has been implemented in Finland and Sweden and work has also begun in Poland and Germany. Beginning 2005, this process is also one of the Group's Performance Indicators, and shall be introduced in all units. The process translates business plans and long-term goals into future competence needs. Action plans are devised for all units and one of the goals is that all employees shall have an individual development dialogue with their manager.

The experience held by older employees is of critical importance to future operations. During the year, tools have been developed to take advantage of these individuals' experience-based knowledge and to make it easier for them to work until the normal retirement age. As an example, we can mention that in parts of the German

operations, the successor plans include having the older employees work parallel to the younger ones for some time. In the Swedish operations, trials have begun with so-called lifecycle-adapted working hours. Among other things, employees over the age of 58 have been given the opportunity to cut their working hours down to 80 per cent, but with a salary level equivalent to 90 per cent of the fulltime level. The purpose is to motivate the individual employee to continue in active duty to age 65.

There are several tools with which to attract and keep younger employees, such as the previously mentioned international rotation programme, the international trainee programme, collaboration with universities and colleges, opportunities for internships, thesis work and apprenticeships.

Active work for increased diversity

The goal of our diversification work is to create a more profitable, more effective and more attractive company. Vattenfall supports the Swedish government's Global Responsibility initiative. Through this initiative, we have agreed to follow OECD's guidelines for international companies and to follow the UN's Global Compact principles.

Vattenfall defines diversity as all of our employees having equal opportunities and rights regardless of gender,

age or ethnic/cultural background. The overall strategy with our diversity efforts is to establish diversity in our daily operations and to create knowledge, acceptance and the desire to work with diversity within our organisation. We have two overriding Group goals regarding diversity:

- Our employees shall, with regards to gender, age and ethnic/cultural background, reflect the societies in which we operate.
- Increase the percentage of female managers so that we have an equally large proportion of female managers as we have female employees.

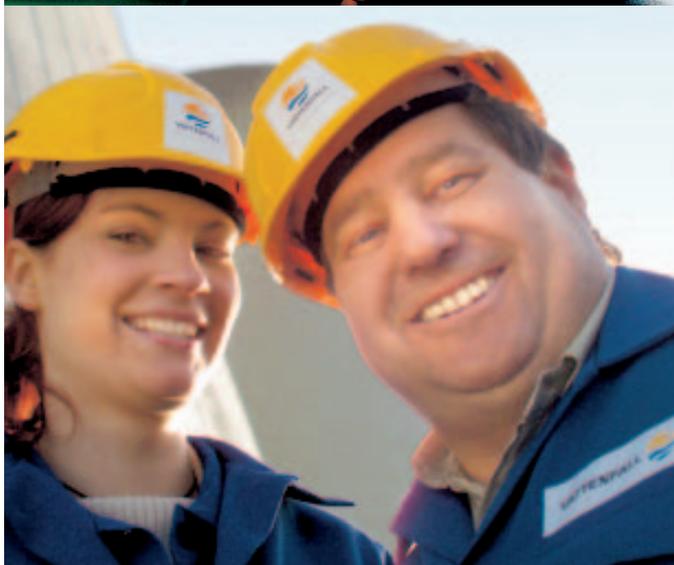
In addition to these two overall goals, we are also working, for example, to ensure that there are no groundless differences in salary between the genders, to make it easi-

er for our employees to combine work and family life and to have an open, internal labour market. During 2004, we began an international network for female managers and leaders – Vattenfall's International Network for Women.

Further redundancies in some areas

Some parts of Vattenfall's organisation are overstaffed. Vattenfall works with different local programmes to solve this and to avoid dismissals. In Sweden, the process has been developed over many years. There the focus has increasingly been on beginning work very early in the restructuring process in order to be able to solve competency issues in a way that is beneficial to all. In Germany and Poland, several programmes designed to solve overstaffing have been developed in combination with em-

Back row from the left; Marco Bayer, Communication, Mining & Generation, Cottbus, Germany. Runo Färnstrand, shift engineer, Forsmark 2, Sweden. Sarah Selent and Reinhard Schulz, Jämschwalde powerplant, Generation, Germany.



ployment guarantee commitments. As Vattenfall has gone through a consolidation phase in recent years, routines and programmes, which have provided important experience prior to future restructuring, have been developed.

All in all, satisfied employees

The My Opinion employee survey is carried out annually as a basis for dialogue and improvement measures throughout the entire organisation. Beginning 2005, this process is also one of the Group's Performance Indicators.

My Opinion was carried out for the third time in 2004. In Sweden, Finland and Poland, the entire organisation took part; in Germany, a third of the employees were given the opportunity to take part. During 2005, the goal is for all employees in the Group to be given the chance to participate in the survey.

The response rate was high and increased in most parts of the Group. The response rate in Finland was 90 per cent, in Sweden 83 per cent, in Poland 74 per cent and in Germany 55 per cent. The results show improvements within most areas when compared with previous surveys. Areas with positive results include, for example, collaboration, immediate managers and commitment. There is some room for improvement, including the areas of change management, personal assessments and feedback on work performance and customer orientation.

The results were reported to the work groups that took part in the survey. Using the results as a basis, managers and employees discuss and plan together those improvement measures that are required.

Continued reduced sick leave

In general, work within the Vattenfall Group shall give opportunities for development in a safe, healthy and stimulating environment. Work with ensuring a healthy and stimulating environment is primarily conducted locally within the organisation. The number of work-related accidents has remained at the level of five to eight accidents per thousand employees during recent years, which is a low figure compared with other energy companies in Europe. During the year, an international network for working environment issues was established within the Group. Within this network, issues of common interest have been dealt with, with a focus on knowledge exchange and 'best practice' within each country.

In Sweden, Vattenfall has long had a rate of absenteeism through sickness which is well below the average in Swedish trade and industry. During the period between 1999–2002, however, sick leave rose, which led to a project being instigated with the stated goal of halving the number of people on long-term sick leave and reducing sick leave to 3.5 per cent by the end of 2006. From a level of 4.5 per cent in 2002, this figure dropped to 4.1 per cent in 2003 and to 4.0 per cent in 2004, which is consistently under the average for Swedish trade and industry.

During the year, work was concentrated on those on long-term sick leave. The coming years will also see a strengthening of investments in health-related measures. In Germany, Poland and Finland, sick leave has also been reduced during recent years. For the Group as a whole, a drop during the year was seen, from 4.0 per cent in 2003 to 3.8 per cent.

CORPORATE GOVERNANCE WITHIN VATTENFALL

Vattenfall is 100 per cent owned by the Swedish State. The Swedish State exercises long-term active ownership and administration. The Swedish government has value creation as a paramount goal. Companies exposed to competition shall operate under the same demands and terms as market actors. This means that the Swedish State places market requirements on profit and returns, based on the companies' risk profiles.

The Swedish government has established a separate division for state enterprises within the Swedish Ministry of Industry, Employment and Communications, and, like other owners, works with a number of tools. The composition of the Board of Directors, the auditors and transparency are three such important tools. In order to clarify the Swedish State's view on certain questions, and to attain unity among the administered companies, the Swedish government has determined guidelines for external financial reporting and terms of employment for senior management. In addition, the Swedish government has identified certain crucial policy issues, in which companies owned by the state shall act in a socially responsible manner. This applies to such areas as equality, the environment, diversity, a healthy workplace and the company's role in society.

With the purpose of promoting clarity and unity in questions of responsibility and information between company bodies, the Swedish Ministry of Industry, Employment and Communications has drawn up guidelines to support boards of directors in drawing up and revising the Rules of Procedure and for managing certain issues regarding information.

Management and control of the Vattenfall Group is divided between the shareholder, the Board of Directors and the CEO in accordance with the Swedish Companies Act, the Articles of Association and the Board of Directors' Rules of Procedure.

The Board of Directors appoints the CEO and deputies. The CEO handles day-to-day administration, in accordance with the Board of Directors' guidelines and instructions.

Annual General Meeting

The Annual General Meeting shall be held no later than six months after the closing of the annual accounts. At the proposal of the owner, the Annual General Meeting appoints the Board of Directors and adopts the income statement and balance sheet, and deals with other issues that arise in

accordance with the Swedish Companies Act or the Articles of Association.

The nomination process

For 100 per cent state-owned companies, standardised and common principles apply for a structured nomination process. The purpose is to ensure the effective provision of expertise to company boards. The Swedish Minister of Industry and Trade has been assigned responsibility for board nominations in all state-owned companies. The nomination process is run and coordinated by the Division for State Enterprises within the Swedish Ministry of Industry, Employment and Communications.

Prior to the annual general meeting, a preparatory group is formed and appointed the task of analysing competency needs based on the board's composition and the company's operations and position. Thereafter, recruitment needs are reviewed and, if necessary, recruitment work is initiated. When the process is complete, the nominations are made public in accordance with the guidelines.

This standardised and structured working method ensures the quality of the nomination work and a broad recruitment base from which the nominated board members are chosen.

Members of the Board

Vattenfall's Board consists of ten Board Members appointed at the Annual General Meeting, and three Board Members and three Alternate Board Members appointed by the employee organisations. From company management, the CEO, Lars G Josefsson, is included in the Board of Directors. Of the eight Board Members, two are women and also foreign citizens. The average age of the board members is 51. At the 2004 Annual General Meeting, Dag Klackenbergh, Maarit Aarni, Christer Bådholm, Peter Fallenius, Jan Grönlund, Lars G Josefsson, Peter Lindell, Hans-Olov Olsson, Lone Fønss Schrøder and

From the Chairman

Dear Reader,
Vattenfall has undergone extensive expansion while continuing to report considerably improved financial performance. In 1992, Vattenfall's first year as a limited liability company, sales amounted to about SEK 22 billion, operating profit totalled SEK 5.6 billion and return on equity was 12.3 per cent. In 2004, Vattenfall's net sales topped SEK 113 billion and operating profit totalled SEK 19.6 billion. Return on equity was 22.4 per cent.



At the beginning of the 1990s, Sweden was in a deep financial crisis. A strong desire to revive the Swedish economy began to develop. There was much discussion on the role to be played by the companies created through the reorganisation of traditional public service enterprises, among them Vattenfall. It was decided that these companies should operate just like any other company – with the primary objective of managing State capital in an effective manner. Vattenfall was transformed from a public utility to a limited liability company with an international market as its base of operations. Prior to Vattenfall's incorporation in 1992, the proposal to the Swedish Parliament emphasised that:

"It is the task of the company's board to establish goals and strategies for Vattenfall AB's operations. If Vattenfall AB is to conduct its business in a reasonable manner and without competitive disadvantages, the board and group management must be able to utilise the company's resources under the same conditions as are prevalent in the non-governmental sector."

In 1997, a three-party agreement was reached on energy policy. This formed the basis of a bill entitled "A Sustainable Energy Supply". Regarding Vattenfall, reference was made to the guidelines contained in earlier bills, with the amendment that:

"Vattenfall AB is an important resource in the changeover process. Within the bounds and requirements of sound business principles, Vattenfall shall pay special attention to the development of new electricity generation techniques and thereby contribute to a Swedish

electricity supply that is ecologically and financially sustainable. Vattenfall shall remain in the hands of the Swedish State."

State-owned limited liability companies are independent corporate entities subject to the Swedish Companies Act. This legislation has been developed for companies operating in order to make profits. In a limited liability company, there are clear divisions of responsibility between the owners, the board and company management, as well as rules governing how this responsibility can be expected to be exercised. The Swedish State, as sole shareholder, exercises its control over the company through the annual general meeting.

Vattenfall operates in a public and political arena with the associated discussions about the company's undertakings. Ultimately, it is the Swedish people that own the company, represented by the Swedish Parliament. Responsibility for managing this interest is held by the Swedish Parliament, acting through the Swedish Ministry of Industry, Employment and Communications.

Vattenfall's Board must weigh up different demands and requirements. The operational framework and guidelines provided by the Board shall be in agreement with applicable legislation and in line with the owners' requirements on returns. At the same time, policies concerning the development of new electricity generation techniques and renewable energy sources shall be taken into consideration. Reliable deliveries at reasonable prices must be provided. The most recent widespread storm in Sweden, Gudrun, clearly illustrated the need for security of supply. All of these requirements must be taken into account in a manner that is justifiable in the long term, and which is also in the best interests of the company.

Vattenfall's development in value in recent years has been most impressive. Five years ago, when major acquisitions were made in Germany and Poland, Vattenfall's assessed market value was EUR 5–6 billion. Today, this figure is estimated at EUR 15–17 billion. The Vattenfall of today is a large Swedish group with sales, total assets and financial performance in the same league as Sweden's largest groups. By combining larger volumes and increased profitability, Vattenfall has created a strong resource base for future-oriented investments.

Dag Klackenber
Chairman of the Board

Anders Sundström were elected. The employee organisations have appointed Board Members Carl-Gustaf Angelin, Johnny Bernhardsson, Ronny Ekwall and Alternate Board Members Lars Carlsson, Stig Lindberg and Per-Ove Lööv.

Independent Board Members

Of the Board Members, Dag Klackenber, Maarit Aarni, Christer Bådholm, Peter Fallenius, Hans-Olov Olsson, Lone Fønss Schröder and Anders Sundström are independent, both in relation to the company and to the owner.

The Chairman's duties

The Chairman's duties follow both the Swedish Companies Act and the Rules of Procedure. The Chairman leads the work of the Board and is responsible for ensuring that other Board Members receive adequate information.

The Chairman participates when necessary in important external contacts and represents the Company in ownership issues.

Rules of Procedure, duties and areas of responsibility

The Board establishes its Rules of Procedure annually, based on the rules of procedure which the Division for State Enterprises of the Ministry for Industry, Employment and Communications has issued. The Rules of Procedure regulate such things as the Chairman's duties, information to the Board and the frequency and form of Board Meetings, as well as evaluation of the Board's work and of the CEO.

Matters dealt with within the Board are primarily treated in accordance with the Swedish Companies Act and the Board's Rules of Procedure. The main tasks of the Board,

apart from appointing a CEO and deputies, are to establish strategic direction, approve major investments and substantial organisational changes to the Group, and to establish central policies and instructions. In addition, the Board must follow the company's financial development and the Board has ultimate responsibility for internal control and risk management functions.

Frequency of Board Meetings

Board Meetings follow a plan established in the Rules of Procedure. These rules specify that seven Ordinary Meetings shall be held each year. In addition to the Ordinary Meetings, the Board is summoned to further meetings if required. According to the Rules of Procedure, one meeting per year must be held at a place other than the head office. In 2004, one meeting was held in Helsinki. In conjunction with that meeting, the Board received comprehensive information about the Vattenfall Group's Finnish operations.

The work of the Board of Directors during 2004

During 2004, the Board met nine times including the statutory meeting. The following issues are among those to which special attention was given:

- Vattenfall's strategy and vision.
- Investments in wind power operations.
- The board has evaluated possible acquisitions in Denmark and Poland.
- The implementation of a group-wide system for gathering employee opinions (My Opinion).
- The issue regarding the closing of the Barsebäck 2 nuclear reactor.
- The Group's risk exposure.
- Integration of the German subsidiaries.

Evaluation of the Board's work

The Board evaluates the work of the Board of Directors once a year. This evaluation is headed by the Chairman and is conducted as stipulated in the Rules of Procedure.

Board fees

At the Annual General Meeting of 2004, the Meeting determined a sum of SEK 2 million in Directors' remuneration to the Board Members appointed by the Meeting who were not employed by Vattenfall and this sum was to be allocated

by the Board (for information regarding how the Board allocated the remuneration, see the table on page 95). In addition, the Meeting decided to allocate SEK 240,000 for committee work, to be allocated by the Board. The Board also decided that Board Members elected at the Annual General Meeting who are not employed by Vattenfall and who participate in committee work should receive SEK 50,000 each in annual remuneration, in addition to the Directors' remuneration. In total, SEK 150,000 of the SEK 240,000 reserved has been paid out. For further information regarding remuneration and personnel costs in Vattenfall, see Note 35 of the consolidated accounts.

The Audit Committee

In 2004, the Board appointed the following three Board Members as members of the Audit Committee: Peter Lindell, Christer Bådholm and Peter Fallenius. Alternate Board Member Per-Ove Lööv participated in the Audit Committee as a union representative. Internal audits at Vattenfall are headed by the secretary of the Audit Committee. For details concerning remuneration, see Note 35 of the consolidated accounts.

The Board has established rules of procedure for the Committee. The committee reports its work to the Board by submitting the minutes to the Board and, when requested, by presenting its work at Board Meetings. No mandate to pass decisions has been delegated to the committee.

The Audit Committee has been formed in order to increase knowledge of, insight into and control over the company's accounting, financial reporting and risk management. The company auditors have reported their observations at Audit Committee meetings in conjunction with audits. The Audit Committee held four meetings during the year. The auditors reported at an Ordinary Board Meeting in February and on one other occasion.

Nomination Committee

There is no Nomination Committee in Vattenfall AB, as the Company has only one owner.

Remuneration Committee

There is no permanent Remuneration Committee in Vattenfall AB.

During the year, the Board assigned a working party with the task of preparing a new system for remuneration

to company management. The Committee included Day Klackenborg, the Chairman, Peter Lindell and Anders Sundström. The Committee has presented its work to the Board. Further information about the new system can be found on page 97 and in Note 35

Ordinary auditors

The elected auditors for Vattenfall for the financial year 2004 are Ernst & Young AB, represented by Authorised Public Accountant Lars Träff as auditor in charge, and Authorised Public Accountant Per Redemo, appointed by the Swedish National Audit Office.

The auditors are present and report at the meeting in which the Board examines the annual accounts and meet Vattenfall's CEO and CFO on a number of occasions throughout the year. In addition, the auditors have ongoing contact and meetings with the Board's Audit Committee.

When more extensive consultancy input is required from the elected auditors, the assignment shall first be examined and approved by the Audit Committee. The Group's audit costs are described in more detail in

Note 38 of the consolidated accounts and Note 37 of the parent company accounts.

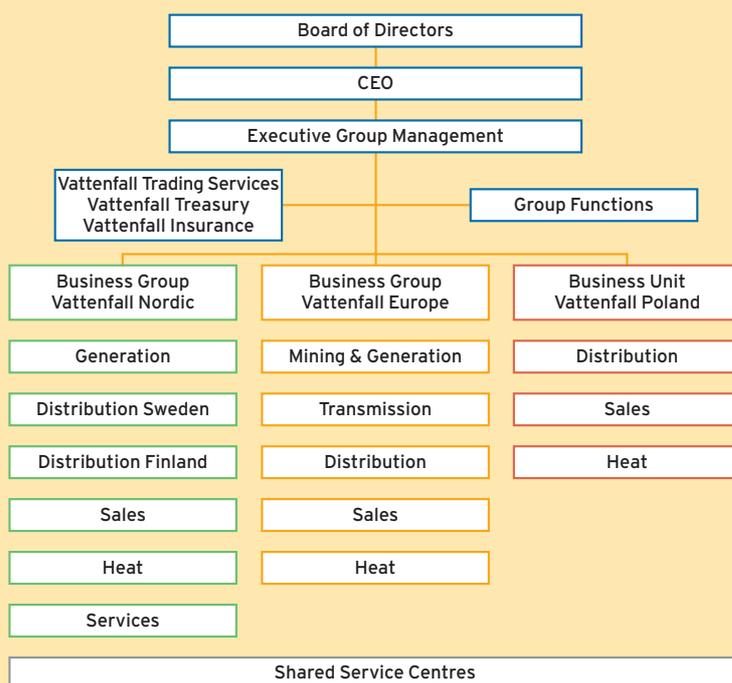
Management group and organisation

Vattenfall's management model is based on a value chain comprised of generation, electricity trading, distribution, sales, heat and services.

The CEO has the task of managing the Group's business operations and administration in accordance with the Swedish Companies Act and the Board's instructions. The CEO is supported by the Group's Executive Group Management (EGM). As of 1 January 2004, there are three categories in the organisation:

- Business Groups and Business Units with overall responsibility for operations within their respective areas.
- Group functions which support company management. These are staff functions and cost centres.
- Shared services which aim to reduce costs for their customers. These are run in accordance with the full cost principle.

Organisation



As of 2004, the Group is organised into two Business Groups; one for the Nordic countries and one for Continental Europe. Poland remains a separate business unit. Business operations are primarily organised in accordance with the electricity business value chain. This structure means that business units have long-term and independent assignments to develop their own operations within the framework of the Group's long-term goals.

Decision-making processes and management

The CEO, together with the EGM, heads Vattenfall with a focus on value creation and establishes long-term overall goals and requirements for the Business Units and Business Groups. The Business Groups propose short-term goals for each Business Unit, which are subsequently approved by the CEO and EGM.

Since 2004, the CEO and EGM hold monthly Financial Meetings and more thorough quarterly Business Group Reviews in order to follow up on financial and business developments.

Group functions have centralised responsibility for their respective areas within the entire Group and support the CEO and EGM by:

- Preparing, issuing and following up on Group policies.
- Identifying improvements and initiating necessary measures within areas of key importance to Vattenfall.
- Ensuring that the EGM has access to the competence required.
- Offering advice on important issues to Business Units and other companies within the Vattenfall Group.

Vattenfall's operations are carried out in Business Units with full transparency in accounting, control, profitability and value creation. The Head of a Business Unit has ultimate responsibility for the activities under his or her charge, and reports to the Head of the Business Group to which the Unit belongs. Business Unit Heads are appointed by the CEO on the recommendation of the respective Business Group Heads.

Business Group Heads are appointed by the CEO and report to the CEO. The task of these managers is primarily to coordinate their Business Units so that each provides value within their geographical area.

The management model has not yet been fully implemented in Vattenfall in Poland, and for this reason Business Unit Poland is managed by a management group, with the Chairman being a member of the Group's Executive Group Management (EGM). The Chairman of the steering group appoints the other members of the steering group in consultation with EGM.

Vattenfall's CEO also identifies a number of processes of importance to the Group. The process owners are usually members of the EGM and are responsible for ensuring that

processes develop in the right direction. All governing documents are scrutinised with respect to their environmental aspects and must be approved by the Head of Environmental Affairs in order to be valid. At present, the following Group processes exist:

Process	Process owner
Strategy and business planning	Group Strategy Manager
Following up of business planning	Finance Manager
Risk management	Finance Manager
Mergers & Acquisitions	Legal Affairs and M&A Manager
Investments	Finance Manager
Communications	Communications Manager
Managerial development	Human Resources Manager

Preparatory and decision processes

The Board of Directors determines remuneration to the CEO in accordance with the Chairman's proposal. For other members of management, the Chief Executive Officer decides on remuneration following consultations with the Chairman of the Board and after informing the Board.

For information regarding remuneration to the CEO, see Note 35 of the consolidated accounts.

Remuneration to executive management

Additional information about taxable remuneration, benefits and pension costs for Board Members, the CEO and other executive management can be found in Note 35 of the consolidated accounts.

Incentive programmes

For the period 2002–2004, variable salary was directly connected to value creation, as outlined in Note 35 of the consolidated accounts. For group management, heads of group functions and business unit managers, an annual variable salary was paid, as was a 'long-term incentive' (LTI). The latter shall not exceed two annual variable salaries and will be paid after 2004 if the Group's financial targets are exceeded. This 'long-term incentive' does not provide a basis for pensions.

The Chief Executive Officer has had a contractual right to a separate performance-based variable salary equal to a maximum of 33 per cent of the fixed salary per year, plus an LTI equal to two annual bonuses for the three-year period 2002–2004, as detailed above.

For other members of Group Management and Group

Function Managers, a variable salary of a maximum of 25 per cent of fixed salary plus an LTI as detailed above could apply. For certain managers/key personnel within the staff, a maximum of 10–15 per cent.

For business unit managers a variable salary of a maximum of 20 per cent of the fixed salary plus an LTI.

For business unit management groups, primarily CEOs of larger companies and heads of larger operating units, a maximum of 15 per cent applies. For staff personnel in management groups, a maximum of 8–10 per cent.

For managers of service companies a maximum of 15 per cent and for heads of management groups a maximum of 8 per cent.

The above applies to a total of about 100 managers.

In other countries, Finland, Poland and Germany, the same value creation goals apply in agreements on variable salary for senior managers.

For more information about personnel costs in Vattenfall, see Note 35 of the consolidated accounts.

Incentive programme for other employees 2004

Within the Swedish part of the Group, there have been different types of incentive programme in most business units and companies. These programmes are designed to suit each unit's goals and needs. The maximum level averages about SEK 15 thousand per year.

New incentive programme 2005

Against the background of the Swedish government's new guidelines on remuneration to executive management and incentive programmes, the Board has approved the development of a programme in line with the stated principles and which as of 2005 will apply in the Swedish segments of operations and covers all employees in Sweden.

In line with the guidelines, the CEO no longer receives any variable salary. Regarding other managers and employees, variable salary may not exceed the equivalent of two monthly salaries a year, or 16.7 per cent of the normal fixed salary.

The reasoning for incentive programmes continues to be the Group's long-term value creation. The Group goal is common to all. Further, the performance of each unit and individual is measured.

Business ethics

Vattenfall has, within a separate set of Group instructions, formulated rules regarding the way in which questions of a legal and ethical character shall be handled within the entire Group:

- All employees are responsible for ensuring that Vattenfall's activities are conducted in an ethically acceptable manner, and that Vattenfall's assets shall not be used for illegal or inappropriate purposes. Anyone who finds that a Group Unit is not fulfilling the ethical and legal requirements has both the right and the obligation to report such behaviour to a superior.
- Personal information shall be handled with respect for personal integrity.
- Each company within the Vattenfall Group is responsible for legal obligations concerning the Annual Report, the Annual General Meeting etc. being managed in a correct manner.
- Good marketing practice shall be followed in marketing activities.
- When negotiating contracts and the like, Vattenfall shall act correctly and fairly towards its counterpart.
- No employee may give or receive inappropriate benefits or benefits which can be considered to be unacceptable remuneration or which fall outside accepted business practice.
- Vattenfall follows the Stockholm Stock Exchange registration contract and with it the insider rules that apply to listed Swedish companies. There are specific German insider trading rules that apply to the shares in Vattenfall Europe AG.
- Vattenfall shall only use sound competitive methods. If Vattenfall should have a dominant position in any market, this shall not, among other things, be utilised to force unreasonable agreement terms onto a counterpart.
- Vattenfall may not have a lower ethical standard in any specific country simply because that country lacks legislation in a certain area.
- The legal departments have within their area of responsibility the authority to internally stop such measures that violate applicable laws or the like or which are not in keeping with the Vattenfall Group's management system.

BOARD OF DIRECTORS



Dag Klackenborg
Chairman of the Board



Maarit Aarni



Carl-Gustaf Angelin
Employee board member



Johnny Bernhardsson
Employee board member



Christer Bådholm



Lars Carlsson
Employee board member



Ronny Ekwall
Employee board member



Peter Fallenius



Jan Grönlund



Lars G Josefsson



Stig Lindberg
Employee board member



Peter Lindell



Per-Ove Lööv
Employee board member



Hans-Olov Olsson



Lone Fønss Schrøder



Anders Sundström

Dag Klackenborg Born 1948
Chairman of the Board since 2001.
President of the Swedish Federation of
Trade. Board member of Handelsbanken
Regionbank Mellansverige. Board
member of LjungbergGruppen AB.

Maarit Aarni Born 1953
Board Member since 2003. Deputy
CEO with responsibility for the Phenol
business unit in the Borealis Group
based in Finland (Borealis Polymers Oy).
Formerly Deputy CEO with responsibil-
ity for the Olefins business unit in the
Borealis Group based in Denmark
(Borealis A/S). Board assignments:
Borealis Polymers Oy Finland and
Rautaruukki Oy in Finland.

Carl-Gustaf Angelin Born 1951
Board Member since 2003. Employee
board member, CF.

Johnny Bernhardsson Born 1952
Board Member since 1995. Employee
board member, Sif.

Christer Bådholm Born 1943
Board Member since 2002. Board

member of Green Cargo AB, Icomera
AB and Metronet Rail Ltd, UK. Chair-
man of Bombardier Transportation
Sweden AB.

Lars Carlsson Born 1951
Alternate since 1991. Employee
board member, Sif.

Ronny Ekwall Born 1953
Board Member since 1999. Alternate
1998. Employee board member, SEKO.

Peter Fallenius Born 1951
Board Member since 2001. Resigned
as Board Member on 16 February
2005.

Jan Grönlund Born 1960
Board Member since 2002. Alternate
since 2000. Under-Secretary at the
Swedish Ministry of Industry, Employ-
ment and Communications 1999–
2004. Board member of the Afa
insurance company.

Lars G Josefsson Born 1950
Board Member since 2001. President
and Chief Executive Officer of

Vattenfall AB. Chairman of Vattenfall
Europe AG. Board member of Böhler-
Uddeholm AG. Board member of the
Royal Swedish Academy of Engineer-
ing's (IVA) Industry Committee. Board
member of ESKOM Holdings Ltd.
Chairman of the Board of the
Swedish–German Chamber of Com-
merce.

Stig Lindberg Born 1946
Alternate since 1998. Co-opted
1992–1998. Employee board
member, Ledarna

Peter Lindell Born 1972
Board Member since 2002. Under-
secretary at the Swedish Ministry of
Industry, Employment and Commu-
nications. Member of the boards of
SOS Alarm Sweden AB and AB
Svensk Bilprovning.

Per-Ove Lööv Born 1961
Alternate since 1999. Employee
board member, SEKO.

Hans-Olov Olsson Born 1941
Board Member since 2004. CEO of

Volvo Car. Other board assignments:
Lindab AB, Teknikföretagen, Swedish
American Chamber of Commerce, Swe-
den- Japan Foundation, West Sweden
Chamber of Commerce and Industry.

Lone Fønss Schrøder Born 1960
Member since 2003. Formerly Deputy
President of A.P. Møller-Maersk A/S
with responsibility for the Gas Tanker
Division and subsequently for the
Global Procurement Pilot, Bulk and
Car Carrier Division (PCTC). Chairman
of the board of Kværner ASA, vice
chairman of Aker ASA. Other board
assignments: DSB, Yara ASA, Leif
Hoegh & Co. Ltd, Bioneer A/S.

Anders Sundström Born 1952
Board Member since 2004. Positions
in parliament: Minister of Labour
1994–96, Minister of Industry and
Trade 1996–98, Member of Parliam-
ent 1994–98, 2002–2004. CEO
of Folksam Liv and Folksam Sak. For-
merly CEO of Sparbanken Nord 1999–
2002. Member of the board of Boliden
2002–, chairman of Luleå Technical
University 2003–.

EXECUTIVE GROUP MANAGEMENT



Lars G Josefsson



Matts P Ekman



Klaus Rauscher



Hans von Uthmann



Lennart Billfalk



Ann-Charlotte Dahlström



Mats Fagerlund



Magnus Groth



Knut Leman



Alf Lindfors

Lars G Josefsson Born 1950
CEO and Group President.

Matts P Ekman Born 1946
First Senior Executive Vice President
and Chief Financial Officer.

Klaus Rauscher Born 1949
Senior Executive Vice President
Vattenfall AB and Head
(Vorstandsvorsitzender) of
Vattenfall Europe AG.

Hans von Uthmann Born 1958
Senior Executive Vice President
and Head of Vattenfall Nordic.

Lennart Billfalk Born 1946
Executive Vice President,
Group Function Strategies.

Ann-Charlotte Dahlström Born 1952
Senior Vice President, Group Function
Human Resources.

Mats Fagerlund Born 1950
Executive Vice President, Group
Function Legal Affairs and M&A and
Head of Distribution and Transmission
within Vattenfall Europe.

Magnus Groth Born 1963
Executive Vice President and
Head of Group Function Business
Development.

Knut Leman Born 1950
Senior Vice President, Group
Function Communications.

Alf Lindfors Born 1946
Executive Vice President and
Head of Nordic Generation.

Auditors

Ernst & Young AB
Lars Träff
Authorised Public Accountant

Per Redemo
Authorised Public Accountant
Swedish National Audit Office

Alternate:
Göran Selander
Authorised Public Accountant
Swedish National Audit Office

ADMINISTRATION REPORT

The Board of Directors and the President of Vattenfall AB (publ), corporate identity number 556036-2138, hereby submit the annual accounts and consolidated accounts for 2004, encompassing pages 64–105.

Group operations and structure

Vattenfall generates, distributes and sells electricity and heat and offers energy-related services and, to a certain extent, telecom services. Vattenfall's vision is to be a leading European energy company. The majority of operations are located in Sweden, Finland, Germany and Poland, and the primary segments comprise the Nordic Countries, Germany and Poland. The number of electricity customers amounts to some six million, including those through jointly-owned companies. The Group has about 33,000 employees. Vattenfall AB is wholly owned by the Swedish State. The Board of Directors has its headquarters in Stockholm.

The year in brief

- Net sales increased by 1.3 per cent to SEK 113,366 million (111,935).
- Operating profit increased by 28.2 per cent to SEK 19,607 million (15,296).
- Net profit after tax increased by 29.1 per cent to SEK 11,776 million (9,123).
- Return on equity increased to 22.4 per cent (20.2).
- Return on net assets increased to 15.9 per cent (12.3).
- Cash flow before financing amounted to SEK 13,472 million (9,841).
- Investments totalled SEK 12,601 million (11,356), of which growth investments SEK 4,312 million (4,771) and maintenance investments SEK 8,289 million (6,585).
- Net debt fell SEK 11,479 million to SEK 55.4 billion (66.9).
- Electricity sales amounted to 186.4 TWh (184.2) – excluding deliveries to minority owners.
- Heat sales amounted to 34.5 TWh (35.6).

Important events:

- The business units in the Nordic countries were gathered under Business Group Nordic Countries. The Group is now organised into two Business Groups; one for the Nordic countries and one for Continental Europe. Poland remains a separate business unit.
- In October, the Swedish government decided to suspend negotiations with the Swedish nuclear power operators regarding the phasing out of nuclear power in Sweden and to close Barsebäck 2. On 16 December 2004, the Swedish government decided, supported by Swedish legislation on the phasing out of nuclear power, that the right to operate Barsebäck 2 for the purpose of extracting nuclear power shall be revoked as of the end of May 2005. A general agreement from November 1999 between Vattenfall, the Swedish State and Sydkraft regulates how Vattenfall is to be compensated. While awaiting settlement of the agreement, the assets associated with Barsebäck Kraft AB will not be written down as the compensation is expected to exceed Vattenfall's share of the costs for said write down. Vattenfall owns 74 per cent of Barsebäck.
- Availability in Vattenfall's Swedish nuclear power plants reached record levels in 2004. Nuclear power generation in Sweden increased by 11.6 per cent compared to 2003.
- At the beginning of 2004, Vattenfall decided to invest a further SEK 2 billion in improving operational reliability in its Swedish networks, bringing the total investment to SEK 10 billion over a five-year period. Moreover, compensation was increased to Swedish households losing power during network disruptions.
- Investments were initiated under Vattenfall's maintenance programmes for the Swedish generation plants. The investment programmes amount to SEK 24 billion for nuclear power and SEK 6.5 billion for hydro power.
- Vattenfall acquired Örestad Vindkraftpark and plans to build a large off-shore wind power park in Öresund, off the coast of Skåne in the south of Sweden, with an investment of SEK 1.5 billion.
- In Germany, additional electricity generation capacity in the amount of 40,000 MW will be required by 2020. Vattenfall is therefore examining possible power plant investments. Among more concrete projects we find a combined heat and power plant (CHP) in Hamburg and a lignite-fired power plant in eastern Germany, together providing 1,410 MW.
- The considerable expansion of wind power in Germany has led to the need for extensive development in the German electricity networks. Vattenfall has decided to expand the capacity of its high-voltage network by 3,000 MW with an investment of approximately EUR 260 million (approximately SEK 2.3 billion).
- Three district heating plants in Berlin, with a combined capacity of 320 MW, were acquired for about SEK 440 million.

- Vattenfall continued to streamline operations and sold its holdings in A-Train AB, Russian Mosenergo, and the Chinese company Hebei Hanfeng Power Generation, and transferred the peat producing company Härjedalens Miljöbränsle AB to another owner.
- Ownership in the Polish sales and distribution company GZE was increased from 54 per cent to 75 per cent.
- In Poland, an extensive brand campaign was conducted in order to introduce the Vattenfall name to the Polish market and this received much media focus.
- In Sweden, Finland and Germany, the authorities have introduced – or plan to introduce – new models for regulating network tariffs.
- Vattenfall was the first Swedish electricity company to discontinue invoicing household customers in arrears for electricity consumed more than one year ago. Vattenfall has continued to invest in remote-readable meters in Sweden and Finland. All of Vattenfall's 1.3 million Nordic network customers will have such meters installed. In this way, advance charges can be done away with and replaced with invoicing of actual electricity consumption. By the end of 2004, 105,000 such meters had been installed.
- National allocation plans for CO₂ emissions have been submitted to the EU in all of Vattenfall's main markets, with all but Poland's being approved by the European Commission. In Vattenfall's case, this mainly concerns generation plants in Germany and Poland. Vattenfall has obtained the necessary emission rights in both countries for the initial trading period 2005–2007.
- A decision was made to integrate the three Nordic business units Sales Sweden, Sales Finland and MEGA into a single new unit, Sales Nordic Countries.
- A EUR 500 million 20-year bond was issued in April in order to prolong the average maturity of Vattenfall's debt portfolio. Further, the agreement governing the revolving credit facility (RCF) of EUR 600 million was renegotiated and prolonged to 8 December 2009.

Important structural changes

The year 2004 was characterised by the continued consolidation of completed acquisitions and the streamlining of operations to the core areas of electricity and heat within the main markets of the Nordic Countries, Germany and Poland. Certain non-core assets have been divested. Growth investments amounted to SEK 4,312 million (4,771). Details of important structural transactions in 2004 are set out in the tables on page 69.

Personnel

(Number of employees, full-time equivalents)

Amounts in SEK millions	2004	2003	Change, %
Finland	543	537	+ 1.1
Poland	3,309	4,935	-32.9
Sweden	8,192	7,994	+ 2.5
Germany	20,864	21,719	-3.9
Other countries	109	111	-1.8
Total	33,017	35,296	-6.5

Part of the substantial cutback in Poland can be explained by 761 full-time equivalents in divested operations. Otherwise, the cutbacks in personnel in Poland and Germany are the result of ongoing rationalisation initiatives. The increase in Sweden is explained by the extensive investment programmes for the maintenance of our generation plants and newly acquired operations in the Services Nordic Countries business unit.

Research and development (R&D)

As a natural part of business development, Vattenfall runs technical research and development, R&D, with a strong emphasis on development, that is, the application of existing knowledge. The purpose is to create, retain and develop competitive advantages for the various parts of the Group. Development is also encompassed, in order to continually fulfil environmental and safety requirements and general legal requirements. Some development is also undertaken in order to create new business opportunities, primarily within the framework of existing operations, the core business.

For the Group as a whole, investment in R&D during 2004 amounted to SEK 529 million (478), of which SEK 306 million (299) was within Svensk Kärnbränslehantering AB (SKB). As a proportion of net sales, R&D expenses equal 0.5 per cent (0.4). Calculated in this way, the extent of R&D is on a par with those of Vattenfall's most important competitors.

Management of R&D

Each business unit is responsible for the future development of its own operations, including technical research and development. The emphasis is primarily on continual improvements for increased efficiency, availability and safety, and reduced environmental impact in existing plants and processes.

As an example of tangible development, we can mention investment in increasing availability in Vattenfall's electricity networks. A number of different projects aim to reduce carbon dioxide emissions from both heat and electricity generation through improved plant efficiency and increased use of biofuel. Measures to improve efficiency are also being implemented in carbon dioxide-free generation, as well as in hydro and nuclear power. The development of methods and technologies for storing spent nuclear fuel constitutes a considerable investment, which is being carried out within the framework of SKB, Svensk Kärnbränslehantering AB.

For certain issues of a strategic nature, development is organised in joint Group programmes, for which the Group Strategies team is responsible. For example, a major investment is being made in the development of a technique for separating carbon dioxide from the combustion of coal, with later storage in the bedrock. Another programme is focused on improved availability and reduced costs in electricity networks through the use of information technology. The joint Group programmes are run in close collaboration with the business units in all of Vattenfall's core markets for a number of reasons, such as in order to optimise the distribution and introduction of the programme results into business operations.

Environmental impact within the Group

The Group runs operations for which permits are required, in accordance with national legislation in Sweden, Finland, Germany and Poland respectively. Such operations include the generation of electricity and heat and, in Germany, also the extraction of lignite in four open-cast mines.

The Group conducts considerable network operations for the distribution and transmission of electricity in accordance with permits held in Sweden, Finland, Germany and Poland. The Group also has its own railway operations in Germany.

In Sweden, the generation of electricity is conducted in several large and small hydro power plants, eight nuclear power plant units, wind power plants, and, to a certain extent, in combustion plants. In Finland, electricity is generated in a large hydro power plant and several small hydro power and wind power plants, and also in a thermal power plant. In Germany, electricity is generated in several large combustion plants, three nuclear power plants, several medium-sized combined power and heating plants (CHPs) in Hamburg and Berlin, and in several smaller wind power and hydro power plants. Some of the hydro power plants are so-called pumped storage plants, one of which is of considerable size. In Poland, electricity is generated in two combined power and heating plant in Warsaw. In addition, the Group owns shares in the German Stade nuclear power plant, which was taken out of operation in 2003.

In Germany, heat is produced in several large and medium-sized combustion plants, primarily in Hamburg and Berlin, but also in other locations. In Poland, heat is produced in four combustion plants in Warsaw. In Sweden, heat is produced in combustion plants in several locations. In Finland and the Baltic states, heat is produced in several locations, distributed between one large plant and several smaller installations.

In Germany, there are plans to build within a few years a new lignite-fired power plant unit for electricity generation and two new natural gas and coal-fired thermal power plants in Berlin and Hamburg. There are also plans to build a pilot installation for the separation of fossil-fuel carbon dioxide in an existing power plant in Germany. The plan is to store separated carbon dioxide 1000 meters underground. The use of a power plant or thermal power plant for a pilot installation for the separation of fossil-fuel carbon dioxide and carbon dioxide storage requires a permit under German legislation. A new lignite-fired power plant unit will entail renewed extraction of lignite from open-cast mines, as these operations have been dormant. The necessary permits for renewed extraction have already been obtained.

In the autumn of 2004, all the necessary rights were acquired for the building of 48 wind turbines in Örestad wind power park in Öresund, off the coast of Skåne in the south of Sweden. Operating permits must be applied for under Swedish legislation.

Poland's entry into the EU in 2004 entailed the country having to adapt its national environmental legislation to that of the EU. This means that Vattenfall's installations in Warsaw that require permits will be subject to re-examination during the next few years, in accordance with

transitional regulations currently in force for existing installations. Preparations are underway with the purpose of ensuring that the new regulations are fulfilled in time.

The EU system for trading in emission rights for carbon dioxide starts in 2005. All of the Group's important combustion plants are encompassed by the trading system. As a result, the trading system will have a substantial impact on the Group's operations in Germany and Poland, as well as on heat operations in Sweden and Finland. Vattenfall has received emission rights for 2005 which for the most part cover the Group's needs. For heat operations in Sweden, in accordance with the Swedish allocation plan, only 80 per cent of requirements have been received, which means the remaining emission rights must be acquired in the market.

Environmental impact in the parent company and Swedish operations

The parent company conducts operations that require permits in accordance with the Swedish Environmental Code. These operations mainly comprise combustion plants for the generation of electricity and heat and wind power plants.

The parent company has 61 combustion plants for heat and electricity generation that require permits, as well as 38 heat and cooling plants that require registration. The combustion plants for the generation of electricity that require permits are the two power plants in Stenungsund and Marviken, two gas turbine plants and one diesel power plant used for reserve power. An additional gas turbine plant, which requires a permit and is kept for reserve generation, is run under an exemption similar to a permit. A new permit for continued operation of this installation must be applied for before the end of 2005. The parent company has a total of 39 wind power turbines, which are located both separately and in groups. The wind power plants have been erected in such a way that ten plants require permits and the remainder require registration. The parent company also has hydro power plants associated with water control regulations that lie outside the legal framework of the Swedish Environmental Code. The parent company conducts fish farming in four installations that require permits.

A thermal power plant and some smaller thermal plants are subject to re-examination. The company's result and financial position are not dependent on the outcome of these reviews.

The Group's Swedish subsidiaries also conduct operations that require permits in accordance with the Swedish Environmental Code. Forsmarks Kraftgrupp AB and Ringhals AB, and also Ringhals AB's subsidiary Barsebäck Kraft AB, generate electricity in nuclear power plants. SKB operates an installation for the final storage of low and medium level radioactive waste in Forsmark and an installation for the intermediate storage of spent fuel in Oskarshamn. In several subsidiaries, electricity and heat are generated mainly in combustion plants. The Group runs network operations in Swedish subsidiaries for the distribution and transmission of electricity, in accordance with concessions. Härjedalens Miljöbränsle AB, which extracts peat in Sweden, was divested during the year.

Both of the nuclear power plants at Ringhals and Barsebäck are subject to examination for authorisation for environmentally hazardous activities, in accordance with transitional regulations in connection with the introduction of the Swedish Environmental Code.

In accordance with a decision passed by the Swedish government, Barsebäck 2 will be closed on 31 May 2005. As a result, operations at the Barsebäck plant will be wound down successively as soon as the radioactive conditions allow and the necessary permits have been obtained. Sydkraft AB is responsible for the winding down and dismantling in accordance with an agreement from 1998 between Vattenfall, Sydkraft and the Swedish State.

In the autumn of 2004, all the necessary rights were acquired for the building of 48 wind turbines in Örestad wind power park in Öresund. When operations are commissioned in the autumn of 2007, Vattenfall will have more than doubled the number of wind power plants and increased electricity generation from wind power by a factor of seven from 54 to 370 GWh. A permit must be obtained in accordance with the Swedish Environmental Code.

Projects are underway at nuclear power plants and hydro power plants with the aim of increasing the power output of existing plants. These power improvements are conducted in part within the confines of existing permits. In certain cases, new permits may be required.

The generation of electricity in hydro and nuclear power plants comprises, as do network operations, an important part of the business, unlike the other operations that require permits. The generation of electricity in hydro power plants is mainly conducted within the parent company. Other operations of importance are run mainly within subsidiaries.

CONSOLIDATED INCOME STATEMENT

Amounts in SEK millions, 1 January–31 December	note	2004	2003
Net sales	5, 6	113,366	111,935
Costs of products sold*	7, 8	-81,992	-84,792
Gross profit		31,374	27,143
Selling expenses		-4,740	-4,124
Administrative expenses		-6,870	-7,899
Research and development costs		-529	-478
Other operating income	9	2,088	2,460
Other operating expenses	10	-962	-2,386
Participations in the results of associated companies	5	-754	580
Operating profit (EBIT)**	5, 11	19,607	15,296
Results from other long-term securities holdings	12	142	145
Other interest income and similar profit/loss items	13	1,630	2,122
Interest expenses and similar profit/loss items	14	-4,020	-5,203
Profit before tax and minority interests***		17,359	12,360
Taxes	15	-5,011	-2,831
Minority interests	16	-572	-406
Net profit for the year****		11,776	9,123
Earnings per share			
Number of shares (thousands)		131,700	131,700
Earnings per share, SEK		89.42	69.27
Dividend per share, SEK		42.52*****	18.22
*****) Proposed dividend			
Additional information:			
Operating profit before depreciation, amortisation and dissolution of negative goodwill (EBITDA)		31,453	24,878
Financial items – net		-2,248	-2,936
*) Of which depreciation and amortisation, SEK millions		14,505	14,096
*) Of which dissolution of negative goodwill, SEK millions		3,034	4,754
***) Of which depreciation and amortisation, SEK millions		14,880	14,336
**) Including items affecting comparability, SEK millions		819	263
***) Including items affecting comparability, SEK millions		817	278
****) Including items affecting comparability, SEK millions		546	179

Continuation Administration report

The main environmental impact of nuclear power plants is radioactive waste, while from combustion plants it is gaseous emissions of carbon dioxide and acidifying substances. The main environmental impact of hydro power and network operations is land use.

The parent company

Net sales amounted to SEK 26,046 million (26,741). Profit after financial items was SEK 11,502 million (6,172) and net profit was SEK 7,035 million (4,577). Investment during the year amounted to SEK 3,671 million (4,637). Liquid assets amounted to SEK 142 million (33) on 31 December 2004. Funds in the group account managed by Vattenfall Treasury AB amounted to SEK 22,533 million (13,102) on 31 December 2004.

The work of the Board of Directors in 2004

The Board of Directors establishes rules of procedure each year which, in essence, follow the guidelines issued by the Ownership Unit of the Swedish Ministry of Industry, Employment and Communications on 18 May 2000.

During 2004, the Board met nine times, including the statutory meeting. The Board evaluates the work of the Board of Directors once a year. During 2003, the Board formed an internal Audit Committee, consisting of four Board members. The Audit Committee held four meetings in 2004. During the year, the Board assigned a working party with the task of producing a new system for remuneration to company management. The working party has presented its work to the Board (see more on page 58).

Outlook for 2005

In the Nordic countries, the so-called hydrological balance has normalised,

which led to lower electricity prices. As Vattenfall hedges, to a certain extent, future electricity generation, the effect of fluctuating market prices on profits is evened out. Due to the considerable investment in customer service, the company's market share is expected to be maintained or increased. In Germany and Poland, work to rationalise operations continues. The introduction of new models for network regulation in Sweden, Finland and Germany can entail increased pressure on network tariffs. The effects are, however, currently impossible to quantify. As currently assessed, the new trading system for CO₂ emissions is not expected to have a negative impact on Vattenfall during the initial trading period of 2005–2007.

Proposed distribution of profits

See page 105.

Events after closing day

- At the beginning of January 2005, Sweden was hit by a widespread storm with hurricane-force winds. The damage to forests and infrastructure, in particular the electricity supply, was enormous. Vattenfall's costs for disruption guarantees, repairs and additional work are estimated at approximately SEK 500 million.
- In February, Vattenfall reached an agreement to purchase slightly more than 35 per cent of the shares in Denmark's leading power company Elsam A/S for approximately DKK 8.5 billion (just over SEK 10 billion).
- In February, it was decided that as of 1 January 2006, the subsidiaries Bewag in Berlin and HEW in Hamburg will trade under the names "Vattenfall Europe Berlin" and "Vattenfall Europe Hamburg" respectively. This is an important step in the edification of "One Vattenfall" and the introduction of a common, cohesive brand.

Comments

Net sales and performance

Net sales increased by 1.3 per cent to SEK 13,366 million (11 119,935). The sales figure does not include financial electricity trading.

Operating costs decreased by 3.2 per cent to SEK 94,131 million (97,293). The lower costs are explained by lower costs for the purchase of electricity resulting from lower market prices and rationalisation measures. Depreciation increased by 3.8 per cent to SEK 14,880 million (14,336). Negative goodwill has been dissolved in the gross profit in the amount of SEK 3,034 million (4,754), attributed to losses and restructuring costs in acquired German companies.

Participations in the results of associated companies amounted to SEK -754 million compared with SEK 580 million in 2003, primarily as a result of write-downs of holdings in GASAG and Städtische Werke Kassel and the negative participation in the German Krümmel nuclear power plant. Operating profit increased by 28.2 per cent to SEK 19,607 million (15,296). Excluding items affecting comparability, that is, excluding capital gains/losses from shareholdings and other fixed assets, operating profit increased by 25.0 per cent to SEK 18,788 million (15,033). The improvement is explained by larger volumes in Nordic electricity generation, successful consolidation and integration programmes in Germany and Poland and advantageous hedging outcomes (electricity generation hedges). During the year, a detailed audit was made of provisions and asset valuations in the German Group companies. On the whole, the review has not entailed any significant effect on net profit. Net financial items amounted to SEK -2,248 million (-2,936), an improvement of 23.4 per cent compared with 2003. The improvement is primarily due to lower interest rates on loans and reduced debt volumes. Approximately SEK 300 million is explained by a reduction in the interest rate on loans from the minority-owned German nuclear power companies, which was, however, offset by a corresponding negative impact on operating profit for Business Group Germany. Net interest items amounted to an average of SEK -200 million (-275) a month. Interest income totalled SEK 1,030 million (1,162) and interest expense totalled SEK 3,431 million (4,460). Taxes increased by SEK 2,180 million to SEK 5,011 million (2,831). The tax rate, according to the income statement, amounted to 28.9 per cent (22.9). The increase is due to an exceptionally low tax burden in 2003 due to the utilisation of tax loss carry-forwards in Germany.

Net profit increased by 29.1 per cent to SEK 11,776 million (9,123). Excluding items affecting comparability, net profit increased by 25.6 per cent to SEK 11,230 million (8,944).

Return on net assets amounted to 15.9 per cent (12.3). Excluding items affecting comparability, return on net assets amounted to 15.2 (12.1). Return on equity amounted to 22.4 per cent (20.2). Excluding items affecting comparability, return on equity amounted to 21.4 per cent (19.8). Viewed over a four-year period, the return, excluding items affecting comparability, amounts to 17.2 per cent (13.8), which exceeds the 15 per cent requirement set by Vattenfall's owner, the Swedish State.

Segments

Group operations are divided into primary and secondary segments. Primary segments are the geographical areas Nordic Countries, Germany and Poland. Secondary segments are the business areas Electricity, Electricity Networks, Heat and Other Operations. During 2003 and 2004, Vattenfall also reported operations in the profit areas described below in interim and year-end reports. For the reporting of primary and secondary segments, together with a summary of sales and operating profit per profit area, see Note 5 of the consolidated accounts.

Profit areas

Nordic Generation

Sales decreased by 14.8 per cent to SEK 25,174 million (29,531), primarily due to lower electricity market prices. Operating profit, however, increased 41.8 per cent to SEK 8,888 million (6,266), primarily as a result of increased plant availability and increased generation volumes, but also due to a large part of generation being hedged at a higher price than the previous year. Electricity generation increased by 13.4 per cent to 87.9 TWh (77.5). Hydro power increased by 17.4 per cent and nuclear power by 11.4 per cent. Of electricity generation, Vattenfall had at its disposal 70 TWh (61), while the remainder went to minority owners.

Market Nordic

Sales decreased by 18.8 per cent to SEK 20,286 million (24,994). Operating profit decreased by 39.8 per cent to SEK 222 million (369). The decrease in sales was mainly due to lower electricity prices. The considerable decrease in operating profit is due in part to smaller margins and in part to the fact that 2003 included non-recurring income within the Trading unit.

Nordic Heat

Sales increased by 3.3 per cent to SEK 2,963 million (2,868). Operating profit increased by 1.4 per cent to SEK 353 million (348). Operating profit was burdened in the amount of SEK 100 million in conjunction with the divestment of the Group's involvement in peat producer Härjedalens Miljöbränsle AB. Heat sales decreased by 3.3 per cent to 5.8 TWh (6.0).

Nordic Distribution

Sales increased by 5.4 per cent to SEK 8,231 million (7,809). Operating profit increased by 8.7 per cent to SEK 2,317 million (2,131). The improvements in sales and operating profit are explained by increased volumes and lower administrative costs.

Services

Some 70 per cent of sales are attributable to internal assignments within Vattenfall. Sales increased by 2.0 per cent to SEK 3,103 million (3,042). Operating profit increased by 66 per cent to SEK 166 million (100), much due to very good capacity utilisation.

Germany

Sales increased by 4.4 per cent to SEK 66,761 million (63,974).

Operating profit increased by 18.5 per cent to SEK 7,487 million (6,318). The increase in profits is due to the continuing cost reduction programme within Vattenfall Europe, but is also due to higher electricity market prices. The objective of the cost-cutting programme was to achieve annual savings of EUR 400-500 million from 2005. This goal was achieved - at the end of 2004, savings of EUR 519 million (almost SEK 4.7 billion) had been attained.

As a result of a reduction in the interest rate on loans from minority-owned nuclear power companies, the cost of electric power purchased from these companies increased by approximately SEK 300 million, which burdened operating profit.

Compared with 2003, operating profit improved considerably for the business units Mining & Generation, Distribution and Heat. Sales still exhibit a negative result, but have attained a large improvement in financial performance by reducing sales and administrative costs and through alignment to market terms of a number of larger sales agreements. Transmission reports lower operating profit than in 2003 as a result of higher costs for so-called balancing power and other additional costs due to the increased input of wind power to the network. Within Vattenfall's transmission area, wind power increased by 14 per cent during 2004.

Both electricity generation and heat generation reported largely unchanged volumes. Electricity generation increased by 1.1 per cent to 75.4 TWh (74.6), of which 67.2 TWh (67.4) fossil-fuel generation, 4.9 TWh (4.9) nuclear power and 3.3 TWh (2.3) hydro power. Heat generation decreased by 1.3 per cent to 15.5 TWh (15.7).

Poland

Sales decreased by 5.3 per cent to SEK 7,427 million (7,845). Operating profit, on the other hand, increased by 33.0 per cent to SEK 589 million (443). Despite lower volumes and increased fuel costs, Vattenfall's Polish operations continued to show very positive development, due to greatly optimised operations and significant cost-cutting. Heat generation decreased by 5.0 per cent to 11.4 TWh (12.0). Electricity generation decreased by 5.9 per cent to 3.2 TWh (3.4).

Other Business

Other Operations comprises Vattenfall's non-core business, service companies, Group functions and a company in the Netherlands. Sales decreased by 14.2 per cent to SEK 1,592 million (1,855). Operating profit amounted to SEK -103 million (-690). The improvement is primarily explained by profit for 2003 being burdened with a write-down within Vattenfall Fastigheter and a write-down of the shares in Finnish Empower, which was an associated company at the time.

CONSOLIDATED BALANCE SHEET

Amounts in SEK millions	Note	31 Dec 2004	31 Dec 2003
Assets			
Fixed assets			
Intangible fixed assets			
Concessions, patents, licences, trademarks and similar rights	17	1,193	3,341
Renting and similar rights	17	3,481	1,644
Goodwill	17	109	573
Advance payments for intangible fixed assets	19	282	–
Total intangible fixed assets		5,065	5,558
Tangible fixed assets			
Land and buildings	18	30,816	33,297
Plants and machinery and other technical installations	18	137,942	140,065
Equipment, tools, and fixtures and fittings	18	1,459	1,711
Construction in progress	18	7,072	6,493
Advance payments for tangible fixed assets	19	460	374
Investment property	20	1,280	–
Total tangible fixed assets		179,029	181,940
Financial fixed assets			
Participations in associated companies	21, 22	14,319	15,676
Receivables from associated companies	19	1,860	1,961
Other long-term securities holdings	21	568	1,022
Other long-term receivables	19	9,934	10,046
Total financial fixed assets		26,681	28,705
Total fixed assets		210,775	216,203
Current assets			
Inventories	23	7,470	7,283
Current receivables	24	25,054	26,832
Current investments	25, 31	11,063	11,974
Cash and bank balances		2,553	2,673
Total liquid assets		13,616	14,647
Total current assets		46,140	48,762
Total assets		256,915	264,965
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital		6,585	6,585
Equity method reserve		937	951
Other restricted reserves		20,232	16,993
Non-restricted equity			
Non-restricted reserves		22,786	18,854
Net profit for the year		11,776	9,123
Total equity		62,316	52,506
Minority interests			
Provisions	26	86,901	91,884
Long-term interest-bearing liabilities	27, 31	64,119	69,845
Long-term non-interest-bearing liabilities	28	2,135	2,236
Total long-term liabilities		66,254	72,081
Current interest-bearing liabilities	29, 31	8,894	15,702
Current non-interest-bearing liabilities	30	23,362	23,413
Total current liabilities		32,256	39,115
Total equity, provisions and liabilities		256,915	264,965
Pledged assets	32	247	112
Contingent liabilities	33	10,441	12,357
Commitments under consortium agreements	34		

Comments

Assets

Intangible fixed assets decreased by 8.9 per cent to SEK 5,065 million (5,558). This was due to reduced goodwill resulting from write-downs. Only minor changes were reported for tangible fixed assets.

Participations in associated companies decreased by 8.7 per cent to SEK 14,319 million (15,676), primarily as a result of write-downs of holdings in GASAG and Städtische Werke, Kassel and the negative participation in the German Krümmel nuclear power plant. Other long-term securities holdings decreased by 44.4 per cent to SEK 568 million (1,022), primarily due to the divestment of shareholdings in Chinese Hebei Hanfeng and Russian Mosenergo.

Liquid assets amounted to SEK 13,616 million (14,647), which corresponds to 12.0 per cent (13.1) of sales. Liquid assets include SEK 3,508 million (3,542) that comprise Vattenfall Europe's share of the liability insurance agreement (Soldidarvereinbarung) between the German nuclear power plant operators with regard to their commitment pursuant to the German Nuclear Liability Act. Liquid assets are divided as follows: SEK 7,504 million (7,047) in Vattenfall Treasury AB, SEK 3,684 million (5,202) in Germany, SEK 448 million (1,945) in Poland and SEK 1,000 million (453) in various subsidiaries.

In addition to liquid assets, Vattenfall also had available SEK 5,606 million (EUR 600 million) in committed credit facilities (10,417) as of 31 December. A further SEK 8,192 million (10,138) was available in other (uncommitted) credit facilities. At the end of 2004, Vattenfall's five-year EUR 600 million revolving credit facility (RCF) was renegotiated and prolonged to a new maturity date of 8 December 2009.

Equity, provisions and liabilities

Risk capital for the Group, that is, equity including minority interests, increased by 15.5 per cent to SEK 71,504 million (61,885). Equity increased by 18.7 per cent to SEK 62,316 million (52,506). The equity/assets ratio increased to 27.8 per cent (23.4). Provisions decreased by 5.4 per cent to SEK 86,901 million (91,884). For further details, see Note 26 of the consolidated accounts.

Total interest-bearing liabilities and interest-bearing provisions decreased by 14.7 per cent to SEK 73,013 million (85,631). Of these liabilities, SEK 14,458 million (14,979) concerns loans from Vattenfall's minority-owned German nuclear power company and SEK 4,059 million (4,289) concerns loans from, among others, minority owners in Vattenfall's Swedish nuclear power plants. The Group's net debt decreased by 17.2 per cent to SEK 55,411 million (66,890). The reduction was due to the strong cash flow being used to repay debt. For a break down of loans into various types, see Note 27 of the consolidated accounts.

Amounts in SEK millions	31 Dec 2004	31 Dec 2003
Net assets		
Nordic Countries	57,415	56,367
Germany	58,350	62,171
Poland	7,187	6,270
Total net assets	122,952	124,808
Net assets, weighted average value	123,423	124,229
Net debt		
Interest-bearing debt*	-73,013	-85,631
Loans to minority owners in foreign companies	3,986	4,094
Liquid assets	13,616	14,647
Total net debt	-55,411	-66,890
*) Of which loans from minority-owned German nuclear power companies	14,458	14,979

Major acquisitions and divestments

	Month	Company	Change, %	New Holding, %	Purchase sum, Amounts in SEK million	Comments
Acquisitions						
Nordic Countries	November	Örestads Vindkraftpark AB	100	100	114	
Germany	2004	Vattenfall Europe AG		just over 94	130	Purchases on the market
	July	Fernheizwerk Märkisches Viertel	94	94	405	District heating company
	July	Spitzenheizwerk Lange Enden GmbH	94	94	35	District heating company
Poland	February	GZE	21.1	74.8	1,454	
	December	EW	4.9	74.5	541	New shares issue
Divestments						
Nordic Countries	January	A-Train AB	-20	0	37	
	March	Empower Oy	-34.3	0	25	
	July	Härjedalens Miljöbränsle AB	-100	0	0	
Germany	September	AO Mosenergo	-1	0	116	Share in Russian company
	December	Hebei Hanfeng Power Generation Ltd.	-16	0	542	Share in Chinese company
Poland	February	EW Services Ltd	-74	26	20	

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK millions, 1 January–31 December	2004	2003
Operating activities		
Funds from operations (FFO)*	24,159	18,804
Cash flow from changes in operating assets and operating liabilities	-186	-613
Cash flow from operating activities	23,973	18,191
Investment activities		
Investments**	-12,601	-11,356
Divestments***	2,120	2,057
Liquid assets in acquired/sold companies	-20	949
Cash flow from investment activities	-10,501	-8,350
Cash flow before financing activities	13,472	9,841
Financing activities		
Loans raised	7,984	6,610
Amortisation of debt	-20,229	-15,002
Dividend paid	-2,600	-1,937
Cash flow from financing activities	-14,845	-10,329
Cash flow for the year	-1,373	-488
Liquid assets		
Liquid assets at the beginning of the year	14,647	15,473
Exchange rate differences	342	-338
Cash flow for the year	-1,373	-488
Liquid assets at the end of the year	13,616	14,647
Operative Cash Flow Statement		
Cash flow before financing activities	13,472	9,841
Financing activities		
Acquired/sold interest-bearing debt, net	-	-45
Dividend paid	-2,600	-1,937
Cash flow after dividend	10,872	7,859
Net debt at the beginning of the year	-66,890	-75,207
Effect of altered definition	84	-
Cash flow after dividend	10,872	7,859
Exchange rate differences on net debt	523	458
Net debt at the end of the year	-55,411	-66,890

Comments

Cash flow from operating activities increased by 31.8 per cent to SEK 23,973 million (18,191). Funds from operations (FFO) increased by 28.5 per cent to SEK 24,159 million (18,804) while the change in operating capital amounted to SEK –186 million (–613). Cash flow in 2003 was negatively affected by German tax payments of SEK 2.5 billion resulting from tax proceedings, a payment of approximately SEK 900 million to the City of Hamburg and an additional dividend distribution to the Swedish State of SEK 190 million.

Free cash flow, that is, cash flow from operating activities less maintenance investments, increased by 35.1 per cent to SEK 15,684 million (11,606).

Investment activities

During 2004, the Group was in a phase of consolidation, which entailed low levels of growth investment. Total investments increased by 11.0 per cent to SEK 12,601 million (11,356). Maintenance investments increased by 25.9 per cent to SEK 8,289 million (6,585) while growth investments increased by 9.6 per cent to SEK 4,312 million (4,771). Maintenance investments break down as follows: 50 per cent Nordic Countries, 44 per cent Germany and 6 per cent Poland.

Funds from operations (FFO)		
Amounts in SEK millions	2004	2003
Net profit for the year	11,776	9,123
Depreciation	14,880	14,336
Dissolution of negative goodwill	–3,034	–4,754
Undistributed results from participations in associated companies	1,121	–278
Unrealised foreign exchange gains	–259	–340
Unrealised foreign exchange losses	159	93
Capital gains	–1,003	–595
Capital losses	166	317
Reversed write-downs/write-downs of shares	22	156
Change in interest receivable	56	–129
Change in interest liabilities	–119	216
Change in provisions	–2,217	666
Change in tax liability	2,039	–413
Minority interests	572	406
Total	24,159	18,804

Interest paid totalled SEK 3,693 million (4,467) and interest received totalled SEK 1,256 million (1,423). Tax paid totalled SEK 2,972 million (3,244).

The normal level for maintenance investments is estimated at SEK 7–9 billion per annum. Growth investments are comprised to 56 per cent of share acquisitions, of which about SEK 1.5 billion for an increased shareholding in Polish GZE, SEK 440 million for two smaller district heating companies in Berlin and almost SEK 130 million for the purchase of additional shares in Vattenfall Europe AG. Other growth investments are divided between various objects and installations in the Group.

Sales amounted to SEK 2,120 million (2,057), including SEK 1,216 (789) in shares. Divested shares mainly comprised shareholdings in A-train AB, Russian Mosenergo and Chinese Hebei Hanfeng Power Generation Ltd.

Financing activities

Cash flow has largely been used to repay debt. Net debt decreased by SEK 11.5 billion to SEK 55.4 billion. In April, a new 20-year EUR 500 million bond was issued with the purpose of prolonging the average maturity of Vattenfall's debt portfolio. As of 31 December, the average remaining maturity for net debt was 6.7 years (5.1). All public funding is conducted through Vattenfall Treasury AB with guarantees from Vattenfall AB.

** Investments		
Amounts in SEK millions	2004	2003
Acquisitions of Group companies	2,433	2,254
Investments in associated companies and other long-term securities holdings	2	414
Investments in tangible fixed assets	9,861	8,554
Investments in intangible fixed assets	305	134
Total	12,601	11,356
*** Divestments		
Amounts in SEK millions	2004	2003
Divestments of tangible and intangible fixed assets	904	1,268
Divestments of shares and participations	1,216	789
Total	2,120	2,057

CONSOLIDATED CHANGE IN EQUITY

Amounts in SEK millions	Share capital	Equity method reserve	Other restricted reserves	Non-restricted equity	Total
Balance brought forward 2003	6,585	1,077	15,218	22,249	45,129
Dividend	-	-	-	-1,675	-1,675
Transfers between restricted and non-restricted equity	-	-137	2,776	-2,639	0
Translation differences	-	11	-1,001	-223	-1,213
Hedging	-	-	-	69	69
Transfers between equity and minority interests	-	-	-	1,073	1,073
Net profit for the year	-	-	-	9,123	9,123
Balance carried forward 2003	6,585	951	16,993	27,977	52,506
Transition effect on application of new accounting principles for pension commitments*	-	-	-	-670	-670
Dividend	-	-	-	-2,400	-2,400
Transfers between restricted and non-restricted equity	-	-26	2,696	-2,670	0
Translation differences	-	12	543	217	772
Hedging	-	-	-	332	332
Net profit for the year	-	-	-	11,776	11,776
Balance carried forward 2004	6,585	937	20,232	34,562	62,316

Accumulated translation differences in equity amount to SEK 316 million (-788), of which SEK 370 million (38) is attributable to hedging. Of non-restricted equity at year-end, it is estimated that SEK 0 million (1) will be used for allocations to restricted reserves, as proposed by the Boards of the Group companies.

*) As of 2004, Vattenfall applies the Swedish Financial Accounting Standards Council's recommendation RR29 concerning employee benefits.

RISKS AND RISK MANAGEMENT

Vattenfall's operations are exposed to a number of risks. Vattenfall has established an organisation and a risk management process which is comprised of the following components:

- Common risk definitions.
- Identifying where in the Group risks arise.
- Reliable methods for measuring risks.
- Effective risk management.
- Reporting in accordance with established routines.
- Management in accordance with established strategies and rules.

Risk mandate and risk management structure

The Board has overall responsibility for internal control and risk management within Vattenfall. Vattenfall's Board has, in turn, given Vattenfall's management a risk mandate. The management allocates this mandate to Vattenfall's business units, in accordance with a delegation structure. Each unit manages its own risks and has some room to manoeuvre within its respective mandate. The results within units are continually followed up and reported to executive management by an independent risk control function, Group Risk Control, which is also responsible for supervision of the Group's overall risk mandate. It is also Group Risk Control's responsibility to map out risks in the organisation and to develop appropriate models and measurement methods for managing these risks.

The Risk Committee

The Group's risk management and reporting is co-ordinated by a Risk Committee under the CFO's leadership. The committee's task is to scrutinise policies and mandates, and to approve risk instructions and those risk models which are applied within the Group.

Risks in Vattenfall's operations

Political risks, operational risks and legal risks are of a general nature and are present within all Group units. The more specific risks in each respective part of the value chain are presented in the next spread.

Electricity price risk

The electricity price risk is the risk that has the greatest impact on Vattenfall's financial performance. The price of electricity is determined by supply and demand. In the Nordic countries, the supply of water in water storage reservoirs is of considerable importance for power generation and, therefore, has considerable impact on the price of electricity. Demand is dependent to a large extent on temperature as, for example, during warmer periods less electricity is required to heat housing.

In Germany and Poland, the electricity price is largely dependent on

the price of coal, as coal is the input in electricity production. Demand is determined, as it is in the Nordic countries, largely by the weather.

In order to manage uncertainty in electricity price trends, Vattenfall hedges its generation and sales with physical and financial electricity contracts available in the market. Such hedging is made while taking into account the liquidity in the market for different periods of time. The Group hedges in accordance with established mandates and, at present, up to three years ahead.

The business units conduct their hedging in Vattenfall's different markets through Vattenfall Trading Services, which in turn can hedge itself in the external market through, for example, NordPool and EEX.

The mandates allocated to the different business units regulate how large an electricity price risk is acceptable. Exposure is followed up in relation to the mandate on a daily basis. As the price of electricity is greatly affected by fundamental factors such as water supply, temperature changes and electricity consumption, the continuous analysis of these aspects is an important factor for success. In order to measure electricity price risks, Vattenfall applies a Value at Risk (VaR) method, among others.

Investment risk

Before any investment decision is made, the risks are analysed. By simulating different outcomes of, for example, prices, costs, delays, cost of capital etc., the risks involved in each individual investment are assessed.

Nordic Generation, for instance, has a broad investment portfolio with the repair and maintenance of nuclear power, hydro power and dam installations, which have placed increasing demands on systematic risk management. The largest investment programme concerns increased lifetime and power output from nuclear power and encompasses a total of about SEK 24 billion until the year 2012. This means that the availability of suppliers and engineers and access to government authority resources for obtaining permits etc. are critical factors that must be considered if the large plethora of projects that Vattenfall, and even other power plant owners, plan are to function. The successful implementation of the programme within the established time schedule is decisive for profitability. An integrated risk analysis encompassing all nuclear power plant investments is therefore under development in order to gain an overall picture of the implementation risks involved in the investment programme.

The goal is to identify all significant external and internal risks, qualitatively and quantitatively, and to establish action plans in order to minimise, manage and monitor the risks systematically throughout the implementation phase.

Plant insurance protection

Vattenfall's largest insurable risks are associated with the operation of power generation and heat production plants.

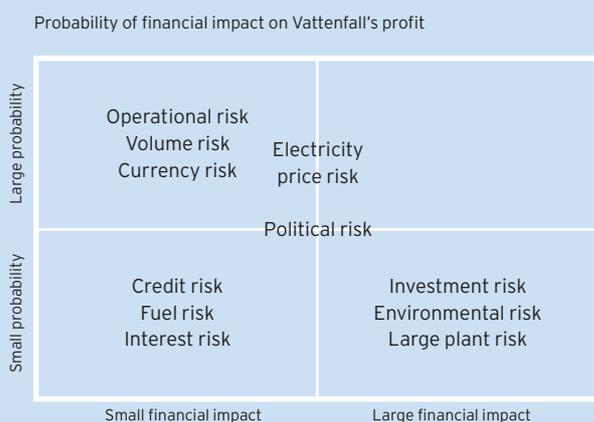
The nuclear power plants in Sweden have insurance cover for property damage through EMANI, a European mutual insurance company. The Nordic Nuclear Insurance Pool participates in this insurance programme in Sweden, and also issues nuclear liability insurance. The German nuclear liability risk is insured by the German Mutual Atomic Energy Reinsurance Pool, and by the mutual underwriting between German power plant operators.

In Sweden, liability for damage to third parties as a result of dam accidents is strict and unlimited. Vattenfall and other hydro power producers have therefore taken out dam liability insurance together.

Vattenfall Insurance, a captive company, provides the non-nuclear facilities of the Swedish and German units and companies with insurance cover against property damage and consequential losses. The Group companies in Finland and Poland are insured through their respective local insurance markets.

Vattenfall Reinsurance S.A. in Luxembourg reinsures part of Vattenfall Insurance's insurance commitments. Economies of scale and direct access to the international reinsurance market mean that overall insurance costs can be kept low.

Risks in Vattenfall's operations



Political risk

Political risk is defined as the business risk that may arise as a result of political decisions. Examples of this are price regulation within electricity distribution and transmission, uncertainty with regards to a new political majority or changes in fiscal policy. In conjunction with acquisitions and other investments, this type of risk is managed by adjusting the cost of capital. Another type of political risk consists of changes in the regulations that affect the energy sector. Examples include changed taxes, environmental charges and changes in the way natural monopolies are regulated. This type of risk is difficult to predict and protect oneself against. As a result, Vattenfall is actively engaged in monitoring socio-political and economic factors and keeping in contact with decision-makers in all relevant markets. Vattenfall is also a member of national and international trade organisations.

Operational risk

Operational risk is defined as the risk of incurring financial losses, or loss of confidence, due to mistakes or shortcomings in the company's administrative routines.

Operational risks can be divided into the following categories:

- Administrative risks – risks of losses due to shortcomings in the Company's division of responsibility, competence, reporting routines, risk measurement and evaluation models, and in control and follow-up routines.
- Legal risks – a risk of losses arising from the non-fulfilment of contracts due to shortcomings in documentation, counterparts lacking the right to conclude contracts or uncertainties regarding contract validity.
- IT risks – risks that entail a risk of losses due to shortcomings in IT systems.

Each business unit is responsible for limiting and managing operational risks within Vattenfall by ensuring that well-documented routines, reliable IT systems and satisfactory internal controls are in place.

Environmental risk

Environmental risks can be divided into two categories – environ-

Risk management along the value chain

The illustration shows examples of risks along Vattenfall's value chain, and how Vattenfall manages these risks.

Environmental risks and environmental liabilities

Environmental risks refers to the possibility of accidents and shortcomings in operations, and their effects on the environment. Environmental liabilities refers to identified environmental problems in which requirements for measures can be expected. These are handled through mapping, analysis and decisions on measures.

Plant risk

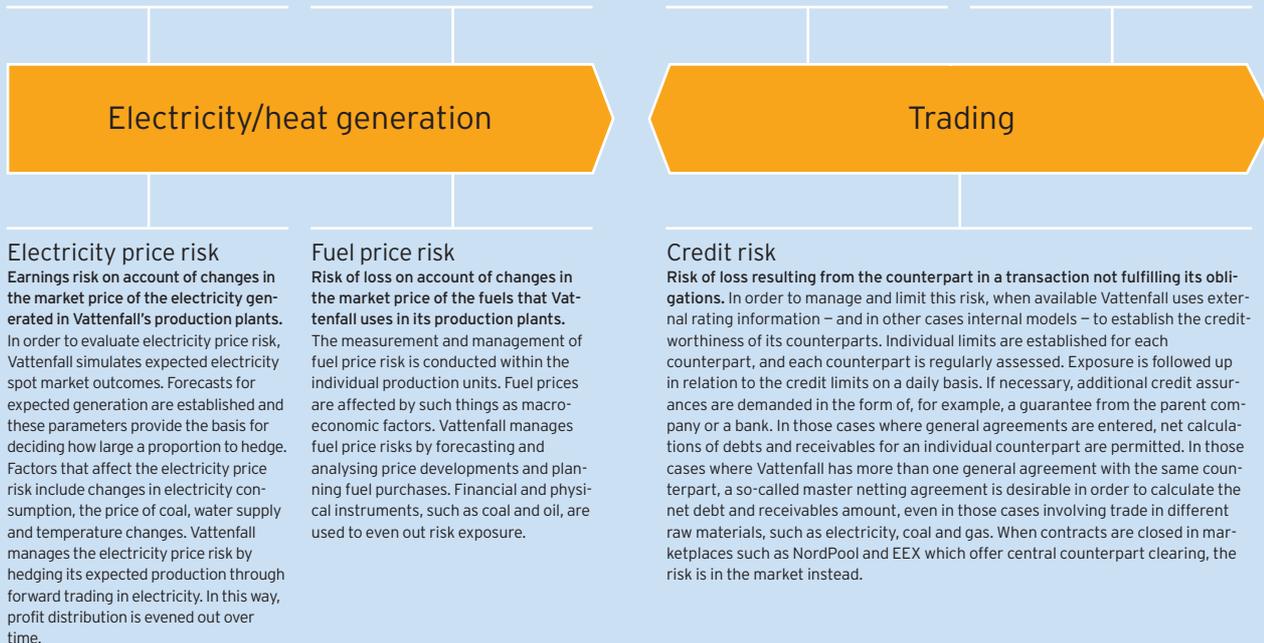
Vattenfall's production plants can be damaged due to near-accidents and breakdowns, which in general also entail consequential losses. Loss-prevention measures and comprehensive maintenance, training and good administrative routines minimise such risks. As far as possible, the Group also takes out insurance policies as a measure against major financial losses.

Price area risk

Price area risks occur when electricity prices differ between geographical areas, due to shortages in transmission capacity between areas. This risk is controlled centrally and is managed by Vattenfall Trading Services. In the Nordic countries, where NordPool provides a market for the financial instruments used to regulate this risk through area swaps, the price area risk is managed through trading in such area swaps. Through Vattenfall's obligation to be a market maker on NordPool, the liquidity of these instruments is secured and in this manner Vattenfall contributes to spreading risks for other players. In the physical trading of foreign cables outside the Nordic countries, the price area risk is managed through hedges in each particular area.

Electricity price risk

Risk of loss on account of changes in the market price of the electricity in which Vattenfall conducts physical and financial trade. Vattenfall manages this risk by selling and buying electricity futures and forwards. Deals on the different electricity markets are made through Trading's market access function. The Board of Vattenfall has issued mandates specifying how large an electricity price risk is acceptable. These mandates are followed up against exposures on a daily basis. As the price of electricity is greatly affected by fundamental factors such as water supply, temperature changes and electricity consumption, the continual analysis of these aspects is an important factor for success. In order to measure electricity price risks, Vattenfall applies a Value at Risk (VaR) method, among others.



mental liabilities and environmental risks. Environmental liabilities refers to environmental problems that have been identified in production plants, installations or operations, and for which requirements on measures can be expected through more stringent legislation, restricted permits or stipulations in the Company's environmental policy. Environmental risks refers to the possibility of accidents and shortcomings in operations, and their impact on the environment. Work to prevent and control risks is carried out largely on a local basis, and is based on the knowledge and experience present within the Group's units. The environmental risks and environmental liabilities in the Group's business units are comprehensively mapped and analysed on a continual basis. The business units are responsible for identifying and expressing risks in monetary terms, together with a probability factor. With this risk inventory, we increase the possibilities to implement measures that reduce the Group's impact on the environment.

Consequences of environmental risk can entail such things as:

- Decontamination/clean-up costs
- Damages to persons and property

- Loss of production
- Effects of the questioning of the Vattenfall brand
- Opinions and policies that lead to a more difficult permit process, and bring with them production limitations

Business units report with regards to environmental liabilities within the following areas:

- Air, water and ground pollution
- Noise
- Landfills
- Oil-filled cables with lead encapsulation
- Mercury in electrical equipment and fumes
- Insulating gas in electrical equipment
- Asbestos in CHP plants and thermal power plants
- Magnetic fields from transformers and power lines
- Modernisation of measurement equipment

Environmental liabilities are mapped and analysed for decisions on measures to be taken. At present, an action programme is underway



for Vattenfall's hydro power plants in Sweden and Vattenfall's acquired operations in Poland. Vattenfall sees keeping ahead in the area as a way of strengthening the Group's competitive edge in the long-term. In the German companies, funds have been reserved for restoring polluted land and action plans have been drawn up in consultation with the authorities involved.

One of the considerable challenges for Vattenfall and the energy sector is to reduce emissions of climate-affecting carbon dioxide from fossil-fired power plants. Societal representatives place much focus on this issue, and Vattenfall is looking at the issue on the basis of an integrated risk perspective, which includes both technological and political aspects. Vattenfall has, among other things, taken the initiative in a project for large-scale separation and storage of carbon dioxide, partly financed by the EU.

The project is being carried out in co-operation with a number of larger representatives in the sector, including RWE.

Financial risk

The Group's financial risks are mainly managed by Vattenfall Treasury AB, which houses the Group's internal bank and finance function. These finance operations are intended to provide cost-effective management of the Group's financial risks.

The Group's funding, investments and currency trading are mainly carried out by Vattenfall Treasury AB and, to a lesser extent, by Vattenfall Europe AG. The Group's liquidity is centralised using so-called group cash pool systems. Speculative investments are made to a limited extent within fixed risk limits.

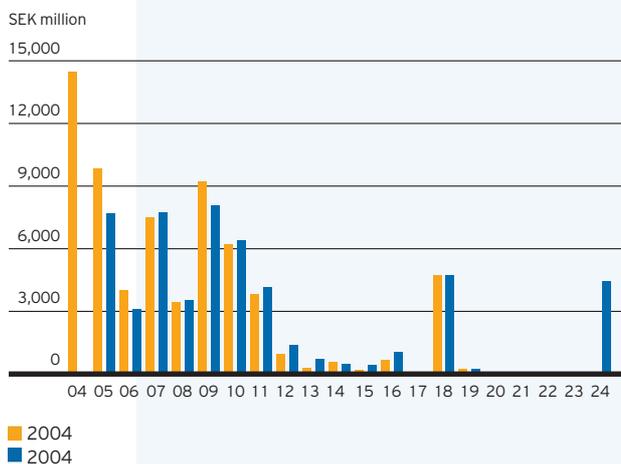
Financing risk

Financing risk is minimised through a debt portfolio with an even maturity profile and a long average remaining term. The maturity profile of Vattenfall's debt is shown in the diagram below. On 31 December 2004, the average maturity was 6.1 years (4.6). Calculated on the basis of net debt, the remaining average maturity amounted to 6.7 years (5.1). The aim is for it to exceed 5 years.

To safeguard the availability of funds and maintain flexibility, the Group has several types of debt issuance programmes. At present, there are three commercial paper programmes, two medium term note (MTN) programmes and one Polish bond programme. In addition, Vattenfall has over SEK 15.7 billion in committed credit facilities, and these other credit facilities were used in the amount of SEK 1.9 billion.

The Group's target for short-term liquidity is always to have no

Maturity profile in debt portfolio*



*) Excluding loans from associated companies and minority owners.

less than 10 per cent of the Group's sales and at least the equivalent of the next 90 days' maturities in the form of liquid assets or committed credit facilities. Vattenfall's credit rating for long-term and short-term borrowing respectively is A-/A-2 from Standard & Poor's and A3/P-2 from Moody's. Vattenfall's goal with regard to credit rating is to retain a rating in the Single A category.

Interest rate risk

Interest rate risk in the Group's debt portfolio is measured as the average fixed rate term. At the end of the year, the average fixed rate term was 1.9 years (1.9). Calculated on net debt, the average fixed rate term was 2.0 years (2.1). The fixed rate term is permitted to vary from a norm of 2.5 years by up to 12 months either way. Interest rate swaps, interest rate terms and options, etc. are used to adjust the fixed rate term in borrowing.

An increase in interest rates of 1 percentage point increases the Group's interest expenses by SEK 260 million over a 12-month period based on the present fixed rate structure. The interest rate risk in the Group's investment assets is measured as the change in value with a 1 per cent interest rate change and as of 31 December this amounted to SEK 110 million.

Remaining fixed rate term for interest-bearing debt, breakdown per currency

	Excluding loans from minority owners and associated companies			Total
	SEK	EUR	Other	
<3 months	22,564	10,147	179	32,890
3 months – 1 year	2,373	6,723	10	9,106
1 year – 5 years	8,092	5,970	82	14,144
>5 years	6,729	3,370	40	10,139
Total	39,758	26,210	311	66,279
Average financing rate, %	4.8	3.9		4.5

Remaining fixed rate term for interest-bearing debt, breakdown per instrument

	Excluding loans from minority owners and associated companies			Total
	Debt	Swaps		
<3 months	20,800	12,090		32,890
3 months – 1 year	4,932	4,174		9,106
1 year – 5 years	17,735	-3,591		14,144
>5 years	21,789	-11,650		10,139
Total	65,256	1,023		66,279

Currency risk

Currency risk is the risk of negative effects on Vattenfall's earnings and balance sheet as a result of exchange rate fluctuations.

Vattenfall is exposed to currency risk through exchange rate fluctuations attributable to future cash flows – so-called transaction exposure – and in revaluing net assets in non-Swedish subsidiaries, so-called translation exposure.

The Group's goal in managing currency risk is to minimise foreign exchange losses, while taking into account hedging costs and tax aspects.

Currency exposure in borrowing is eliminated using interest currency swaps for the purpose of avoiding the effect of exchange rate differences on earnings.

Interest-bearing debt, breakdown per currency (SEK millions)

Including loans from associated companies and minority owners

Original currency	Debt	Swaps	Total
CHF	150	-150	0
CZK	140	-140	0
EUR	56,664	-15,055	41,609
GBP	1,317	-1,317	0
HKD	716	-716	0
JPY	6,951	-6,808	143
NOK	377	-377	0
PLN	1,651	-1,544	107
SEK	12,786	30,841	43,627
USD	3,772	-3,711	61
Total	84,524	1,023	85,547

The Group has limited transaction exposure, as the greater part of energy generation, distribution and sales is made in each company's local market. In Nordic operations, most transaction exposure is in NOK and EUR in conjunction with the hedging of electricity prices, primarily in NordPool. This currency exposure is hedged with forward exchange rate contracts. In the German subsidiaries, transaction exposure arises primarily in USD in conjunction with the purchase of fuel, and this currency exposure is also hedged with forward exchange rate contracts.

Consolidated operating income/expenses per currency (%)

Currency	Income	Expenses
EUR	61	67
SEK	32	21
PLN	7	8
NOK	0	1
USD	0	1
Other	0	2
Total	100	100

The amounts are calculated from a statistical compilation of operating income/expenses. Changes in inventories and investments are not included in the compilation.

The Group's units shall hedge contracted transaction exposure when it exceeds the equivalent of SEK 10 million. Hedges shall be made through Vattenfall's treasury units in Sweden or Germany, where currency risks are managed within established risk limits for interest rates and currencies.

The Group's policy with regards to translation exposure was changed as of 2003 so that equity shall be fully hedged with regard to the effects of taxation and certain restrictions.

Translation exposure

Currency	Equity	Hedging after tax	Net exposure after tax
EUR	39,222	23,866	15,356
PLN	12,636	0	12,636
Other	16	0	16
Total	51,874	23,866	28,008

Credit risk

The Group is exposed to credit risks when trading in electricity, making investments and trading in derivative contracts. The Group's policy is to primarily use liquid assets to repay loans. Remaining Group liquidity is invested in the short-term (to manage daily variations in the Group's liquidity flows) and the long-term. The Group's long-term investment portfolio is intended to secure legal requirements regarding capital availability for nuclear power operation in Germany. Investment is made in accordance with established investment rules, with counterparts with low credit risks. The proportion of shares in the long-term investment portfolio may not exceed 30 per cent of assets. As of 31 December, the proportion of shares was 22 per cent. The average interest rate was 3.4 per cent while the average fixed rate term was 3.4 years.

Credit risks are managed within the framework of established limits based on external ratings or internal credit assessments. Credit risks are monitored and quantified continually through, among other measures, market evaluation.

Prior to long-term agreements being entered into, a general master agreement, such as an ISDA, FEMA, EFET or equivalent, is required. In the Nordic countries, the majority of financial electricity contracts are settled via NordPool and hence the larger part of the credit risk arising is in the marketplace. In Germany, prices are hedged in a similar manner against EEX, even if OTC trade between bilateral counterparts is also common.

Credit risk

Type of instrument	Exposure
Electricity derivatives, positive fair values	585
Electricity derivatives, settlement risk	3,843
Interest and currency derivatives, positive fair values	2,833
Interest-bearing investments	9,932
Shares	756
Total	17,949

Credit risk in interest or currency derivatives not adjusted for ISDA agreement or equivalent amounts to SEK 5,718 million.

NOTES TO THE CONSOLIDATED ACCOUNTS

(Amounts in SEK millions unless otherwise stated.)

Note 1 Company information

The consolidated accounts for Vattenfall AB for 2004 have been approved for publication and were signed by the Board of Directors on 18 February 2005. The parent company, Vattenfall AB, is a limited liability company with its registered office in Sweden. The Group's balance sheet and income statement will be adopted at the Annual General Meeting.

The main activities of the Group are described in Note 5 of the consolidated accounts.

Note 2 Accounting principles

General

The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council.

As of 2004, the Swedish Financial Accounting Standards Council's new recommendation RR29 concerning employee benefits is applied. As Vattenfall began to apply RR29 as of 1 January 2004, there are no comparative figures for previous years.

As of 2005, the Vattenfall Group will apply international accounting standards. The effects of the transition to International Financial Reporting Standards (IFRS) are reported in Note 3 of the consolidated accounts.

In conjunction with preparing the financial statements in accordance with generally accepted accounting principles, the Company's executive management and Board of Directors make estimations and assumptions which affect assets and liabilities, and the recorded value of contingent liabilities, at the end of the accounting period. Recorded income and costs are also affected. The actual outcome can deviate from these estimations.

Consolidated accounts

The consolidated accounts include the parent company and companies in which Vattenfall held more than 50 per cent of the voting power, or in any other way had a controlling influence.

The consolidated accounts have been prepared using the purchase accounting method. The purchase accounting method means that the Group's equity only includes that portion of the subsidiary's equity amassed after the acquisition date. In conjunction with acquisitions, a market valuation is made of the acquired company's assets and liabilities. Deferred tax is taken into account in the surplus value, except for water rights, which are not subject to amortisation. The remaining difference between the acquisition price and the valuation is reported as goodwill or negative goodwill accordingly. Negative goodwill relates to anticipated future losses, restructuring costs and other expenses that cannot be reported as identifiable liabilities at the time of acquisition.

The income and expenses of companies acquired during the year are included in the consolidated income statement from the time of acquisition. Divested companies are included in the consolidated income statement up to the point of divestment.

Intra-group sales and internal profits are eliminated, with deferred tax taken into account in the latter.

An associated company is a unit in which the Group has considerable influence (normally at least 20 per cent and not more than 50 per cent of voting power) and which is not a subsidiary or joint venture. The Group's holdings in associated companies are accounted for in accordance with the equity method. In the consolidated income statement, participations in the results of associated companies are comprised of the consolidated proportion of the associated company's result minus the amortisation of surplus value. The Group's proportion of associated companies' recorded tax expenses is included in the consolidated tax expenses. In the consolidated balance sheet, the reported value of shareholdings is changed in an amount equal to Vattenfall's share of each company's result, less depreciation of surplus value and dividends received.

Foreign activities

When preparing the consolidated accounts, all items in the income statements of foreign (non-Swedish) subsidiaries are translated into SEK at the average exchange rate for the financial year (average rates). All subsidiaries conduct independent business activities, for which reason all balance sheet items, apart from net profit/loss for the year, are translated at the exchange rates prevailing at year-end (closing day rates). The difference arising in the consolidated balance sheet from the translation of a foreign subsidiary's net profit/loss into SEK on the basis of the average exchange rate is entered directly against consolidated equity.

From time to time, Vattenfall raises loans and performs currency swaps in foreign currencies to protect the Group's net investments in foreign companies. Exchange rate differences are subsequently handled in the same way as translation differences, and transferred to the Group's equity.

Receivables and liabilities in foreign currencies

Receivables and liabilities (including provisions) in foreign currencies are valued at the closing day rate. When hedging the underlying receivable or liability, the spot exchange rate on the date that the currency was hedged is used in the valuation of the underlying receivable or liability.

Exchange rate differences are reported under operating profit in the amount that applies to operational transactions, with the remainder reported under net financial income/expense.

The more important exchange rates used in the accounts are provided in Note 4 of the consolidated accounts.

Revenue recognition

Operating revenues are reported at the time of delivery, excluding value-added tax and selective taxes, primarily energy tax. Connection fees, the fee paid by a customer when initially connected to the electricity network, are carried as income at the time of connection to the extent that the fee does not cover future commitments, in which case income is reported as the commitments are fulfilled.

In the case of service and consulting assignments, the percentage of completion method is applied, that is, income is reported as work progresses. In those cases where losses are expected, provisions are made immediately.

Interest income is reported as income in the income statement in those periods in which it arises.

Dividends received are reported in the income statement when the right of the shareholder to receive the payment has been established.

Depreciation

Depreciation is based on the acquisition value and is calculated on a straight-line basis over the estimated lifetime of the installations. Depreciation is distributed according to function in the income statement.

Borrowing costs

Borrowing costs directly attributable to larger investment projects in fixed assets with long periods of completion are included in the acquisition value during the construction period. Other interest is reported as a cost in the income statement in the period in which it arises. Costs for arranging loans are distributed over the term of the loan.

Financial instruments

Purchases and sales of financial instruments are reported in accordance with the settlement date principle.

Investments are valued at acquisition value when first reported in the balance sheet. Thereafter they are reported at the lower of the acquisition value and the fair value. Unrealised losses are entered against unrealised gains per country in portfolios with similar risk profiles. Excess losses are reported in the income statement, while equivalent profits are not included in the result. In establishing fair value, official closing day quotations are used. For investments intended to be held until maturity, the accrued acquisition value is reported.

Borrowing

Borrowing is initially reported at acquisition value, and subsequently at accrued acquisition value.

Derivatives

Currency agreements entered into to cover forward transactions are not recorded until the transaction to which the forward cover relates is completed. Interest rate and currency contracts for hedging interest rate and currency risks in borrowing are valued at closing day rates. Exchange rate differences and accrued interest are reported in the income statement.

Interest expense for borrowing is reported in the income statement, taking into account any swaps.

Derivatives not entered into for hedging purposes are reported as follows: The result of currency-related derivatives is reported in the income statement. For other derivatives (not currency-related), unrealised losses are recorded in the income statement while unrealised gains are not recognised as income until they become liquid or the position is closed. In establishing fair value, official closing day quotations are used. For derivatives (primarily swaps) lacking quotations, the fair value is calculated by discounting the anticipated future cash flow.

For hedging of net investments in foreign subsidiaries, see the Foreign activities heading above.

Energy derivatives

Vattenfall is an active participant in the energy derivative market in Scandinavia through NordPool, in northern Europe through the marketplaces Leipzig and Amsterdam, and in the European OTC market through bilateral contracts. Trading conducted for the purpose of hedging the prices of purchased and sold volumes is entered against reported costs and income respectively in accordance with the delivery periods of the underlying physical contract.

Other trading transactions are reported in accordance with the lower of cost of market principle based on a collective valuation. Gains are reported in conjunction with the realisation of said gains while any losses are reported as soon as they are expected to arise as a net amount in the income statement.

Intangible fixed assets

Intangible fixed assets include concessions, patents, licences, trademarks, renting rights and goodwill. These assets are valued at cost (acquisition value) less accumulated amortisation.

Development expenses shall be reported as intangible assets if a number of criteria are fulfilled, and include such expenses that are highly likely to lead to future financial advantages for the Company. Most often, the Group's development expenses do not meet the criteria for being set up as intangible assets. Such development expenses are instead written off as they arise in a manner similar to research expenses.

Amortisation of intangible assets is made over the lifetime of each individual asset. Goodwill is written off over a period of between 5 and 10 years.

Tangible fixed assets including investment property

Tangible fixed assets are valued at cost (acquisition value) adjusted for revaluation less accumulated depreciation. Within nuclear power operations in Germany, acquisition value at the time of acquisition includes an estimated present value for estimated expenses for decommissioning and removing the plant and restoring the site where the plant is located. The equivalent estimated expenditure calculated on the basis of the present value has been reported as a provision.

Depreciation for each component within the operations listed below is based on the assessed lifetime.

Investment property is defined as buildings, land improvements and land held in order to generate rental income or increase in value. These have previously been considered real estate used in operations.

Hydro power installations	5–40 years
District heating installations	5–30 years
Electricity distribution and transmission lines	5–35 years
Mining operations	5–20 years
Office equipment	3–10 years
Office and warehouse buildings and workshops	25–50 years

Write-downs

Any write-downs for intangible and tangible fixed assets are reviewed when there are indications that a reduction in value may have occurred. The requirement for write-downs arises when the book value exceeds the higher of the net selling price and the recoverable amount.

Leasing

Leasing agreements in which essentially all risks and advantages fall with the Group are classified as financial leasing agreements. Other leasing agreements are reported as operational leasing agreements. Financial leasing agreements are reported as assets. An equivalent liability is reported under current liabilities or other long-term liabilities as appropriate.

Leasing charges attributable to operational leasing agreements are reported on a straight-line basis over the lease term as a cost in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value in accordance with the first-in first-out principle. The consumption of nuclear fuel is calculated as a depletion of the energy content of the fuel rods, and is based on the acquisition cost of each batch of fuel loaded into the core.

The value of the energy stored in the form of water in reservoirs is not reported as an asset.

Receivables

Receivables are reported in the amount likely to be received. Accounts receivable are initially reported at invoiced value. Bad debt losses are written off in their entirety when the receivable is not expected to be paid.

Pension provisions

Pension provisions have been calculated on an actuarial basis in accordance with the Projected Unit Credit Method in line with RR29–Employee Benefits with regards to defined benefit pension plans.

The provision reported in the balance sheet corresponds to these commitments reported as a net figure against capital in Vattenfall's own pension funds in Sweden and Germany.

Other provisions

Other provisions are obligations where the maturity or size of the amount is uncertain. Provisions are made for obligations or anticipated risks based on the assessment of individual cases. Provisions are made according to the estimated present value of the obligations on closing day. For example, provisions are made by the German power companies in their own balance sheets regarding future nuclear waste management expenses and the decommissioning of nuclear operations. The Swedish power companies do not make corresponding provisions. Instead, they pay a fee to the Swedish Nuclear Waste Fund for the future management of nuclear waste and the decommissioning of nuclear power operations. Other types of provisions are specified in Note 26 of the consolidated accounts.

Government grants

When a grant is connected to a fixed asset, this is reported in accordance with one of two methods, depending on local conditions for the grant. Either the grant is entered as a liability, as deferred income, and is recorded as income in the income statement at the same rate as depreciation of the fixed asset that the grant relates to, or, alternatively, the grant reduces the book value of the asset.

Continuation Note 2

When the grant is tied to a cost it is recorded as income over the period required for it to equal the recorded cost that the grant is intended to compensate.

Taxes

The Group's tax expense is estimated as the sum of the year's current tax and the change in deferred tax assets and liabilities for the year. Deferred tax means that the so-called temporary differences that sometimes exist with respect to the time of taxation and the measurement of certain events between tax legislation and generally accepted accounting principles must be taken into account. Temporary differences may thus arise between taxable profit and reported profit, as well as between the values of assets and liabilities for tax assessment purposes and their reported values. A deferred tax liability is reported in cases where recovery or settlement will lead to future tax payments. A deferred tax asset is reported in cases where recovery or settlement will lead to a reduction in future taxes. Deferred tax assets and liabilities are valued at the tax rate applicable on the closing day in the relevant country without discounting.

Temporary differences attributable to shares in subsidiaries have not been taken into account in the respective parent company's accounts, as returns from these are expected to be reinvested.

Temporary differences attributable to tax loss carry-forwards are only taken into account in cases where it is likely that such tax loss carry-forwards can be used within the foreseeable future.

Note 3 Transition to International Financial Reporting Standards (IFRS)

As of 2005, the Vattenfall Group will apply international accounting standards. The Group's accounting principles will thereby comply with the International Financial Reporting Standards (IFRS), as approved by the EU, which also include the International Accounting Standards (IAS). The Swedish Financial Accounting Standards Council's recom-

mendations, which were applied by the Vattenfall Group until the end of 2004, are largely based on IFRS, which is why the consolidated accounts have, to a large extent, already been adapted to the new rules.

As Vattenfall presents comparative consolidated information for one year in its financial reports, the date for the transition to IFRS is set to 1 January 2004, with the exception of financial instruments defined in accordance with IAS 39 – Financial Instruments. See below. Financial information, previously consolidated according to the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations (Swedish GAAP), will therefore be restated in order to comply with IFRS.

Effects of the transition to IFRS

The Group's financial reporting for 2005 shall be in accordance with IFRS and the information for the comparative year 2004 shall be restated. The rules for how the introduction and restatement are to take place are stipulated in IFRS 1 – First-time Adoption of International Financial Reporting Standards.

The most important changes in the accounting principles of the Vattenfall Group are described below in conjunction with the presentation of the effects on equity as of 1 January and 31 December 2004 respectively, as well as on net profit for 2004. IAS 32 and 39 concerning financial instruments are applied as of 2005 and comparative figures for 2004 have, in accordance with the transition rules, not been restated.

According to IFRS 1, accounts shall be prepared according to the IFRS standards that apply as of 31 December 2005. Moreover, these standards shall have been approved by the EU. As a result, the effects of the transition to IFRS reported below are preliminary and are based on the current IFRS, which may undergo changes before 31 December 2005 with subsequent effects on the amounts reported. As a starting point, it is assumed in IFRS 1 that all standards will be applied retroactively, but there are exceptions to this rule. The extent to which the Vattenfall Group has utilised these exceptions is documented in the notes below.

Restated equity and net profit for the Group

Reconciliation of balance sheet and equity as of 1 January 2004 (date of transition to IFRS)

	Swedish GAAP	A	B	Effects upon transition to IFRS			F	G	Total adjustment	IFRS
Assets										
Fixed assets										
Intangible fixed assets	5,558	–	–	–	–	547	–	–	547	6,105
Tangible fixed assets	181,940	–	–	854	3,188	–	–	–	4,042	185,982
Financial fixed assets	29,260	–	–	22,949	176	–	–	–	23,125	52,385
Total fixed assets	216,758	–	–	23,803	3,364	547	–	–	27,714	244,472
Current assets										
Inventories	7,283	–	–	86	–	–	–	–	86	7,369
Current receivables	26,832	–	–	–	–	–	–	–	–	26,832
Current investments	11,974	–	–	–	–	–	–	–	–	11,974
Cash and bank balances	2,673	–	–	–	–	–	–	–	–	2,673
Total current assets	48,762	–	–	86	–	–	–	–	86	48,848
Total assets	265,520	–	–	23,889	3,364	547	–	–	27,800	293,320
Minority interests, provisions and liabilities										
Minority interests	9,379	–	–	–	–	–	–9,379	–	–9,379	0
Provisions	93,109	–10,123	–	21,539	1,652	218	–	–106,395	–93,109	0
Long-term liabilities	72,081	–	–	–	–	–	–	101,966	101,966	174,047
Current liabilities	39,115	–	–	–	–	–	–	4,429	4,429	43,544
Total minority interests, provisions and liabilities	213,684	–10,123	–	21,539	1,652	218	–9,379	0	3,907	217,591
Equity	51,836	10,123	–	2,350	1,712	329	9,379	–	23,893	75,729
Total liabilities and equity	265,520	–	–	23,889	3,364	547	–	–	27,800	293,320

Reconciliation of balance sheet and equity as of 31 December 2004

	Swedish GAAP	A	B	Effects upon transition to IFRS				G	Total adjustment	IFRS
				C	D	E	F			
Assets										
Fixed assets										
Intangible fixed assets	5,065	-	134	-	-	464	-	-	598	5,663
Tangible fixed assets	179,029	-	-	553	2,958	-	-	-	3,511	182,540
Financial fixed assets	26,681	-	-	23,761	76	-	-	-	23,837	50,518
Total fixed assets	210,775	-	134	24,314	3,034	464	-	-	27,946	238,721
Current assets										
Inventories	7,470	-	-	107	-	-	-	-	107	7,577
Current receivables	25,054	-	-	46	-	-	-	-	46	25,100
Current investments	11,063	-	-	-	-	-	-	-	-	11,063
Cash and bank balances	2,553	-	-	-	-	-	-	-	-	2,553
Total current assets	46,140	-	-	153	-	-	-	-	153	46,293
Total assets	256,915	-	134	24,467	3,034	464	-	-	28,099	285,014
Minority interests, provisions and liabilities										
Minority interests	9,188	-	-	-	-	-	-9,188	-	-9,188	0
Provisions	86,901	-6,928	-	21,430	1,319	183	-	-102,905	-86,901	0
Long-term liabilities	66,254	-	-	-	-	-	-	98,035	98,035	164,289
Current liabilities	32,256	-	-	-	-	-	-	4,870	4,870	37,126
Total minority interests, provisions and liabilities	194,599	-6,928	-	21,430	1,319	183	-9,188	0	6,816	201,415
Equity	62,316	6,928	134	3,037	1,715	281	9,188	-	21,283	83,599
Total liabilities and equity	256,915	-	134	24,467	3,034	464	-	-	28,099	285,014

Reconciliation of the income statement for 2004 in accordance with Swedish GAAP and IFRS respectively.

	Swedish GAAP	A	B	Effects upon transition to IFRS				G	Total adjustment	IFRS
				C	D	E	F			
Net sales	113,366	-	-	-	-	-	-	-	-	113,366
Costs of products sold	-81,992	-3,034	122	52	65	-	-	939	-1,856	-83,848
Gross profit	31,374	-3,034	122	52	65	-	-	939	-1,856	29,518
Selling expenses, research and development and administrative expenses	-12,139	-	-	-	-	-77	-	-356	-433	-12,572
Other operating income and expenses – net	1,126	-	-	-	-	-	-	-	0	1,126
Result from participations in associated companies	-754	-	-	-206	-	-	-	-	-206	-960
Operating profit (EBIT)	19,607	-3,034	122	-154	65	-77	-	583	-2,495	17,112
Financial income	1,772	-	-	1,253	-	-	-	491	1,744	3,516
Financial expenses	-4,020	-	-	-213	-23	-	-	-1,074	-1,310	-5,330
Profit before tax and minority interests	17,359	-3,034	122	886	42	-77	-	-	-2,061	15,298
Taxes	-5,011	-	-	-198	-23	29	-	-	-192	-5,203
Minority interests	-572	-	-	-	-	-	572	-	572	0
Net profit for the year	11,776	-3,034	122	688	19	-48	572	0	-1,681	10,095

Notes**IFRS 3**

According to IFRS 3 – Business Combinations, acquired assets and liabilities shall be valued at fair value. If the net value of the acquired assets and liabilities exceeds the purchase price, the difference shall be reported as income (previously designated negative goodwill). Intangible assets, such as goodwill, with undetermined useful lives shall not be written off. The need to write down assets shall be assessed each year.

A. Negative goodwill

Negative goodwill on the balance sheet, in accordance with Swedish GAAP, is entered against equity and the dissolution made during 2004 is reversed.

B. Amortisation of goodwill

Goodwill amortised during 2004 in accordance with Swedish GAAP is reversed.

IAS 16, IFRIC 1 and IFRIC 5

According to IAS 16, estimated future expenses for decommissioning and dismantling tangible fixed assets shall be included in the acquisition value. The present value of the future expense is reported as a provision. For first-time adopters, special exceptions to the rules apply in accordance with IFRIC 1 for the calculation of the amount recorded as an asset. According to IFRIC 5 (which was applied in advance), funds that are consolidated for future decommissioning and dismantling costs shall, in certain cases, be reported as an asset on the balance sheet.

Continuation Note 3

C. Obligations for decommissioning etc. in 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 plant and to restore the plot of land where the plant was located. Further, this obligation also encompasses the safeguarding and final storage of spent radioactive fuel used by the plants. The calculations for Swedish nuclear power plants are based on a useful life of forty (40) years.

The present value calculated in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets when the plant was commissioned is included, in accordance with IAS 16 – Property, Plant and Equipment, in the acquisition value of the plant and depreciated over the useful life. According to IAS 2 – Inventories, the part of the provision that is a variable sum for the safeguarding of spent fuel is included in inventories and carried as an expense in the income statement as the fuel is used.

In most cases, the provisions concern obligations far in the future, which is why they are reported at discounted values. The annual change in the provision stemming from the present value calculation is reported as a financial item. Changes in existing provisions are calculated in accordance with IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities.

In Sweden, payments are made to the Swedish Nuclear Waste Fund for the purpose of covering the future costs for the nuclear power producers' obligations. The fee paid to the Swedish Nuclear Waste Fund is determined by the Swedish government. Vattenfall's share in the Swedish Nuclear Waste Fund is of such a nature that it shall be reported as an asset in the balance sheet. Returns on this share of the fund are reported as financial income. In Sweden, it has been generally accepted practice to neither report the value of the fund nor the value of the obligation in the balance sheet. Payments to the fund have instead been reported as expenses.

D. Obligations for restoration etc. in mining operations
Vattenfall's mining operations in Germany entail a right to mine lignite. This mining right incorporates a legal obligation to restore and re-cultivate the land used for operations.

The present value calculated in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, when the plant was commissioned is included, in accordance with IAS 16 – Property, Plant and Equipment, in the acquisition value and depreciated over the useful life. Previously, no part of this provision has been included in the value of the asset.

The annual change in the provision stemming from the present value calculation is reported as a financial item. Changes in existing provisions are calculated in accordance with IFRIC 1.

IAS 38

According to IAS 38 – Intangible Assets, development costs shall be reported as intangible assets when certain criteria are fulfilled. Capitalised assets are subject to amortisation. According to IFRS 1, all development costs arising after the introduction of IAS 38 shall be capitalised as an asset if the requirements for setting up as an asset are fulfilled. This is the case irrespective of whether the costs have been carried as an expense in accordance with earlier accounting principles. Swedish GAAP did not permit retroactive application upon the adoption of the equivalent recommendation.

E. Capitalisation of development costs

Costs for development that fulfil the established criteria are capitalised as an asset on the balance sheet and burden the income statement with amortisation.

IAS 27

IAS 27 – Consolidated and Separate Financial Statements requires, among other things, that minority interests in profit for the year shall not reduce consolidated net profit, and that minority interests in

equity comprise a part of reported consolidated equity. This is a change from Swedish GAAP, according to which minority interests are not included in net profit for the year or equity.

F. Minority interests

Minority interests in net profit no longer comprise a deductible item in the income statement. Minority interests in equity are now reported under equity.

IAS 1

IAS 1 – Presentation of Financial Statements specifies that liabilities shall be classified as current or long-term. Provisions previously reported as a separate item alongside current liabilities and long-term liabilities are now reported as part of current and long-term liabilities respectively.

According to IAS 37, when, as a consequence of the due date approaching, one increases the reported amount over time in present value computation, the resulting effect is reported as a financial item. (Equivalent effects on provisions for pensions (IAS 19) will continue to be reported as an operating expense.)

G. Reclassification of provisions and provision-related interest

Provisions are reclassified in the balance sheet and provision-related discounting effects are reclassified in the income statement.

Exception rules

The transition to IFRS is being administered as prescribed by IFRS 1. In principle, the accounting principles shall be applied retroactively in order to provide opening balances in accordance with IFRS. The following exceptions from retroactive application are permitted and have been applied by Vattenfall:

- The possibility to apply IFRS 3 – Business Combinations, prospectively as of the transition date, that is, 1 January 2004.
- The possibility to set translation differences according to IAS 21 – The Effects of Changes in Foreign Exchange Rates, to zero on the transition date.
- The possibility not to restate financial information for 2004 in accordance with the requirements found in IAS 39 – Financial Instruments: Recognition and Measurement, as approved by the EU.
- The possibility to apply the exception in IFRIC 1 concerning the simplified method for changes in existing provisions for decommissioning and restoration.

Impact of IFRS on the Cash Flow Statement

According to IAS 7 – Cash Flow Statements, liquid assets shall only include cash and bank balances and holdings in investments with a maturity of three months or less. According to Swedish practice, a broader interpretation has applied wherein even investments with maturities in excess of three months have been included.

	1 January 2004	31 December 2004
Previously reported liquid assets	14,647	13,616
Deductions: Liquid assets with maturity > 3 months	7,346	7,700
Liquid assets according to IFRS	7,301	5,916

Reporting of Financial Instruments according to IAS 39 – Financial Instruments: Recognition & Measurement

IAS 39 will affect the opening balance for 1 January 2005, but has not affected the figures presented above in accordance with the exception rules.

IAS 39 is expected to affect Vattenfall as follows:

Derivative Instruments and Hedging

According to IAS 39, derivative instruments are always reported at fair value in the balance sheet. Changes in fair value shall be reported in the

income statement, with the exception of those cases where a derivative instrument is included as a hedge in a cash flow hedge. In such cases, when the hedge fulfils the requirements placed on hedge accounting according to IAS 39, the change in the fair value of the hedge shall be reported under equity until the underlying hedged item affects the income statement. At this time, the changes in fair value reported under equity shall be transferred to the income statement.

According to the principles applied until now, changes in the fair values of derivative instruments concerning the hedging of anticipated future transactions are not reported in the balance sheet until the hedged item is reported. In those cases where hedge accounting is not applied to derivative instruments, the derivative instrument is reported at the lower of acquisition value and fair value (lower of cost or market). For fair value hedges, in addition to the change in value of the hedge, the change in value of the underlying item is also reported in the income statement.

Hedges of net investments in foreign operations will be accounted as before, although forward points in forward exchange rate contracts will be reported at market value rather than accrued linearly over the lifetime.

In order to achieve continued good matching in the effects on profits, Vattenfall intends to apply hedge accounting to a large part of the company's derivative instruments under IAS 39 as well.

Reporting Other Types of Financial Assets and Liabilities

According to IAS 39, financial assets and liabilities are initially reported at their fair value, and subsequently at either fair value or amortised cost depending on how the financial asset or liability is classified. Future changes in value are to be reported in the income statement, with the exception of those cases where a financial asset is classified as "available for sale", when the change in value is reported directly against equity until the asset has been divested. Within Vattenfall, only holdings (if any) of quoted shares are classified as "available for sale". According to Swedish GAAP, current financial assets are

reported at the lower of acquisition value and fair value. Liabilities are reported at amortised cost.

According to the transition rules for the first-time adoption of IFRS, the percentage of the fair value of the company's derivative instruments that – in accordance with Swedish GAAP – have not been reported is reported in the balance sheet with a corresponding counter-entry under equity.

Note 4 Exchange rates

Key exchange rates applied in the accounts:

Country	Currency	Average rate		Closing day rates	
		2004	2003	31 Dec 2004	31 Dec 2003
Euro	EUR	9.1193	9.1245	9.0070	9.0940
Denmark	DKK	1.2260	1.2283	1.2115	1.2215
Norway	NOK	1.0887	1.1450	1.0880	1.0805
Poland	PLN	2.0192	2.0785	2.2100	1.9400
USA	USD	7.3314	8.0788	6.6130	7.2750

Note 5 Information on segments

The Group's activities are mainly conducted within three separate geographical areas. These primary segments are the Nordic Countries, Germany and Poland. The Nordic Countries segment mainly covers operations in the Nordic countries, but also includes activities in the Baltic States and the Netherlands. The primary segments consist of geographical areas based on the locations of assets.

The Group's activities are also divided into business segments (secondary segments), namely Electricity (electricity generation, trading and sales), Distribution (electricity transmission and distribution) and Heat (heat production, distribution and sales). Other activities include Vattenfall's treasury activities, research activities, service companies and Group functions.

Primary segments

2004	Nordic Countries	Germany	Poland	Eliminations	Total
External net sales	39,899	66,046	7,421	–	113,366
Sales between segments	895	715	6	–1,616	0
Total	40,794	66,761	7,427	–1,616	113,366
Operating profit (EBIT)	11,543	7,487	589	–12	19,607
Assets	98,684	157,506	15,565	–14,840	256,915
Liabilities and provisions	72,436	115,551	12,227	–14,803	185,411
Investments	5,310	5,208	2,083	–	12,601
Depreciation	4,488	9,702	690	–	14,880
Result from participations in associated companies	71	–825	–	–	–754
2003	Nordic Countries	Germany	Poland	Eliminations	Total
External net sales	41,520	62,570	7,845	–	111,935
Sales between segments	994	1,404	–	–2,398	0
Total	42,514	63,974	7,845	–2,398	111,935
Operating profit (EBIT)	8,535	6,318	443	–	15,296
Assets	95,146	167,855	10,639	–8,675	264,965
Liabilities and provisions	75,870	127,209	9,393	–9,392	203,080
Investments	6,325	5,174	1,153	–1,296	11,356
Depreciation	4,503	9,164	669	–	14,336
Result from participations in associated companies	85	495	–	–	580

Continuation Note 5

Secondary segments

2004	Electricity	Electricity Networks	Heat	Other	Eliminations	Total
External net sales	68,040	30,845	12,647	1,834	–	113,366
Sales between segments	5,942	13,916	5,673	4,428	–29,959	0
Total	73,982	44,761	18,320	6,262	–29,959	113,366
Assets	193,593	81,392	42,975	120,949	–181,994	256,915
Investments	12,984	3,564	2,295	3,632	–9,874	12,601
2003	Electricity	Electricity Networks	Heat	Other	Eliminations	Total
External net sales	70,475	26,740	11,351	3,369	–	111,935
Sales between segments	5,491	13,632	4,955	4,619	–28,697	0
Total	75,966	40,372	16,306	7,988	–28,697	111,935
Assets	180,288	82,191	38,548	109,825	–145,887	264,965
Investments	4,611	2,248	1,226	4,567	–1,296	11,356

In 2004, the Group has also reported operations in the profit areas described below in interim reports and the year-end report:

	2004	Net sales 2003	Operating profit (EBIT) 2004	Operating profit (EBIT) 2003	Operating profit (EBIT) excl. items affecting comparability 2004	Operating profit (EBIT) excl. items affecting comparability 2003
Nordic Countries						
Nordic Generation	25,174	29,531	8,888	6,266	8,891	6,319
Market Nordic	20,286	24,994	222	369	218	372
Nordic Heat	2,963	2,868	353	348	418	345
Nordic Distribution	8,231	7,809	2,317	2,131	2,309	2,127
Services	3,103	3,042	166	100	164	98
Other business	1,592	1,855	–403	–690	–854	–841
Eliminations*	–20,555	–27,585	–	11	–	11
Total Nordic Countries	40,794	42,514	11,543	8,535	11,146	8,431
Germany	66,761	63,974	7,487	6,318	7,085	6,160
Poland	7,427	7,845	589	443	569	442
Eliminations**	–1,616	–2,398	–12	–	–12	–
Total	113,366	111,935	19,607	15,296	18,788	15,033

*) Concerns trade between Market Nordic, Nordic Distribution and Nordic Generation.

**) Concerns trade between Germany and Nordic Countries.

Note 6 Net sales

	2004	2003
Sales including indirect taxes	119,740	118,224
Indirect taxes	–6,374	–6,289
Net sales	113,366	111,935

Note 7 Costs of products sold

Direct costs include production taxes and duties of SEK 4,637 million (4,562) and property taxes of SEK 1,234 million (587). The costs also include interest components relating to annual pension costs of SEK 884 million (739) and to nuclear power provisions and other provisions of SEK 641 million (1,121) in the German companies.

Note 8 Costs of nuclear waste management

	2004	2003
Fees to the Swedish Nuclear Waste Fund		
– own high level radioactive waste*	309	292
– SVAFO**	80	74
Provision for future expenses of managing low and medium level radioactive waste	53	52
Total	442	418

*) 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 said management etc.

The Swedish Act (1992:1537 latest amendment 1995:1544) on the Financing of Future Expenses of Spent Nuclear Fuel etc. ensures said financing by requiring that the permit holder pay a fee based on generation. This fee is paid to the Swedish Nuclear Waste Fund, which manages the received funds. The fund reimburses the owner of the reactor for expenses as the owner's obligations in accordance with Swedish Nuclear Activities Act (1984:3) are fulfilled. According to agreements between the Swedish State, Vattenfall and Sydkraft, payments from the fund for Ringhals AB shall be managed by Vattenfall AB and payments for Barsebäck Kraft AB by Sydkraft Nuclear power AB.

During 2004, SEK 677 million (648) was disbursed from the fund with regard to costs for which the Vattenfall Group is liable. On 31 December, the fair value of Vattenfall Group's share of the Nuclear Waste Fund was SEK 22,271 million (20,012).

**) According to the Swedish Act (1988:1597, latest amendment 1995:1545) on the Financing of the Management of Certain Radioactive Waste etc., the holder of a permit to own and operate a nuclear reactor in Sweden must pay a fee as a contribution to the activities conducted at Studsvik AB relating to the development of the Swedish nuclear power programme. This fee is also based on the energy delivered from the reactor, and is paid into and administered by the Swedish Nuclear Waste Fund.

Note 9 Other operating income

Other operating income primarily comprises capital gains from the sale of fixed assets, operationally derived exchange rate gains, rental income and insurance compensation.

Note 10 Other operating expenses

Other operating expenses primarily comprise capital losses from the sale of fixed assets, operationally derived exchange rate losses and closedown and restructuring costs.

Note 11 Depreciation and amortisation

	2004	2003
Costs of products sold	14,505	14,095
Selling expenses	120	28
Administrative expenses	254	212
Research and development costs	1	1
Total	14,880	14,336

Note 12 Result from other long-term securities holdings

	2004	2003
Dividends	162	162
Write-downs	-17	-69
Capital gains/losses on divestments	-3	52
Total	142	145

Note 13 Other interest income and similar profit/loss items

	2004	2003
Interest income	1,030	1,162
Capital gains	170	390
Foreign exchange gains	430	570
Total	1,630	2,122

Operations-related foreign exchange gains comprise SEK 53 million (154).

Note 14 Interest expenses and similar profit/loss items

	2004	2003
Interest expenses	3,431	4,460
Capital losses	142	223
Foreign exchange losses	447	520
Total	4,020	5,203

See also Note 7 of the consolidated accounts concerning interest components relating to provisions in the German companies.

Operations-related foreign exchange losses for the Group comprise SEK 88 million (128).

Note 15 Taxes

Profit before tax and minority interests in profit for the year amounted to:

	2004	2003
Sweden, Group companies	9,273	6,270
Sweden, associated companies	71	85
Other countries, Group companies	8,840	5,510
Other countries, associated companies	-825	495
Total	17,359	12,360

The reported tax expense is allocated as follows:

	2004	2003
Current tax		
Sweden	2,453	1,507
Other countries	2,259	2,279
Deferred tax		
Sweden	298	-106
Other countries	1	-849
Total	5,011	2,831

The year's tax expense attributable to previous years' results amounts to SEK -224 million (381).

The difference between the nominal Swedish tax rate and the effective tax rate is explained in the following manner:

Per cent	2004	2003
Swedish income tax rate	28.0	28.0
Difference in tax rate in foreign operations	4.2	-3.3
Adjustment for tax related to previous periods	-1.3	3.1
Amended tax rates	-	-2.5
Non-deductible expenses and non-taxable income, net	4.1	5.4
Dissolution of negative goodwill and amortisation of goodwill, net	-6.5	-10.1
Other	0.4	2.3
Effective tax rate*	28.9	22.9
Tax rate, current tax**	27.1	30.7

*) Tax expense according to the consolidated income statement in relation to profit before tax and minority interests.

**) Tax expense according to the consolidated income statement excluding deferred tax in relation to profit before tax and minority interests.

Accumulated tax loss carry-forwards break down as follows:

	2004	2003
Sweden	33	83
Other countries	3,213	1,269
Total	3,246	1,352

The increase in the reported amount is explained by the creation of tax loss carry-forwards in 2004. Tax loss carry-forwards equivalent to SEK 1,536 million (360) do not correspond to deferred tax assets as it is uncertain whether it will be possible to utilise the tax loss carry-forwards.

Tax loss carry-forwards fall due as follows:

	2004
2005	8
2006	8
2007	-
2008	-
2009	2
No time limit	3,228
Total	3,246

Deferred tax liability and deferred tax assets respectively are attributable to balance sheet items as follows:

Deferred tax liabilities	2004	2003
Fixed assets	31,917	32,591
Current receivables	-144	-206
Provisions and long-term liabilities	2,905	2,463
Current liabilities	10	6
Total	34,688	34,854

Deferred tax assets	2004	2003
Fixed assets	301	555
Current receivables	818	984
Provisions and long-term liabilities	2,626	2,471
Current liabilities	59	92
Tax loss carry-forwards etc.	234	308
Total	4,038	4,410

Note 16 Minority interests

	2004	2003
Minority interests in profit before tax	865	743
Minority interests in tax	-293	-337
Total	572	406

Note 17 Intangible fixed assets

	Concessions and similar rights		Renting and similar rights		Goodwill		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition values								
Acquisition values brought forward	5,572	6,221	3,875	4,038	2,313	2,038	11,760	12,297
Acquired companies	310	1	-	2	40	6	350	9
Investments	296	118	9	17	-	-	305	135
Divestments/Disposals	-179	7	-47	-69	-1,296	310	-1,522	248
Reclassifications	-2,890	125	1,161	-10	-241	45	-1,970	160
Divested companies	-17	-842	-	-76	-2	-	-19	-918
Translation differences	3	-58	-39	-27	82	-86	46	-171
Accumulated acquisition value carried forward	3,095	5,572	4,959	3,875	896	2,313	8,950	11,760
Accumulated amortisation according to plan								
Amortisation brought forward	-2,192	-2,067	-1,931	-1,877	-1,740	-1,212	-5,863	-5,156
Acquired companies	-1	-	-	-	-	-	-1	0
Amortisation for the year	-255	-430	-273	-130	-122	-288	-650	-848
Divestments/Disposals	171	-9	33	59	1,296	-268	1,500	-218
Reclassifications	372	-	1,003	-	49	-	1,424	0
Divested companies	17	295	-	-	2	-	19	295
Translation differences	3	19	7	17	-66	28	-56	64
Accumulated amortisation carried forward	-1,885	-2,192	-1,161	-1,931	-581	-1,740	-3,499	-5,863
Write-downs								
Write-downs brought forward	-39	-586	-300	-305	-	-	-339	-891
Write-downs for the year	-2	-	-	-	-211	-	-213	0
Divestments/Disposals	-	-	7	-	-	-	7	0
Reclassifications	24	-	-24	-	-	-	0	0
Divested companies	-	547	-	5	-	-	0	552
Translation differences	-	-	-	-	5	-	5	0
Accumulated write-downs carried forward	-17	-39	-317	-300	-206	-	-668	-339
Residual value according to plan carried forward	1,193	3,341	3,481	1,644	109	573	4,783	5,558

Note 18 Tangible fixed assets (excluding investment property)

	Land and buildings*		Plants and machinery and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress**		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition values										
Acquisition values brought forward***	63,254	64,578	320,280	312,479	9,619	9,686	6,495	5,870	399,648	392,613
Acquired companies	56	332	1,714	3,967	7	56	128	218	1,905	4,573
Investments****	384	227	2,656	1,830	413	497	6,399	6,083	9,852	8,637
Transfer from construction in progress	370	424	5,319	4,728	90	102	-5,779	-5,254	0	0
Divestments/Disposals	-624	-1,252	-2,047	-2,368	-289	-1,015	-12	-40	-2,972	-4,675
Reclassifications to investment property	-2,499	-	-	-	-	-	-	-	-2,499	0
Other reclassifications	-	-187	1,139	-236	-927	376	-144	-156	68	-203
Altered classification of government grants*****	-	-	-	4,304	-	-	-	-	0	4,304
Divested companies	-315	-	-215	-347	-83	-19	-1	-60	-614	-426
Translation differences	99	-868	-350	-4,077	-46	-64	-5	-166	-302	-5,175
Accumulated acquisition values carried forward*	60,725	63,254	328,496	320,280	8,784	9,619	7,081	6,495	405,086	399,648
Accumulated depreciation according to plan										
Depreciation brought forward	-28,799	-28,367	-177,713	-167,980	-7,857	-7,711	-	-	-214,369	-204,058
Acquired companies	-	-	-6	-15	-	-6	-	-	-6	-21
Depreciation for the year	-1,638	-1,541	-11,526	-11,000	-431	-816	-	-	-13,595	-13,357
Divestments/Disposals	602	551	1,410	1,867	263	908	-	-	2,275	3,326
Reclassification to investment property	540	-	-	-	-	-	-	-	540	0
Other reclassifications	-	116	-1,383	396	665	-310	-	-	63	202
Altered classification of government grants*****	-	-	-	-3,333	-	-	-	-	0	-3,333
Divested companies	197	-	141	58	41	8	-	-	379	66
Translation differences	-47	442	127	2,294	45	70	-	-	125	2,806
Accumulated depreciation carried forward	-29,145	-28,799	-188,950	-177,713	-7,274	-7,857	-	-	-225,369	-214,369

	Land and buildings*		Plants and machinery and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress**		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Write-downs										
Write-downs brought forward	-1,158	-1,104	-2,502	-2,673	-51	-50	-2	-1	-3,713	-3,828
Acquired companies	-	-	-569	-1	-	-1	-1	-1	-570	-3
Write-downs for the year	-138	-98	-	-61	-	-2	-3	-1	-141	-162
Divestments/Disposals	4	11	91	287	-	8	-	1	95	307
Reclassification to investment property	679	-	-	-	-	-	-	-	679	0
Other reclassifications	-164	20	1,363	-79	-	-7	-3	-	1,196	-66
Translation differences	13	13	13	25	-	1	-	-	26	39
Accumulated write-downs carried forward	-764	-1,158	-1,604	-2,502	-51	-51	-9	-2	-2,428	-3,713
Residual value according to plan carried forward	30,816	33,297	137,942	140,065	1,459	1,711	7,072	6,493	177,289	181,566

*) Acquisition values for land and buildings include acquisition values for land and water rights amounting to SEK 15,214 million (15,214), which are not subject to depreciation.

**) For the year, interest during the construction period has been reported as an asset in the amount of SEK 69 million (96).

***) Government grants received, balance brought forward, amount to SEK 4,874 million (4,682). Accumulated interest reported as an asset of SEK 566 million (497) is included in the acquisition value of buildings.

****) Government grants received during the year amount to SEK 146 million (192).

*****) During 2003, certain government grants were reclassified as liabilities. This caused an increase in the acquisition value equal to the received subsidy and an increase in the accumulated depreciation equal to the difference if the grants had originally been classified as a liability.

Tax assessment values (for Swedish real estate)

	2004	2003
Buildings	71,093	78,351
Land	26,140	30,310
Total	97,233	108,661

Transmission lines and transformer stations are not subject to tax assessment values.

Note 19 Advances and long-term receivables

	Advance payment to suppliers concerning intangible fixed assets		Advance payment to suppliers concerning tangible fixed assets		Receivables from associated companies		Other long-term receivables	
	2004	2003	2004	2003	2004	2003	2004	2003
Balance brought forward	-	-	374	245	1,961	1,978	10,046	5,054
Transition effect on application of new accounting principles	-	-	-	-	-	-	555	-
Acquired companies	-	-	-	-	-	-	-	151
New advances/receivables	282	-	104	235	15	104	157	4,174
Deferred tax assets, provisions/dissolution for the period, net	-	-	-	-	-	-	-832	1,029
Payments received	-	-	-	-	-127	-89	70	-235
Write-downs/offsets	-	-	-	-	-	-	-5	-
Divested companies	-	-	-2	-	-	-1	-4	-
Exchange rate differences	-	-	-3	-2	-13	-30	-61	-56
Reclassifications	-	-	-13	-104	24	-1	8	-71
Balance carried forward	282	-	460	374	1,860	1,961	9,934	10,046

Specification of other long-term receivables:

	2004	2003
Deferred tax assets	4,038	4,410
Long-term interest-bearing receivables	4,418	4,492
Long-term non-interest-bearing receivables	1,478	1,144
Total	9,934	10,046

Note 20 Investment property

	Buildings 2004	Land im- provements 2004	Land 2004	Total 2004
Acquisition values				
Acquisition value brought forward	1,124	67	1,423	2,614
Investments	5	1	3	9
Divestments/Disposals	-48	-2	-43	-93
Translation differences	-13	-1	-17	-31
Acc. acquisition values carried forward reclassified from other tangible fixed assets	1,068	65	1,366	2,499
Accumulated depreciation according to plan				
Depreciation brought forward	-512	-46	-	-558
Depreciation for the year	-28	-2	-	-30
Divestments/Disposals	40	1	-	41
Translation differences	6	1	-	7
Acc. depreciation carried forward reclassified from other tangible fixed assets	-494	-46	-	-540
Write-downs				
Write-downs brought forward	-151	-2	-289	-442
Write-downs for the year	-104	-3	-144	-251
Divestments/Disposals	-	-	-6	6
Translation differences	3	-	-5	8
Acc. write-downs carried forward reclassified from other tangible fixed assets	-252	-5	-422	-679
Residual value according to plan carried forward	322	14	944	1,280
Estimated fair value	348	18	1,231	1,597

Investment property encompasses approximately 190 properties located in Berlin, Hamburg and former East Germany. The estimated fair value has been defined as the amount at which the concerned property could be transferred between knowledgeable partners who are independent of each other and who have an interest in completing the transaction. The fair value calculations have mainly been made by Vattenfall's own assessors.

Rental income from external customers amounted to SEK 109 million in 2004. Direct costs for the concerned properties amounted to SEK 292 million in 2004, of which SEK 146 million is related to properties that did not generate rental income.

Note 21 Participations in Group companies, associated companies and other long-term securities holdings

	Participations in associated companies		Other long-term securities holdings	
	2004	2003	2004	2003
Balance brought forward	15,676	18,042	1,022	1,354
Acquired companies	-	-	-	62
Investments	40	487	5	19
New share issues and shareholders' contribution	2	47	-	-
Divestments	-30	-301	-450	-262
Reclassifications	-12	-1,383	13	-65
Change in value associated companies	-448	-791	-	-
Write-downs	-773	-88	-22	-69
Translation differences	-136	-337	-	-17
Balance carried forward	14,319	15,676	568	1,022

Note 22 Shares and participations

The list below encompasses the parent company's directly and indirectly held shares and participations.

Group companies	Corporate Identity Number	Registered office	Hodling, %	Number of shares	Book value
Nordic Countries					
Abonnera i Sverige AB	556572-9869	Stockholm	100	50,000	5
Arrowhead Services AB	556463-7683	Östersund	100	161,433,752	0
Bergeforsens Kraft AB	556044-8887	Sundsvall	60	3,240	3
Energibolaget Botkyrka-Salem Försäljn. AB	556014-7406	Botkyrka	100	24,000	35
eXcert AB	556500-4974	Malmö	100	11,000	1
Forsaströms Kraft AB	556010-0819	Åtvidaberg	100	400,000	48
Forsmarks Kraftgrupp AB	556174-8525	Östhammar	66	198,000	198
Försäkrings AB Vattenfall Insurance	516401-8391	Stockholm	100	200,000	200
Gotlands Energi AB	556008-2157	Gotland	75	112,500	13
Kraftbyggarna Entreprenad AB	556333-2468	Luleå	100	38,000	46
Nordic Power Invest AB	556377-2861	Stockholm	100	218,000	134
Produktionsbalans PBA AB	556425-8134	Stockholm	100	4,800	5
Ringhals AB	556558-7036	Varberg	74	300,000	457
Sensel AB	556573-5965	Stockholm	100	300,000	26
Svensk Kärnbränslehantering AB*	556175-2014	Stockholm	36	360	0
SwedPower AB	556383-5619	Stockholm	100	12,500	15
SwedPower International AB	556192-6212	Stockholm	100	4,000	12
Säffle Årjäng Energi AB	556499-8689	Säffle	100	8,000	22
Vattenfall Bränsle AB	556440-2609	Stockholm	100	100	96
Vattenfall Danmark A/S	250526	Gentofte	100	8,200,000	8
Vattenfall Business Services Nordic AB	556439-0614	Stockholm	100	100	10
Vattenfall Fastigheter AB	556438-5952	Sundsvall	100	100	120
Vattenfall Oy	1071366-1	Helsinki	100	10,000	1,483
Vattenfall Power Management AB	556573-5940	Stockholm	100	6,570	7
Vattenfall Eldistribution AB	556417-0800	Stockholm	100	8,000	11
Vattenfall Service Nord AB	556242-2959	Luleå	100	10,000	1

Continuation Note 22, see next page

Group companies	Corporate Identity Number	Registered office	Holding, %	Number	Book value
Vattenfall Service Syd AB	556417-0859	Trollhättan	100	16,000	18
Vattenfall Treasury AB (publ)	556439-0606	Stockholm	100	500	6
Vattenfall Utveckling AB	556390-5891	Älvkarleby	100	14,000	17
Vattenfall Vätter EI AB	556528-3180	Motala	100	100	291
VGS AB	556013-1574	Stockholm	100	150,000	16
Västerbergslagens Elnät AB	556565-6864	Ludvika	51	1,518	2
Västerbergslagens Energi AB	556565-6872	Ludvika	51	7,590	8
Västerbergslagens Kraft AB	556194-9784	Ludvika	58	89,726	19
Västerbergslagens Värme AB	556565-6856	Fagersta	51	5,566	6
Örestads Vindkraftpark AB	556550-1292	Malmö	100	219,919	125
Other companies					15
Germany					
Vattenfall Deutschland GmbH	(HRB) 62659	Hamburg	100	2	18,868
Vattenfall Europe AG**	HRB 1955	Berlin	36	72689384	9,662
Poland					
Elektrociepownie Warszawskie S.A.	38,440	Warsaw	75	18,366,042	3,238
Górnoslaski Zakład Elektroenergetyczny S.A.	RHB 9861	Gliwice	75	935,341	5,266
Other countries					
Vattenfall Estonia OÜ	10142764	Tallinn	100	100	6
Vattenfall Reinsurance S.A.	(B) 49528	Luxembourg	100	12,999	13
Other companies					1
Total, parent company					40,533

*) Group companies own a further 20 per cent through Forsmarks Kraftgrupp AB.

**) Vattenfall AB and other Group companies own a total of 94 per cent through Vattenfall Deutschland's holding.

Larger shareholdings held by Group companies

	Registered office	Holding, %		Registered office	Holding, %
Nordic Countries					
Barsebäck Kraft AB	Malmö	74	MVR Müllverwertung		
Pamilo Oy	Uimaharju	100	Rugenberger Damm GmbH	Hamburg	55
Vattenfall Indalsälven AB	Bispgården	74	Vattenfall Europe AG	Berlin	94
Vattenfall Tuotantoverkko Oy	Helsinki	100	Vattenfall Europe Generation GmbH	Berlin	94
Vattenfall Verkkö Oy	Helsinki	100	Vattenfall Europe Mining AG	Cottbus	94
Germany					
Bewag AG & Co. KG	Berlin	94	Vattenfall Europe Nuclear Energy GmbH	Berlin	94
Energie Südwest AG	Landau	51	Vattenfall Europe Sales GmbH	Berlin	94
Fernheizwerk Neukölln AG	Berlin	71	Vattenfall Europe Transmission GmbH	Berlin	94
Fernheizwerk Märkisches Viertel GmbH	Berlin	71	Vattenfall Europe Waste to Energy GmbH	Hamburg	94
Hamburgische Electricitäts-Werke AG	Hamburg	94	Vattenfall Trading Services GmbH	Hamburg	94
HEW Verteilungsnetz GmbH & Co KG	Hamburg	94	VEAG Kraftwerke Schwarze Pumpe GmbH	Vetschau	94
Kernkraftwerk Brunsbüttel GmbH & Co oHG	Hamburg	63	WEMAG AG	Schwerin	74
Polen					
			Nieruchomosci EWSA Grupa Vattenfall	Warsaw	75

Associated companies

	Corporate Identity number	Registered office	Holding, %	Number of shares	Book value Group	Book value Parent company
Directly-owned associated companies						
Nordic Countries						
i/s Avedøreværket 2	(LEV) 221005	Gentofte	40		14	14
Bodens Energi AB	556200-9117	Boden	40	20	62	0
Gulsele AB	556001-1800	Sollefteå	35	84,000	334	332
Luleå Energi AB	556139-8255	Luleå	30	54,000	200	3
PiteEnergi AB	556330-9227	Piteå	50	70,000	186	7
Plusenergi AB	556572-4696	Gothenburg	50	50,000	149	170
Preem Gas AB	556037-2970	Stockholm	30	750	8	7
SwePol Link AB	556530-9829	Stockholm	48	288,000	6	3
Other companies					2	4
Indirectly-owned associated companies						
Nordic Countries						
Asikkalan Voima Oy	1031853-0	Asikkala	50	1,000	10	-
Terki Oy	0953-041-1	Helsinki	20	500	12	-
Ätvidabergs Fjärrvärme AB	556543-1607	Ätvidaberg	50	10,000	10	-
Other companies					7	-

Continuation Note 22, see next page

Continuation Note 22

	Corporate Identity number	Registered office	Holding, %	Number of shares	Book value Group	Book value Parent company
Germany						
AVG Abfall-Verwertungs -Gesellschaft mbH	B42798	Hamburg	20		24	-
EHA Energie Handels GmbH & Co KG	HRA 92729	Hamburg	50		13	-
ESAG Energieversorgung Sachsen Ost AG	HRB 965	Dresden	29	436 928	976	-
GASAG Berliner Gaswerke AG	HRB 44343	Berlin	32		3,107	-
Kernkraftwerk Krümmel GmbH	HRB 15033	Hamburg	50		4,354	-
Kernkraftwerk Stade GmbH	HRB 12163	Hamburg	33		992	-
Kernkraftwerk Brokdorf GmbH	HRB 17623	Hamburg	20		1,482	-
KOROS GmbH & Co KG	HRA 17858	Cologne	95		1,667	-
Solara AG	HRB 73378	Hamburg	21	13,483	14	-
Städtische Werke AG	HRB 2150	Kassel	25		360	-
Stadtwerke Eilenburg GmbH	HRB 12673	Leipzig	49		51	-
Stadtwerke Wittenberg GmbH	HB 2407	Wittenberg	23	22,700	25	-
TVF GmbH	HRB 3506	Lübbenau	50	2,500	14	-
Other companies					76	-
Other countries						
Compania Electrica de Sochagota	46782	Colombia	25		164	-
Summa					14,319	540

Other long-term securities holdings

	Holding, %	Number of shares	Book value Group	Book value Parent company
Directly-owned securities holdings				
Nordic Countries				
Jämtkraft AB, Sweden	20*	13,000	23	23
Leksand-Rättvik Energi AB, Sweden	8	11,763	23	23
Other companies			6	6
Other countries				
Eutilia, Netherlands	8	7,830	3	3
Indirectly-owned securities holdings				
Germany				
GNS Gesellschaft für Nuklearservice GmbH	6		23	-
Stadtwerke Parchim GmbH	15		27	-
Stadtwerke Rostock AG	12		362	-
Other companies			42	-
Other countries/companies				
Nordic Countries			21	-
Poland			11	-
ELINI, Netherlands	22**		27	-
Total			568	55

*) Share of voting rights is 16 per cent.

**) Share of voting rights is 14 per cent.

Note 23 Inventories

	2004	2003
Raw materials and consumables		
Nuclear fuel	3,888	4,023
Oil	360	330
Coal etc.	1,320	1,107
Materials and spare parts	1,902	1,823
Total	7,470	7,283

Note 24 Current receivables

	2004	2003
Accounts receivable-trade	15,381	16,283
Receivables from associated companies	2,507	2,466
Other receivables	4,115	4,469
Prepaid expenses and accrued income	3,051	3,614
Total	25,054	26,832

Breakdown of prepaid expenses and accrued income:

	2004	2003
Prepaid insurance premiums	35	29
Prepaid expenses, other	408	648
Prepaid expenses and accrued income, electricity	650	778
Accrued income, other	1,958	2,159
Total	3,051	3,614

Note 25 Current investments

	2004	2003
Interest-bearing investments	10,307	11,179
Shares	756	774
Derivatives	-	21
Total	11,063	11,974

Note 26 Provisions

	2004	2003
Pension provisions	16,450	14,946
Provision for deferred tax liability	34,688	34,854
Provisions for future expenses of nuclear waste management	6,709	6,592
Provisions for future expenses of mining operations and other environmental measures/undertakings	8,224	10,219
Personnel-related provisions for non-pension purposes	5,887	6,498
Provisions for tax and legal disputes	5,558	6,752
Negative goodwill	6,928	10,123
Other provisions	2,457	1,900
Total	86,901	91,884

Pensions:

Vattenfall's pension obligations in the Group's Swedish and German companies are predominantly defined benefit pension commitments. The concerned pension plans are primarily retirement pensions, disability pensions and family pensions. The assets in these funds, the investment assets, are reported at fair value. There are also pension plans in these and other countries that are defined contribution plans.

The Swedish pension plans supplement the Swedish social insurance system and are the result of agreements between employer organisations and labour organisations. Almost all 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 in a Pension Foundation, through provisions in the balance sheet or insurance premiums.

Vattenfall's commitments for retirement pensions and family pensions for office employees in Sweden, secured through an insurance policy from Alecta, are not reported in accordance with the Swedish Financial Accounting Standards Council's recommendation RR29. According to a statement issued by the Swedish Financial Accounting Standards Council's emerging issues task force, URA 42, this plan is a defined benefit plan encompassing several employers. For the 2004 financial year, Vattenfall has not had access to such information as to make it possible to report this plan as a defined benefit plan. The ITP pension plan, which is secured through an insurance policy from Alecta, is therefore reported as a defined contribution plan. Fees for the year for pension insurance policies from Alecta amount to SEK 127 million (123). Alecta's profit can be distributed between the policyholders and/or the insured parties. At the end of 2004, Alecta's profit in the form of the so-called collective consolidation level amounted to 128 per cent (120). The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's insurance calculation principles and assumptions, which are not in agreement with RR 29.

The pension plans in Germany are based on collective agreements in line with market terms and conditions. Substantial defined benefit plans exist in Germany for employees of the companies Bewag and HEW.

Bewag's pension plan is financed through Pensionskasse der Bewag, a mutual insurance company. This plan is financed through funds from Bewag and its employees. In the accounts, these commitments are treated as defined contribution plans. For employees who began their employment before 1 January 1984, there is a transitional agreement providing employees working until retirement age with a pension equal to up to 80 per cent of the salary on which the pension is based. Half of the statutory pension and the entire benefit from Pensionskasse der Bewag, including profits, are credited to the guaranteed amount. Bewag's obligations encompass the entire pension commitment. The investment assets attributable to personnel employed since before 1 January 1984 are reported as investment assets at market value.

Pension commitments for HEW employees are mainly comprised of the company's commitments 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 per cent of the salary on which the pension is based.

As of 2004, the Group applies the Swedish Financial Accounting Standards Council's recommendation RR29 on employee benefits, which for all intents and purposes complies with IAS 19 – Employee Benefits. Through the application of RR29, the defined benefit pension plans of all Group companies are reported according to the same principles. To this end, the pension plans are calculated on an actuarial basis in accordance with the Projected Unit Credit Method. The total effect of the transition is SEK 1,265 million and this has been reported as an increase in pension provisions. The change in accounting principle has entailed a reduction in non-restricted consolidated equity of SEK 670 million after taking into account deferred tax and minority interests.

Actuarial gains and losses are taken up as income and expenses

respectively and evenly distributed over the employees' remaining employment periods to the extent that the total gain or loss for a particular pension plan falls outside a corridor equal to 10 per cent of the greater of the pension commitment and the fair value of the investment assets for each individual plan.

The total pension costs for defined benefit pension plans are presented below:

Pension cost	2004
Cost attributable to service performed during the year	435
Interest expense	1,670
Anticipated return from investment assets	-840
Cost attributable to service performed during previous years	42
Other	25
Total cost for defined benefit plans	1,332
Cost for defined contribution plans	312
Total pension costs	1,644
Actual return on investment assets	1,029

	Fully or partially funded pension plans	Non-funded pension plans	Actuarial gains/losses	2004
Present value of obligations	15,261	17,052	-	32,313
Investment assets' fair value	-14,972	-	-	-14,972
Unreported actuarial gains and losses	-	-	-891	-891
Total pension provisions at year-end	289	17,052	-891	16,450

Provisions for pensions (changes in 2004)

Balance brought forward	14,946
Transition effect on application of new accounting principles	1,265
Acquired companies	86
Cost for defined benefit plans	1,332
Provisions used	-1,214
Reclassifications	143
Translation differences	-108
Balance carried forward	16,450

In calculating pension obligations for 2004, the following actuarial assumptions have been made:

	%
Discount rate	5.0
Anticipated return from investment assets	5.5
Future annual salary increases	2.5–3.5
Future annual pension increases	2.0–2.5

Provisions for deferred tax liability:

These relate to deferred tax in so-called untaxed reserves, SEK 29,702 million, the provision for deferred tax that is made when acquisition analyses are approved in conjunction with company acquisitions, SEK 2,521 million, as well as other provisions for deferred tax liabilities attributable to so-called temporary differences, SEK 2,465 million. A major share of deferred tax liabilities is attributable to tax calculated on the difference between the book value of fixed assets and the equivalent value for tax assessment purposes.

As the greater part of deferred tax liabilities is attributable to untaxed reserves, and with the assumption of a normal rate of new investment for the Vattenfall Group in the future, combined with the assumption of unchanged regulations regarding depreciation for tax assessment purposes, it is most probable that no cash outflow need be assumed.

Continuation Note 26

Provisions for deferred tax liabilities (changes in 2004)

Balance brought forward	34,854
Transition effect on application of new accounting principles	-40
Acquired companies	310
Provisions/dissolutions for the period, net	-317
Translation differences	-119
Balance carried forward	34,688

Provisions for future expenses of nuclear waste management:

In Germany, provisions are made in the balance sheet by the companies themselves for the future management of nuclear waste and the decommissioning of nuclear power operations. The Swedish power companies do not make corresponding provisions. Instead, they pay a fee to the Swedish Nuclear Waste Fund for the future management of nuclear waste and the decommissioning of nuclear power operations.

Existing plans for the decommissioning of the German nuclear power operations involve about 91 per cent of the provisions for future expenses of nuclear waste management and will result in cash flows after 2007. For 2005, disbursements are estimated at approximately 2 per cent of the provisions while disbursements for the remaining 7 per cent are estimated to be evenly distributed over the years 2006–2007.

Provisions for nuclear power (changes in 2004)

Balance brought forward	6,592
Provisions for the period	73
Discounting effects	359
Provisions used	-173
Reclassified provisions	43
Reversed provisions	-120
Translation differences	-65
Balance carried forward	6,709

Provisions for future expenses of mining operations and other environmental measures/undertakings:

Provisions are made for restoring sites and other undertakings connected with the Group's permits for conducting lignite mining in Germany. Provisions are also made for environmental measures/undertakings within other activities carried out by the Group.

In accordance with current assessments, some 73 per cent of the provisions will result in cash outflows later than 2007. For 2005, disbursements are estimated at 14 per cent of the provisions while disbursements for the remaining 13 per cent or so of the provisions are estimated to be relatively evenly distributed over the years 2006–2007.

Provisions for future expenses of mining operations etc. (changes in 2004)

Balance brought forward	10,219
Provisions for the period	269
Discounting effects	-90
Provisions used	-649
Reversed provisions	-1,431
Divested companies	-12
Translation differences	-82
Balance carried forward	8,224

Personnel-related provisions for non-pension purposes:

Provisions are made for future expenditure relating to redundancy in the form of severance pay and other expenditure for giving notice to personnel in the ongoing restructuring of activities, primarily in Germany.

Approximately 27 per cent of the provisions that have been made are expected to result in disbursements in 2005 and thereafter approximately 65 per cent relatively evenly distributed over the years 2006–2011. The remaining 8 per cent are estimated to result in cash flows after 2011.

Personnel-related provisions for non-pension purposes (changes in 2004)

Balance brought forward	6,498
Acquired companies	21
Provisions for the period	992
Discounting effects	271
Provisions used	-1,646
Reclassified provisions	212
Reversed provisions	-406
Divested companies	-11
Translation differences	-44
Balance carried forward	5,887

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 as regards cable laying on land in former East Germany.

About 75 per cent of provisions for tax and legal actions are expected to result in disbursements during the years 2006–2011. The remaining 25 per cent or so of the provisions are expected to result in cash flows in 2005.

Provisions for tax and legal disputes (changes in 2004)

Balance brought forward	6,752
Provisions for the period	407
Discounting effects	87
Provisions used	-1,081
Reclassified provisions	-5
Reversed provisions	-536
Divested companies	-2
Translation differences	-64
Balance carried forward	5,558

Negative goodwill:

Negative goodwill is attributed to operations acquired in Germany. Negative goodwill has been successively dissolved as losses and restructuring costs have arisen.

Gross profit for 2004 includes the dissolution of negative goodwill in the amount of SEK 3,034 million (4,754).

Provisions for negative goodwill

Value at time of acquisition	21,639
Provisions used 2001–2003	-10,919
Translation differences previous years	-597
Balance brought forward 2004	10,123
Acquired companies	-94
Provisions used 2004	-3,034
Translation differences	-67
Balance carried forward	6,928

Other provisions:

Other provisions include those for losses on contracts, restructuring and guarantee commitments, among others. Approximately 27 per cent of these provisions are expected to result in disbursements in 2005 while the remaining share is expected to result in cash flow, primarily during the period 2006–2007.

Other provisions (changes in 2004)

Balance brought forward	1,900
Provisions for the period	1,393
Discounting effects	-70
Provisions used	-235
Reversed provisions	-140
Reclassified provisions	-398
Divested companies	-4
Translation differences	11
Balance carried forward	2,457

Note 27 Long-term interest-bearing liabilities

	2004	2003
Bond loans	38,062	36,918
Liabilities to credit institutions	7,896	9,843
Liabilities to minority owners	3,736	3,967
Liabilities to associated companies	13,635	13,994
Other liabilities	790	5,123
Total	64,119	69,845

Of the above liabilities, the following amounts are due after more than five years: Bond loans SEK 18,803 million (25,156), Liabilities to credit institutions SEK 3,892 million (4,371), Liabilities to minority owners SEK 3,324 million (3,529) and Other long-term borrowings SEK 138 million (486).

Loans and credit facilities

	Agreed amount	Currency	Maturity	Used proportion, %	Posted external liability
Loans					
Commercial Papers	15,000	SEK		–	–
Euro Commercial Paper	1,000	USD		48	–
US Commercial Paper	2,000	USD		–	–
Medium Term Note	10,000	SEK		24	2,402
Euro Medium Term Note	6,000	USD		73	37,977
Polish Commercial Paper	1,000	PLN		–	–
Committed credit facilities					
Revolving Credit Facility*	600	EUR	2009	–	–
Bank overdraft facilities	202	SEK		–	–
Uncommitted credit facilities					
Bank overdraft facilities and other lines of credit	10,135	SEK		19	1,614
Total					41,993

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

Benchmark bonds

Type	Currency	Amount	Coupon, %	Due	Rating/Outlook S&P	Rating/Outlook Moody's
Euro Medium Term Note	EUR	500	6.125	2007	A-/Stable	A3/Stable
Euro Medium Term Note	EUR	650	6.0	2009	A-/Stable	A3/Stable
Euro Medium Term Note	EUR	500	6.0	2010	A-/Stable	A3/Stable
Euro Medium Term Note	EUR	500	5.0	2018	A-/Stable	A3/Stable
Euro Medium Term Note	EUR	500	5.375	2024	A-/Stable	A3/Stable

Financing risk, interest risk and currency risk are described under the heading Risks and risk management on page 73.

Note 28 Long-term non-interest-bearing liabilities

Of the total liabilities of SEK 2,135 million (2,236), SEK 1,393 million (1,513) fall due after more than five years.

Note 29 Current interest-bearing liabilities

	2004	2003
Bond loans	2,317	7,231
Commercial Papers	–	1,565
Liabilities to credit institutions	5,347	5,272
Liabilities to minority owners	323	323
Liabilities to associated companies	833	984
Other liabilities	74	327
Total	8,894	15,702

Note 30 Current non-interest-bearing liabilities

	2004	2003
Advance payments from customers	689	517
Accounts payable-trade	7,591	9,095
Liabilities to associated companies	361	167
Tax liabilities	1,999	490
Other liabilities	2,768	3,592
Accrued expenses and deferred income	9,954	9,552
Total	23,362	23,413

Breakdown of accrued expenses and deferred income:

	2004	2003
Accrued personnel-related costs	2,776	2,736
Accrued nuclear power-related fees and taxes	108	44
Accrued interest expense	776	911
Other accrued expenses	4,208	3,126
Deferred income		
and accrued expenses, electricity	536	780
Other deferred income	1,550	1,955
Total	9,954	9,552

Note 31 Fair value of financial instruments

The table below shows book value and fair value according to item type. Financial instruments in which book value does not deviate from fair value have not been included in the table below.

	2004	
	Book value	Fair value
Current investments		
Interest-bearing investments	10,307	10,429
Shares	756	780
Total	11,063	11,209
Interest-bearing debt		
Bond loans excl. derivatives	39,211	43,111
Liabilities to credit institutions and others excl. derivatives	14,132	14,484
Liabilities to minority owners*	4,059	4,059
Liabilities to associated companies*	14,468	14,468
Derivatives	1,143	–30
Total	73,013	76,092
Other derivatives		
Transaction exposure**	–	181
Translation exposure	–	378
Total	–	559

*) The fair value of liabilities to minority owners and associated companies has been assumed to be the same as the book value. Fair value does not include accrued interest. Fair value is not adjusted for transaction costs, which are however of little importance in this context.

**) Transaction exposure concerns exchange rate hedges and electricity trading where the Group as a whole has a significant long position.

Transaction exposure

Unrealised gains/losses, net per delivery year

Year	
2005	-146
2006–2009	280
2010–	47
Total	181

Fair value is calculated for listed securities and instruments such as shares, government bonds and futures based on market prices. For non-listed securities and instruments such as internally issued bonds, loans and interest and currency swaps, future cash flow is discounted to the prevailing zero coupon rates. The zero coupon rate for each currency is derived from deposit rates, such as STIBOR, for shorter maturities and from swap rates for longer maturities. Closing day rates have been used for the conversion to SEK of instruments in foreign currencies.

Note 32 Pledged assets

	2004	2003
For own liabilities and provisions		
Liabilities to credit institutions:		
Floating charges	7	78
Real estate mortgages	5	10
Blocked bank funds as security for trading on energy exchanges	220	8
Other	15	16
Total	247	112

Note 33 Contingent liabilities

	2004	2003
Guarantees	2,629	2,661
Other contingent liabilities	4,033	6,023
Swedish Nuclear Waste Fund	3,779	3,673
Total	10,441	12,357

Other contingent liabilities

Compensatory and free power deliveries:

Wholesale power deliveries		
Number of commitments	13	13
Capacity MW	217	217
Energy deliveries, TWh/year	0.9	0.9

On some rivers, several hydro power stations share regulation facilities. The owners of the stations are each liable for their share of the regulation costs.

Under Swedish law, Vattenfall has a strictly unlimited liability for third-party damages resulting from dam accidents. Together with other hydro power producers in Sweden, Vattenfall has taken out liability cover which will pay out a maximum of SEK 6,000 million for this type of damages.

As a natural part of the Group's business and in addition to the obligations specified above, guarantees are put in place for the fulfilment of various contractual obligations.

Within its German operations in 1999 and 2000, Vattenfall conducted a number of leasing transactions involving power plants. The

basis for the transactions is the right of use of power plants leased to US counterparts as part of so-called head leases, lasting a maximum of 99 years, and thereafter leased back for 24 years, as part of so-called subordinated leases. After the subordinated leases expire, Vattenfall has the right to regain the right of use through a call option. Rent from the US counterparts has been received in advance and has been deposited in financial institutions with high credit ratings for the payment of sums due in accordance with the subordinated leases, including payment of the options. The net difference between rental payments received and deposits made has been reported as a net figure at the time the lease contracts were entered. Should the leasing parties or the underlying customers fail to meet their obligations during the leasing period, this will incur termination costs for Vattenfall. On closing day, these obligations amounted to a maximum of SEK 1,226 million, which is included in the reported contingent liabilities.

In 2003 in its Swedish operations, Vattenfall carried out a leasing transaction for a power plant. The basis of the transaction is a sales and lease-back agreement for the power plant, which was sold to a French counterpart and leased back for 15 years. Once the leasing period expires, Vattenfall has the right to purchase the plant via a call option. Income from the sale to the French counterpart has been deposited with a financial institution with a high credit rating for the disbursement of the leasing payments, including the sum for the option. If Vattenfall should wish to prematurely redeem the leasing agreement, this would incur costs for Vattenfall. On closing day, these costs amounted to a maximum of SEK 32 million.

In Germany, actors operating nuclear power plants have unlimited liability. The combined mandatory insurance coverage for all these actors is EUR 2,500 million. Claims of up to EUR 256 million are covered by the German Mutual Atomic Energy Reinsurance Pool. Claims in excess of EUR 256 million up to a maximum of EUR 2,500 million are covered by a joint liability insurance agreement (Solidarvereinbarung) between the German nuclear power plant operators. This agreement entails an obligation for two claims during one and the same year. The Vattenfall Group's share of this joint liability insurance agreement is EUR 194.75 million per claim, or a total of EUR 389.50 million, equivalent to SEK 3,508 million.

Vattenfall AB and Vattenfall Europe AG have provided security for the energy trading conducted by the subsidiary Vattenfall Europe Trading GmbH consisting of guarantees to a total value of EUR 578 million. On closing day, guarantees totalling EUR 57 million, equal to SEK 516 million, were pledged and are included in the reported contingent liabilities.

Within the Group's Distribution business unit in Finland, the connection fees currently paid by customers are to be considered refundable in those cases where customers terminate their contracts. The annual refunds, however, are very small.

Note 34 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.

Vattenfall bears full financial responsibility for SwePol Link up to July 2020.

Note 35 Average number of employees and personnel costs

Average number of employees	2004			2003		
	Men	Women	Total	Men	Women	Total
Sweden	6,386	1,806	8,192	6,287	1,707	7,994
Finland	343	200	543	342	195	537
Germany	16,046	4,818	20,864	16,653	5,066	21,719
Poland	2,482	827	3,309	3,728	1,207	4,935
Other countries	86	23	109	89	22	111
Total	25,343	7,674	33,017	27,099	8,197	35,296

Personnel costs	2004	2003
Salaries and other remuneration	12,684	12,977
Social security expenses (of which pension expense)*	4,402 (1,174)	4,201 (961)
Total	17,086	17,178

*) SEK 59 million (55) of the pension expense are attributable to the group comprising presidents and vice presidents and former presidents and vice presidents. The Group's outstanding pension commitments attributable to these officers total SEK 374 million (371).

Salaries and other remuneration	2004			2003		
	Board members and senior executive officers*	Other employees	Total	Board members and senior executive officers*	Other employees	Total
Sweden	42	3,323	3,365	46	3,061	3,107
Finland	4	198	202	6	196	202
Germany	192	8,468	8,660	87	8,886	8,973
Poland	36	409	445	18	660	678
Other countries	–	12	12	–	17	17
Total**	274	12,410	12,684	157	12,820	12,977

*) Board members and senior executive officers also include alternates, vice presidents and former Board members, alternates, presidents and vice presidents.

**) Total salaries and other remuneration to Board members and presidents include bonuses of SEK 34 million (32).

Benefits to Board members and senior executive management of Vattenfall AB

SEK thousands	Board remuneration and basic salary incl. holiday pay	Company car and other remuneration	Pension expense	Estimated variable remuneration for 2004 to be paid 2005	Estimated long- term incentive (LTI) for 2002–2004 to be paid 2005
Dag Klackenborg, Chairman of the Board	400	–	–	–	–
Maarit Aarni, Board member	212	–	–	–	–
Carl-Gustaf Angelin, Board member	39	–	–	–	–
Johnny Bernhardsson, Board member	43	–	–	–	–
Christer Bådholm, Board member	250	–	–	–	–
Ronny Ekwall, Board member	39	–	–	–	–
Peter Fallenius, Board member	250	–	–	–	–
Jan Grönlund, Board member	200	–	–	–	–
Peter Lindell, Board member	250	–	–	–	–
Hans-Olov Olsson, Board member	133	–	–	–	–
Lone Fønss Schrøder, Board member	211	–	–	–	–
Anders Sundström, Board member	133	–	–	–	–
Lars Carlsson, Alternate	39	–	–	–	–
Stig Lindberg, Alternate	39	–	–	–	–
Per-Ove Lööv, Alternate	48	–	–	–	–
Lars G Josefsson, CEO, President	5,409	114	3,859	1,801	3,602
Matts Ekman, First Senior Executive Vice President, CFO	2,929	66	2,227	720	1,440
Klaus Rauscher, Senior Executive Vice President	6,156	58	466	2,052	3,730
Hans von Uthmann, Senior Executive Vice President	2,934	6	679	713	–
Alf Lindfors, Executive Vice President	2,482	100	4,594	594	1,188
Mats Fagerlund, Executive Vice President	3,010	506	1,804	2,006	2,073
Lennart Billfalk, Executive Vice President	2,099	53	3,789	516	1,032
Ann-Charlotte Dahlström, Senior Vice President Personnel	2,141	72	1,974	525	1,050
Knut Leman, Senior Vice President Communications	1,766	37	1,817	435	870
Magnus Groth, Executive Vice President	1,511	57	329	393	786
Total	32,723	1,069	21,538	9,755	15,771

Continuation Note 35

Board of Directors

In 2004, the Chairman of the Board received fees in the amount of SEK 400 thousand while other board members received fees totalling SEK 1,723 thousand (breakdown shown in the table above).

The four board members in the internal audit committee also received fees as follows: SEK 50 thousand each for those not employed by Vattenfall and SEK 13 thousand in total for the two employee representative board members holding these positions in 2004. These amounts are included in the table above under the heading Board remuneration.

Chief Executive Officer and President

In 2004, Lars G Josefsson, who is Chief Executive Officer and President of Vattenfall AB, received a salary and other remuneration, including the value of a company car, amounting to SEK 5,523 thousand. Variable remuneration for 2004 is estimated at SEK 1,801 thousand and a long term incentive for the period 2002–2004 of SEK 3,602 thousand. As of 2005, the President no longer receives any variable salary.

Lars G Josefsson, who was born in 1950, is entitled to retire at the age of 60. A retirement pension of 65 per cent of his salary upon retirement will be paid up to the age of 65. After this, retirement benefits will be paid corresponding to the applicable ITP benefit plan plus 32.5 per cent of the portion of his salary exceeding 30 basic amounts (a basic amount is a standard amount used for Swedish social security purposes). The latter retirement benefit has a time limit, and is payable up to the age of 80. After the age of 76, it decreases by a fifth for each consecutive year and ceases completely at the age of 80. Variable remuneration provides no basis for the pension. The pension commitment is covered by premiums paid to an insurance company on a regular basis. The benefits are vested, that is, not conditional on future employment.

In the event of termination of employment by Vattenfall, the CEO is entitled to severance pay corresponding to a maximum of 24 months' salary. However, severance pay may only be paid until the contractual retirement age. The size of the severance pay will be calculated on the basis of the fixed salary at the time of termination of employment, plus a third of the aggregate of the variable portion of the salary for the past three years. In the event of new employment or income from another source, the severance pay will be reduced by an amount corresponding to the new income or other benefits received during the period in question. Severance pay is paid monthly.

Other executive management

For other members of executive management who are part of Group management, a total of 9 people, the total sum of salary and other remuneration, including the value of company cars, was SEK 25,983 thousand.

In the case of the First Senior Executive Vice President, a premium-based pension solution applies with a retirement age of 60.

In the case of Dr. Klaus Rauscher, remuneration for pension benefits is paid as a salary supplement.

For other members of Group management retirement age varies between 60 and, for those employed after 1 October 2003, 62.

For those with the opportunity to retire at 60, between the ages –of 60 and 65 years, 70 per cent of the fixed salary is paid. Variable salary provides no basis for pensions between the ages of 60 and 65. The ITP plan applies from the age of 65, together with a supplementary pension, a so-called extension. The extension consists of 32.5 per cent of the part of the salary upon which the pension is based in excess of 20 basic amounts. Salary upon which the pension is based comprises basic salary and annual variable salary, in accordance with ITP. Service pension from age 65 is between 44 and 49 per cent of the fixed salary.

In those cases where the pension applies from age 62, ITP is applied with a so-called extension, equal to 32.5 per cent of salary in excess of 30 basic amounts. Furthermore, the average of the past five years' fixed salaries provides a basis for the pension, while variable salary is not included in the calculation. The pension is about 40 per cent of the fixed salary from age 62.

All pension benefits are vested, that is, not conditional on future employment. For these other members of Group management, premiums were paid to Alecta and ITP-K in amounts varying from SEK 141 thousand to SEK 193 thousand.

The remainder of the pension costs, the major part, is an actuarially calculated cost comprised of the ITP debt and the annual change in the capital value of the portions over and above ITP. This is posted as a liability and secured through Vattenfall's Pension Foundation. In one case, an alternative premium-based pension plan can be applied for high salaried staff, wherein premiums are paid instead of the equivalent amount being entered as a liability. The so-called extension over and above ITP, as described above, can also be applied for senior management.

For these members of senior management, if employment is terminated by the company, they are entitled to their salary during the contractual period of notice (6 months), plus severance pay comprising 18 months' salary, which is paid monthly with a deduction for the amount corresponding to new income during the period in question. Dr. Klaus Rauscher's employment is for a fixed contractual term.

Preparatory and decision processes

It is the Board as a whole that decides on the remuneration paid to the Chief Executive Officer following a proposal from the Chairman of the Board. For other members of management, the Chief Executive Officer decides on remuneration following consultations with the Chairman of the Board and after informing the Board. In 2004, the Board assigned a working party with the task of preparing a new remuneration system. See below for further details under the heading "New incentive programme 2005" and above on pages 60–61.

Incentive programme 2004

A variable remuneration system for managers has been applied in the Swedish segments of the Vattenfall Group and incentive programmes have been applied in most other business units and companies.

Variable salary for managers 2002–2004

For the period 2002–2004, a variable salary was directly linked to value creation*. For senior management, heads of group functions and business unit managers, an annual variable salary was paid, as is a 'long-term incentive' (LTI). The latter shall not exceed two annual variable salaries and will be paid after 2004 if the Group's financial targets are exceeded. This 'long-term incentive' does not provide a basis for pensions.

The value creation for Vattenfall's owner is expected to be very high if the Group attains or exceeds its three-year targets.

Within the business unit management groups, the Group level value creation goal is applied, corresponding to the business unit goal and own operative goals, as well as to management goals, all of which help to enhance value creation.

The CEO had a contractual right to a special performance-based variable salary equal to a maximum of 33 per cent of the fixed salary per year, and an LTI equal to two annual variable salaries for the three-year period 2002–2004, as detailed above.

For other Group management members and heads of group functions, the variable salary was permitted to total a maximum of 25 per cent of the fixed salary and the LTI was as detailed above. In the case of certain managers/key individuals within Group functions, a maximum of 10–15 per cent applied.

In the case of business unit managers, a maximum of 20 per cent of fixed salary and the LTI applied.

For business unit management groups, primarily CEOs of larger companies and managers of larger operational units, a maximum of 15 per cent applied.

A maximum of 8–10 per cent applied for staff members of the management groups.

A maximum of 15 per cent applied for heads of service companies, while a maximum of 8 per cent applied for members of a management group.

The above applied to a total of about 100 managers.

In other countries, Finland, Poland and Germany, the same value creation goals apply in agreements on variable salary for senior managers.

Incentive programme for other employees 2004

Within the Swedish segment of the Group, different types of incentive programmes are found in most business units and companies. These programmes are adapted to the different goals and needs of each unit. The maximum level averages about SEK 15 thousand per year.

New incentive programme 2005

Against the background of the Swedish government's new guidelines on remuneration to executive management and incentive programmes, the Board has adopted a new programme, which as of 2005 applies in the Swedish segment of operations and to employees in Sweden.

In line with the Swedish government's guidelines, the Group President no longer receives any variable salary. Regarding other managers and employees, variable salary may not exceed the equivalent of two monthly salaries a year, or 16.7 per cent of the normal fixed salary.

As before, the basis of the incentive programmes continues to be the Group's long-term value-creation. The Group goal is common to all. Further, the result of each unit and individual is measured.

All employees in Sweden are covered by the incentive programme.

*) Value creation = the positive change in operating profit less the required return on average net assets, where the required return is 11 per cent.

Note 36 Gender distribution among executive management

	Women %		Men %	
	2004	2003	2004	2003
Gender distribution among Board members	5	7	95	93
Gender distribution among other executive management	11	11	89	89

Note 37 Leasing

Leasing expenses

Equipment leased by the Group through financial leases and reported as tangible fixed assets comprises:

	2004	2003
Plants and machinery/Equipment		
Acquisition value	382	504
Accumulated depreciation according to plan	106	124
Write-downs	67	71
Residual value according to plan	209	309

Future payment commitments, as of 31 December 2004, for leasing contracts and rental contracts break down as follows:

	Financial leasing	Operating leasing
2005	57	483
2006	35	379
2007	14	322
2008	9	316
2009	9	306
2010 and beyond	266	1,951
Total	390	3,757

The year's leasing expenses for Group assets amounted to SEK 594 million (353).

Leasing income

Certain Group companies own and operate power facilities on behalf of customers. Income from customers breaks down into two components; a fixed component to cover capital expenses and a variable component based on the quantity delivered.

The facilities are classified in accordance with standard leasing principles, based on the fixed income component.

On 31 December 2004, the acquisition value of assets reported under Operating leases amounted to SEK 1,673 million (1,113). Accumulated depreciation amounted to SEK -554 million (-143) and accumulated write-downs to SEK -30 million (-5).

Future payments for this type of facility break down as follows:

	Financial leasing	Operating leasing
2005	8	104
2006	6	94
2007	6	87
2008	5	83
2009	5	74
2010 and beyond	12	320
Less: Financial income	-12	-214
Total	30	548

Note 38 Remuneration to auditors, etc.

	2004	2003
Statutory audit		
Ernst & Young*	16	15
PricewaterhouseCoopers**	11	10
BDO (Germany)	11	17
Swedish National Audit Office	1	0
Other	0	1
Total	39	43
Other fees		
Ernst & Young***	12	11
PricewaterhouseCoopers****	14	6
Other/BDO (Germany)	6	3
Total	32	20

*) In addition to the parent company's audit costs totalling SEK 6 million (4), these costs are attributable to audits of Swedish, Polish, Finnish and German companies.

**) These amounts are primarily attributable to audits in German companies.

***) SEK 6 million (6) is attributable to operations in Germany and Poland.

****) SEK 11 million (4) is attributable to operations in Germany and Poland.

Note 39 Transactions with affiliated companies

Vattenfall AB is wholly owned by the Swedish State. The Vattenfall Group's products and services are offered to the Swedish State, state authorities and state companies in competition with other suppliers and under generally accepted commercial terms and conditions. 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 and conditions. No significant share of the Vattenfall Group's net sales or profits is attributable to the Swedish State or its authorities and companies on an individual basis.

THE PARENT COMPANY

Parent company income statement

Amounts in SEK millions, 1 January–31 December	Note	2004	2003
Net sales	4, 5	26,046	26,741
Costs of products sold	6	-16,134	-20,794
Gross profit		9,912	5,947
Selling expenses		-752	-865
Administrative expenses		-1,243	-1,003
Research and development costs		-142	-106
Other operating income	7	94	307
Other operating expenses	8	-31	-233
Operating profit	9	7,838	4,047
Result from participations in Group companies	10	1,121	673
Result from participations in associated companies	11	23	185
Results from other long-term securities holdings	12	445	-28
Other interest income and similar profit/loss items	13	1,571	1,409
Interest expenses and similar profit/loss items	14	-2,018	-2,281
Group contributions		2,522	2,167
Profit before appropriations and tax		11,502	6,172
Appropriations	15	-2,127	-371
Profit before tax		9,375	5,801
Tax	16	-2,340	-1,224
Net profit for the year		7,035	4,577

Parent company balance sheet

Amounts in SEK millions	Note	31 Dec 2004	31 Dec 2003
Assets			
Fixed assets			
Intangible fixed assets			
Concessions, patents, licences, trademarks and similar rights	17	13	31
Renting and similar rights	17	503	537
Total intangible fixed assets		516	568
Tangible fixed assets			
Land and buildings	18	10,973	11,060
Plants and machinery and other technical installations	18	6,756	6,391
Equipment, tools, and fixtures and fittings	18	35	34
Construction in progress	18	1,919	454
Total tangible fixed assets		19,683	17,939
Financial fixed assets			
Participations in Group companies	19, 20	40,533	40,532
Receivables from Group companies	21	4,335	4,022
Participations in associated companies	19, 20	540	538
Receivables from associated companies	21	1,790	1,909
Other long-term securities holdings	19, 20	55	58
Other long-term receivables	21	229	213
Total financial fixed assets		47,482	47,272
Total fixed assets		67,681	65,779
Current assets			
Inventories	22	278	120
Current receivables	23	31,114	16,982
Cash and bank balances	24	142	33
Total current assets		31,534	17,135
Total assets		99,215	82,914
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital (131,700,000 shares at a par value of SEK 50 each)		6,585	6,585
Statutory reserve		1,286	1,286
Non-restricted equity			
Profit brought forward		10,043	7,440
Net profit for the year		7,035	4,577
Total equity		24,949	19,888
Untaxed reserves	15	14,269	11,734
Provisions	25	86	67
Long-term interest-bearing liabilities	26	40,398	33,731
Long-term non-interest-bearing liabilities	27	2,818	3,210
Total long-term liabilities		43,216	36,941
Current interest-bearing liabilities	28	5,251	1,531
Current non-interest-bearing liabilities	29	11,444	12,753
Total current liabilities		16,695	14,284
Total equity, provisions and liabilities		99,215	82,914
Pledged assets	30	20	9
Contingent liabilities	31	79,251	78,731
Commitments under consortium agreements	32		

NOTES FOR THE PARENT COMPANY

(Amounts in SEK millions unless otherwise stated.)

Parent company change in equity

Amounts in SEK millions	Share capital	Statutory reserve	Non-restricted equity	Total
Balance brought forward 2003	6,585	1,317	9,711	17,613
Dividend	-	-	-1,675	-1,675
Group contributions	-	-	-827	-827
Tax effect of Group contributions	-	-	231	231
Result from mergers	-	-31	-	-31
Net profit for the year	-	-	4,577	4,577
Balance carried forward 2003	6,585	1,286	12,017	19,888
Dividend	-	-	-2,400	-2,400
Group contributions	-	-	43	43
Tax effect of Group contributions	-	-	-12	-12
Result from mergers	-	-	395	395
Net profit for the year	-	-	7,035	7,035
Balance carried forward 2004	6,585	1,286	17,078	24,949

Vattenfall AB's share capital comprises 131,700,000 shares at a par value of SEK 50 each.

Parent company cash flow statement

Amounts in SEK millions, 1 January–31 December	2004	2003
Operating activities		
Funds from operations		
Net profit for the year	7,035	4,577
Adjustments for the effects of items not included in the cash flow	2,033	-1,525
Cash flow from changes in operating assets and operating liabilities	-11,821	-3,497
Cash flow from operating activities	-2,753	-445
Investment activities		
Investments in Group companies, associated companies and other long-term securities holdings	-2,244	-4,069
Investments in tangible and intangible fixed assets	-1,427	-569
Divestments of tangible fixed assets	40	643
Divestments of shares and participations	451	4,017
Cash flow from investment activities	-3,180	22
Cash flow before financing activities	-5,933	-423
Financing activities		
Loans raised	6,275	-3,273
Group contributions received	2,167	2,091
Dividend paid	-2,400	-1,675
Cash flow from financing activities	6,042	-2,857
Cash flow for the year	109	-3,280
Liquid assets		
Liquid assets at the beginning of the year	33	3,313
Cash flow for the year	109	-3,280
Liquid assets at the end of the year	142	33

Interest paid totalled SEK 1,754 million (2,027) and interest received totalled SEK 842 million (983). Tax paid totalled SEK 1,071 million (1,224).

Note 1 Company information

The Annual Report for Vattenfall AB for 2004 has been approved for publication and were signed by the Board of Directors on 18 February 2005. Vattenfall AB, which is the parent company in the Vattenfall Group, is a limited liability company with its registered office in Sweden. The balance sheet and income statement of the parent company will be adopted at the Annual General Meeting.

Note 2 Accounting principles

General

The parent company Vattenfall AB's accounts have been prepared in accordance with the Swedish Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council. The accounting principles applied are stated in the applicable parts of Note 2 in the consolidated accounts with the following additions for the parent company Vattenfall AB.

Depreciation

Depreciation is calculated, as in the consolidated accounts, from the acquisition value and is applied on a straight-line basis over the estimated lifetime of the asset. In addition, certain accelerated depreciation (the difference between depreciation according to plan and depreciation for tax purposes) in the parent company is reported under appropriations and untaxed reserves respectively.

Pension provisions

Pension commitments for pensions in the parent company are calculated in accordance with generally accepted Swedish insurance principles. The provision reported in the balance sheet corresponds to these pension commitments, entered net against the available capital in Vattenfall's Pension Foundation.

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 in 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 Appropriations.

The reported tax expense of the parent company, Vattenfall AB, consists of tax on profit after appropriations.

Note 3 Exchange rates

See Note 4 of the consolidated accounts.

Note 4 Net sales

	2004	2003
Sales including indirect taxes	28,104	28,502
Indirect taxes	-2,058	-1,761
Net sales	26,046	26,741

Note 5 Intra-Group transactions

Of the parent company's total income from sales and total purchase costs, transactions with Group companies account for 11 per cent (10) of sales and 51 per cent (43) of purchase costs.

Note 6 Costs of products sold

Direct costs include production taxes and duties of SEK 210 million (161) and property taxes of SEK 233 million (272)

Note 7 Other operating income

Other operating income primarily consists of capital gains on divestments of fixed assets and operationally derived exchange rate profits.

Note 8 Other operating expenses

Other operating expenses primarily consists of capital losses on divestments of fixed assets and operationally derived exchange rate losses.

Note 9 Depreciation and amortisation

	2004	2003
Costs of products sold	742	649
Selling expenses	9	16
Administrative expenses	1	1
Total	752	666

Note 10 Result from participations in Group companies

	2004	2003
Dividends	2,384	604
Write-downs	-1,263	-25
Capital gains/losses on divestments	-	94
Total	1,121	673

Note 11 Result from participations in associated companies

	2004	2003
Dividends	23	10
Capital gains/losses on divestments	-	175
Total	23	185

Note 12 Results from other long-term securities holdings

	2004	2003
Dividends	1	2
Write-downs	-5	-27
Capital gains/losses on divestments	449	-3
Total	445	-28

Note 13 Other interest income and similar profit/loss items

	2004	2003
Interest income from subsidiaries	563	666
Other interest income	280	316
Foreign exchange gains	728	427
Total	1,571	1,409

Note 14 Interest expenses and similar profit/loss items

	2004	2003
Interest expenses to subsidiaries	1,733	1,999
Other interest expenses	22	28
Foreign exchange losses	263	254
Total	2,018	2,281

Note 15 Appropriations and untaxed reserves

	Balance brought forward	Provision/ Dissolu- tion (-)	Merged companies	Balance carried forward
Accelerated depreciation	6,416	-223	408	6,601
1999 Tax allocation reserve	383	-383	-	0
2000 Tax allocation reserve	842	-	-	842
2001 Tax allocation reserve	464	-	-	464
2002 Tax allocation reserve	1,371	-	-	1,371
2003 Tax allocation reserve	963	-	-	963
2004 Tax allocation reserve	1,295	-	-	1,295
2005 Tax allocation reserve	-	2,733	-	2,733
Total	11,734	2,127	408	14,269

Changes in untaxed reserves in 2004 were as follows: SEK 223 million in accelerated depreciation was dissolved, SEK -383 million of the 1999 tax allocation reserve was dissolved, and SEK 2,733 million was transferred to the tax allocation reserve.

Note 16 Taxes

The reported tax expense is allocated as follows:

	2004	2003
Current tax	2,335	1,304
Deferred tax	5	-80
Total	2,340	1,224

The tax expense for the year attributable to previous years amounts to SEK -52 million (-15).

Note 17 Intangible fixed assets

	Concessions and similar rights		Renting and similar rights		Goodwill		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition values								
Acquisition values brought forward	354	341	811	813	13	13	1,178	1,167
Divestments/Disposals	-	-	-3	-2	-	-	-3	-2
Reclassifications	-14	13	-	-	-	-	-14	13
Accumulated acquisition values carried forward	340	354	808	811	13	13	1,161	1,178
Accumulated depreciation according to plan								
Depreciation brought forward	-323	-307	-274	-244	-13	-13	-610	-564
Depreciation for the year	-7	-14	-32	-33	-	-	-39	-47
Divestments/Disposals	-	-	1	3	-	-	1	3
Reclassifications	3	-2	-	-	-	-	3	-2
Accumulated depreciation carried forward	-327	-323	-305	-274	-13	-13	-645	-610
Residual value according to plan carried forward	13	31	503	537	0	0	516	568
Accumulated accelerated depreciation	-	-31	-	-536	-	-	0	-567
Book value	13	0	503	1	0	0	516	1

Note 18 Tangible fixed assets

	Land and buildings		Plants and machinery and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition values										
Acquisition values brought forward	16,147	16,661	12,781	13,005	170	192	454	221	29,552	30,079
Merged plants	237	-	1,120	-	13	-	497	-	1,867	0
Investments	-	-	-	2	9	12	1,418	557	1,427	571
Transfer from construction in progress	45	102	389	212	-	-	-434	-313	0	1
Divestments/Disposals	-7	-528	-184	-526	-16	-20	-	-11	-207	-1,085
Reclassifications	-	-88	14	88	-	-14	-16	-	-2	-14
Accumulated acquisition values carried forward*	16,422	16,147	14,120	12,781	176	170	1,919	454	32,637	29,552
Accumulated depreciation according to plan										
Depreciation brought forward	-5,087	-5,021	-6,390	-6,210	-136	-143	-	-	-11,613	-11,374
Merged plants	-129	-	-647	-	-7	-	-	-	-783	0
Depreciation for the year	-235	-232	-465	-374	-13	-13	-	-	-713	-619
Divestments/Disposals	2	141	145	220	15	22	-	-	162	383
Reclassifications	-	25	-6	-26	-	-	-	-	-6	-1
Accumulated depreciation, fixed assets purchased from Group companies	-	-	-	-	-	-2	-	-	0	-2
Accumulated depreciation carried forward	-5,449	-5,087	-7,364	-6,390	-141	-136	-	-	-12,954	-11,613
Residual value according to plan carried forward	10,973	11,060	6,756	6,391	35	34	1,919	454	19,683	17,939
Accumulated accelerated depreciation	-	-	-6,053	-5,775	-30	-31	-	-	-6,083	-5,806
Book value	10,973	11,060	703	616	5	3	1,919	454	13,600	12,133

*) Acquisition values for land and buildings include acquisition values of land and water rights amounting to SEK 6,683 million (6,660), which are not subject to depreciation.

Tax assessment values (for Swedish real estate)

	2004	2003
Buildings	34,067	37,277
Land	20,973	22,453
Total	55,040	59,730

Transmission lines and transformer stations are not subject to tax assessment values.

Note 19 Participations in Group companies, associated companies and other long-term securities holdings

	Participations in Group companies		Participations in associated companies		Other long-term securities holdings	
	2004	2003	2004	2003	2004	2003
Balance brought forward	40,532	38,093	538	2,687	58	82
Investments/acquisitions	2,244	11,336	-	295	2	-
Shareholders' contributions*	2	-7,573	2	4	-	-
Divestments*	-2	-3,448	-	-295	-1	2
Reclassifications	-	2,149	-	-2,149	-	-
Merged shareholdings	-977	-	-	-	-	-
Write-downs	-1,266	-25	-	-4	-4	-26
Balance carried forward	40,533	40,532	540	538	55	58

*) Shareholders' contributions and divestments are mainly attributable to restructuring in the Group.

Note 20 Shares and participations

See Note 22 of the consolidated accounts.

Note 21 Advances and long-term receivables

	Receivables from Group companies		Receivables from associated companies		Other long-term receivables	
	2004	2003	2004	2003	2004	2003
Balance brought forward	4,022	4,187	1,909	1,932	213	173
New advances/receivables	313	-	12	94	30	99
Payments received	-	-165	-117	-87	-14	-59
Reclassifications	-	-	-14	-30	-	-
Balance carried forward	4,335	4,022	1,790	1,909	229	213

Note 22 Inventories

	2004	2003
Raw materials and consumables		
Oil	158	92
Coal etc.	100	25
Materials and spare parts	20	3
Total	278	120

Note 23 Current receivables

	2004	2003
Accounts receivable-trade	2,678	2,649
Receivables from Group companies	23,122	8,889
Receivables from associated companies	2,028	2,148
Other receivables	1,806	1,557
Prepaid expenses and accrued income	1,480	1,739
Total	31,114	16,982
Breakdown of prepaid expenses and accrued income:		
	2004	2003
Prepaid insurance premiums	10	11
Prepaid expenses, other	110	107
Prepaid expenses and accrued income, electricity	516	684
Accrued income, other	844	937
Total	1,480	1,739

Note 24 Cash and bank balances

The parent company's cash and bank balances are administered by the subsidiary Vattenfall Treasury AB. The parent company's funds in the Group account amounted to SEK22,533 million (13,102), which are reported in the balance sheet as current receivables from Group companies.

Note 25 Provisions

	2004	2003
Pension provisions	10	11
Personnel-related provisions for non-pension purposes	76	56
Total	86	67

Pension commitments for pensions in the parent company are calculated in accordance with generally accepted Swedish insurance principles.

The provision reported in the balance sheet corresponds to these pension commitments, entered net against the available capital in Vattenfall's Pension Foundation. See also Note 26 of the consolidated accounts.

	2004	2003
Pension commitments*	2,606	2,555
Less: Capital in pension funds	-2,596	-2,544
Total pension provisions at year-end	10	11
*) Information registered by PRI	1,493	1,402

Note 26 Long-term interest-bearing liabilities

Fully attributable to liabilities to Group companies in the amount of SEK 40,398 million (33,731), of which SEK 8,923 million (4,519) fall due after more than five years.

Liabilities to Group companies are mainly attributable to long-term borrowings from Vattenfall Treasury AB.

Virtually all borrowings in foreign currencies are hedged.

Note 27 Long-term non-interest-bearing liabilities

	2004	2003
Liabilities to Group companies	2,508	2,880
Other liabilities	310	330
Total	2,818	3,210

Liabilities to Group companies are mainly attributable to long-term liabilities to Forsmarks Kraftgrupp AB and others for power charges. For the latter liability there shall be, in accordance with agreement between the co-owners, no interest payable on the debt. Of other liabilities, SEK 78 million (93) falls due after more than five years.

Note 28 Current interest-bearing liabilities

Fully attributable to liabilities to Group companies totalling SEK 5,251 million (1,531).

Note 29 Current non-interest-bearing liabilities

	2004	2003
Advance payments from customers	9	7
Accounts payable-trade	534	530
Liabilities to Group companies	8,179	10,464
Liabilities to associated companies	27	16
Tax liabilities	1,283	4
Other liabilities	578	726
Accrued expenses and deferred income	834	1,006
Total	11,444	12,753

Breakdown of accrued expenses and deferred income:

	2004	2003
Accrued personnel-related costs	247	170
Other accrued expenses	533	726
Deferred income and accrued expenses, electricity	32	89
Other deferred income	22	21
Total	834	1,006

Note 30 Pledged assets

	2004	2003
Blocked bank funds as security for trading on NordPool	19	8
Other	1	1
Total	20	9

Note 33 Average number of employees and personnel costs

	2004			2003		
	Men	Women	Total	Men	Women	Total
Average number employees						
Sweden	955	494	1,449	735	397	1,132
Other countries	2	1	3	5	1	6
Total	957	495	1,452	740	398	1,138

	2004	2003
Personnel costs		
Salaries and other remuneration	712	536
Social security expenses (of which pension expense)*	508	432
	(197)	(205)
Total	1,220	968

*) SEK 7 million (5) of the pension expense are attributable to the group comprising current senior executive officers and former senior executive officers. The Company's outstanding pension commitments attributable to these officers total SEK 41 million (37).

None of the Board members receives any pension benefits in connection with Board duties.

Note 31 Contingent liabilities

	2004	2003
Guarantees		
of which:		
for Vattenfall Treasury's lending:		
to subsidiaries	18,519	19,113
to associated companies	37	37
external borrowing for subsidiaries	51,665	50,985
external borrowing for other companies	14	12
subordinated guarantees	40	48
Swedish Nuclear Waste Fund	3,779	3,673
Contract guarantees	761	812
Other guarantees	4,436	4,051
Total	79,251	78,731
Other contingent liabilities		
Compensatory and free power supplied:		
Wholesale power supplied		
Number of commitments	13	13
Capacity MW	17	17
Energy supplied TWh/year	0.9	0.9

SEK 78,900 million (78,366) of the parent company's contingent liabilities are attributable to its subsidiaries. Vattenfall AB has guaranteed Vattenfall Treasury AB's commitments.

As security for the energy trading of the subsidiary Vattenfall Europe Trading GmbH, Vattenfall AB has provided guarantees to a total value of EUR 140 million (155), equivalent to SEK 1,256 million (1,641). On the balance sheet date, utilised guarantees totalling EUR 14 million (10), equivalent to SEK 124 million (88), were included in reported contingent liabilities.

See also Note 33 of the consolidated accounts.

Note 32 Commitments under consortium agreements

See Note 34 of the consolidated accounts.

Continuation Note 33

	2004			2003		
	Board members senior executive executive officers*	Other employees	Total	Board members senior executive executive officers*	Other employees	Total
Salaries and other remuneration						
Sweden	16	693	709	14	521	535
Other countries	–	3	3	–	1	1
Total**	16	696	712	14	522	536

*) Board members and senior executive officers also include alternates, vice presidents and former Board members, alternates, presidents and vice presidents.

**) Total salaries and other remuneration to Board members and presidents include bonuses of SEK 2.4 million (2.2).

For benefits to senior executive management within Vattenfall AB, see Note 35 of the consolidated accounts.

Note 34 Absenteeism through sickness

Absenteeism through sickness as a percentage of normal working hours throughout the year

	The parent company Vattenfall AB		Vattenfall Group Swedish operations	
	2004	2003	2004	2003
Total absenteeism through sickness	4.0	4.2	4.0	4.1
Absenteeism through sickness for women	7.1	7.4	6.6	6.8
Absenteeism through sickness for men	2.3	2.4	3.3	3.3
Absenteeism through sickness for those aged 29 and younger	4.9	6.4	3.4	3.4
Absenteeism through sickness for those aged 30–49 years	4.2	4.2	3.4	3.5
Absenteeism through sickness for those aged 50 and older	3.3	3.6	4.7	5.0
Percentage of absenteeism through sickness lasting 60 days or more	41.0	49.4	49.0	53.9

Note 35 Gender distribution among executive management

	Women, %		Men, %	
	2004	2003	2004	2003
Gender distribution among Board members	14	18	86	82
Gender distribution among other executive management	10	6	90	94

Note 36 Leasing

Leasing expenses

Future payment commitments, as of 31 December 2004, for leasing contracts and rental contracts break down as follows:

	Financial leasing	Operating leasing
2005	–	14
2006	–	13
2007	–	4
Total	–	31

Leasing expenses for the year attributable to the parent company amounted to SEK 11 million (10).

Leasing income

Vattenfall AB owns and operates energy facilities on behalf of customers. Income from customers breaks 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 income component.

On 31 December 2004, the acquisition value of assets reported under Operating leasing amounted to SEK 1,219 million (797). Accumulated depreciation amounted to SEK –342 million (–308) and accumulated write-downs to SEK –30 million (–5).

Future payments for this type of plants are distributed as follows:

	Financial leasing	Operating leasing
2005	3	50
2006	1	46
2007	1	43
2008	1	41
2009	1	39
2010 and beyond	7	273
Less: Financial income	–5	–202
Total	9	290

Note 37 Remuneration to auditors etc.

	2004	2003
Statutory audit		
Ernst & Young	6	4
Swedish National Audit Office	1	0
Total	7	4
Other fees		
Ernst & Young*	5	3
PricewaterhouseCoopers	1	1
Other	0	0
Total	6	4

*) About SEK 3 million (2) is attributable to consultations for personnel based outside Sweden.

Note 38 Transactions with affiliated companies

See Note 39 of the consolidated accounts.

PROPOSED DISTRIBUTION OF PROFITS

According to the consolidated balance sheet, the Group's non-restricted equity amounts to SEK 34,561,806 thousand (27,976,455). Of this amount, SEK 400 thousand is to be allocated to restricted reserves. The Annual General Meeting has at its disposal profits totalling SEK 17,078,110,612.

The Board of Directors and Chief Executive Officer propose that the profits be distributed as follows:

To be distributed to the shareholders, SEK	5,600,000,000
To be carried forward, SEK	11,478,110,612
	<u>17,078,110,612</u>

The proposed distribution is equivalent to a dividend of SEK 42.52 per share.
Stockholm, 18 February 2005

Dag Klackenborg
Chairman of the Board

Maarit Aarni Carl-Gustaf Angelin Johnny Bernhardtsson Christer Bådholm

Ronny Ekwall Jan Grönlund Peter Lindell

Hans-Olov Olsson Lone Fønss Schröder Anders Sundström

Lars G Josefsson
President and Chief Executive Officer

AUDIT REPORT

To the Annual General Meeting of the Shareholders of Vattenfall AB

Corporate identity number 556036-2138

We have audited the annual accounts and the consolidated accounts, comprising pages 64–105, the accounting records, and the administration of the Board of Directors and the Chief Executive Officer of Vattenfall AB for the financial year 2004. These accounts and the administration of the company and the application of the Swedish Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the CEO. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts, and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit in order to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the CEO and significant estimates made by the Board of Directors and the CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts.

As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the Company of any Board Member or the CEO. We also examined whether any Board Member or the CEO has, in any other way, acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and, thereby, give a true and fair view of the Company's and the Group's financial positions and the results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report, and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Stockholm, 18 February 2005

Ernst & Young AB
Lars Träff
Authorised Public Accountant

Per Redemo
*Authorised Public Accountant
Swedish National Audit Office*

DEFINITIONS AND CALCULATIONS OF KEY FIGURES

Figures for the Group in 2004. Amounts in SEK millions unless otherwise stated.

Items affecting comparability: Capital gains and capital losses from shares and other fixed assets.

Operating margin, per cent

Operating profit (EBIT) in relation to net sales.	
Operating profit (EBIT)	19,607
Net sales	113,366
	17.3

Operating margin excluding items affecting comparability, per cent

Operating profit (EBIT) excluding items affecting comparability in relation to net sales.	
Operating profit (EBIT) excluding items affecting comparability	18,788
Net sales	113,366
	16.6

Pre-tax profit margin, per cent

Profit before tax and minority interests in relation to net sales.	
Profit before tax and minority interests	17,359
Net sales	113,366
	15.3

Pre-tax profit margin excluding items affecting comparability, per cent

Profit before tax and minority interests excluding items affecting comparability in relation to net sales.	
Profit before tax and minority interests excluding items affecting comparability	16,542
Net sales	113,366
	14.6

Return on equity, per cent

Net profit for the year in relation to equity at the beginning of the year.	
Net profit for the year	11,776
Equity at the beginning of the year	52,506
	22.4

Return on equity excluding items affecting comparability, per cent

Net profit for the year excluding items affecting comparability in relation to equity at the beginning of the year.	
Net profit for the year excluding items affecting comparability	11,230
Equity at the beginning of the year	52,506
	21.4

Return on net assets, per cent

Operating profit (EBIT) in relation to a weighted average of the balance sheet totals for the period less non-interest-bearing debt, provisions, interest-bearing receivables and liquid assets.	
Operating profit (EBIT)	19,607
Net assets	123,423
	15.9

Return on net assets excluding items affecting comparability, per cent

Operating profit (EBIT) excluding items affecting comparability in relation to a weighted average of the balance sheet totals for the period less non-interest-bearing debt, provisions, interest-bearing receivables and liquid assets.	
Operating profit (EBIT) excluding items affecting comparability	18,788
Net assets	123,423
	15.2

Interest coverage ratio, times

Operating profit (EBIT) plus financial income in relation to financial expenses.	
Operating profit (EBIT) plus financial income	21,379
Financial expenses	4,020
	5.3

Interest coverage ratio excluding items affecting comparability, times

Operating profit (EBIT) plus financial income excluding items affecting comparability in relation to financial expenses excluding items affecting comparability.	
Operating profit (EBIT) plus financial income excluding items affecting comparability	20,562
Financial expenses excluding items affecting comparability	4,020
	5.1

FFO interest coverage ratio, times

Funds from operations (FFO) plus financial expenses in relation to financial expenses.	
Funds from operations (FFO) plus financial expenses	28,179
Financial expenses	4,020
	7.0

FFO net interest coverage ratio, times

Funds from operations (FFO) plus financial items in relation to net financial items.	
Funds from operations (FFO) plus financial items	26,407
Net financial items	2,248
	11.7

Equity/assets ratio, per cent

Equity including minority interests in relation to the balance sheet total at the end of the year less interest arbitrage transactions.	
Equity including minority interests	71,504
Balance sheet total less interest arbitrage transactions	256,915
	27.8

Net debt/equity ratio, times

Interest-bearing debt less long-term loans to minority owners in foreign subsidiaries and liquid assets in relation to equity including minority interests.	
Net debt	55,411
Equity including minority interests	71,504
	0.77

Net debt/net debt plus equity, per cent

Interest-bearing debt less long-term loans to minority owners in foreign subsidiaries and liquid assets in relation to interest-bearing debt less long-term loans to minority owners in foreign subsidiaries and liquid assets plus equity including minority interests.	
Net debt	55,411
Net debt plus equity including minority interests	126,915
	43.7

FFO/interest-bearing debt, per cent

Funds from operations (FFO) in relation to interest-bearing debt.	
Funds from operations (FFO)	24,159
Interest-bearing debt	73,013
	33.1

FFO/net debt, per cent

Funds from operations (FFO) in relation to interest-bearing debt less long-term loans to minority owners in foreign subsidiaries and liquid assets.	
Funds from operations (FFO)	24,159
Net debt	55,411
	43.6

EBITDA/net financial items, times

Operating profit before depreciation (EBITDA) in relation to financial items.	
Operating profit before depreciation (EBITDA)	31,453
Net financial items	2,248
	14.0

EBITDA/net financial items, times

excluding items affecting comparability, times	
Operating profit before depreciation (EBITDA) excluding items affecting comparability in relation to net financial items excluding items affecting comparability.	
Operating profit before depreciation (EBITDA) excluding items affecting comparability	30,634
Net financial items excluding items affecting comparability	2,248
	13.6

Interest-bearing debt/interest-bearing debt plus equity, per cent

Interest-bearing debt in relation to interest-bearing debt plus equity including minority interests.	
Interest-bearing debt	73,013
Interest-bearing debt plus equity including minority interests	144,517
	50.5

Free cash flow

Cash flow from operating activities less maintenance investments	
Cash flow from operating activities	23,973
Maintenance investments	8,289
	15,684

SEVEN-YEAR REVIEW

Amounts in SEK millions	2004	2003	2002	2001	2000	1999	1998
Income statement items							
Net sales	113,366	111,935	101,025	69,003	31,695	27,754	27,957
Operating profit before depreciation (EBITDA)	31,453	24,878	24,855	18,250	12,165	9,866	9,860
Operating profit (EBIT)	19,607	15,296	13,363	9,959	6,688	5,515	6,067
Financial income	1,772	2,267	3,010	2,232	1,037	542	288
Financial expenses	-4,020	-5,203	-6,386	-4,737	-2,536	-1,760	-1,907
Profit before tax and minority interests	17,359	12,360	9,987	7,454	5,189	4,297	4,448
Net profit for the year	11,776	9,123	7,566	4,190	2,970	2,538	2,664
Cash flow							
Funds from operations (FFO)	24,159	18,804	17,106	13,148	5,830	6,224	6,758
Free cash flow	15,684	11,606	10,820	5,478	3,050	1,326	4,320
Balance sheet items							
Liquid assets	13,616	14,647	15,473	10,340	7,543	4,860	4,439
Equity	62,316	52,506	45,129	39,578	35,374	33,347	32,325
Minority interests	9,188	9,379	9,960	19,080	4,985	2,472	2,213
Interest-bearing debt	73,013	85,631	94,838	88,723	50,854	32,275	27,876
Net debt	55,411	66,890	75,207	55,736	43,311	27,415	23,437
Non-interest-bearing debt and provisions	112,398	117,449	126,349	111,662	24,046	18,569	20,942
Net assets, weighted average value	123,423	124,229	127,479	100,701	74,968	60,395	57,253
Balance sheet total	256,915	264,965	276,276	259,043	115,259	86,663	83,356
Key figures (% unless otherwise stated)							
Operating margin	17.3	13.7	13.2	14.4	21.1	19.9	21.7
Operating margin excl. items affecting comparability	16.6	13.4	12.8	12.8	15.7	19.9	21.7
Pre-tax profit margin	15.3	11.0	9.9	10.8	16.4	15.5	15.9
Pre-tax profit margin excl. items affecting comparability	14.6	10.8	9.4	9.2	10.5	15.4	15.9
Return on equity	22.4	20.2	19.1	11.8	8.9	7.9	8.5
Return on equity excl. items affecting comparability	21.4	19.8	18.3	10.3	4.2	7.8	8.6
Return on net assets	15.9	12.3	10.5	9.9	8.9	9.1	10.6
Return on net assets excl. items affecting comparability	15.2	12.1	10.1	8.8	6.6	9.1	10.6
Interest coverage ratio, times	5.3	3.4	2.6	2.6	3.0	3.4	3.3
Interest coverage ratio excl. affecting comparability, times	5.1	3.3	2.5	2.3	2.3	3.4	3.4
FFO interest coverage ratio, times	7.0	4.6	3.7	3.8	3.3	4.5	4.5
FFO interest coverage ratio, net, times	11.7	7.4	6.1	6.3	4.9	6.1	5.2
Equity/assets ratio	27.8	23.4	20.0	22.7	35.4	42.3	42.2
Net debt/equity ratio, times	0.77	1.08	1.37	0.95	1.07	0.77	0.68
Net debt/equity plus net debt	43.7	51.9	57.7	48.7	51.8	43.4	40.4
FFO/total interest-bearing debt	33.1	22.0	18.0	14.8	11.5	19.3	24.2
FFO/net debt	43.6	28.1	22.7	23.6	13.5	22.7	28.8
EBITDA/net financial items, times	14.0	8.5	7.4	7.3	8.1	8.1	6.1
EBITDA/net financial items excl. items affecting comparability, times	13.6	8.3	7.2	6.9	6.4	7.9	6.1
Interest-bearing debt/interest-bearing debt plus equity	50.5	58.0	63.2	60.1	55.8	46.4	41.0
Other information							
Dividend to Swedish State	5,600*	2,400	1,675	1,030	990	1,500	1,500
Investments	12,601	11,356	39,932	43,443	23,840	7,916	4,528
Electricity sales, TWh	186.4	184.2	188.3	149.9	83.1	86.9	83.8
Average number employees	33,017	35,296	34,248	23,814	13,123	7,991	7,996

*) Proposed dividend.

Comments

Since 2000, Vattenfall's sales have almost quadrupled, the result of the acquisition of the major German energy companies HEW, Bewag, Veag and Laubag and the Polish companies EW and GZE. Assets have

more than doubled in the same period. Operating profit has increased from SEK 6.7 billion in 2000 to SEK 19.6 billion in 2004, mostly due to very successful integration and consolidation work, but also due to effective hedging of electricity generation.

GLOSSARY

Availability Actual electricity generation capability in relation to the maximum possible generation.

CHP plant Combined heat and power plant. Plant which supplies both electricity and district-heating. Often known as a backpressure plant if linked directly to an industrial process.

Consortium power Output from a power plant to which several parties have rights.

CSR Corporate Social Responsibility – a concept whereby companies integrate economical, social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

Deep repository Underground facility for the final disposal of spent nuclear fuel, see also SKB's web site <http://www.skb.se>.

Deregulation Removal of monopoly rights and obligations in order to open up for competition. Here used as a synonym for liberalisation.

Derivative Instruments Financial instruments wherein the value or change in value is related to an underlying instrument. Examples of derivative instruments include options, forwards and swaps. Derivative instruments are often used in risk management.

DSO Distribution system operator. Responsible for operating, ensuring the maintenance of and developing the distribution system in a given area.

EBIT Earnings Before Interest and Tax (operating profit).

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortisation of goodwill (operating profit before depreciation).

EDF The largest power company in France and Europe.

EEX European Energy Exchange, the Leipzig power exchange.

Electrabel The Benelux countries' largest power company.

EMAS Eco Management and Audit Scheme. European Commission regulations for environmental management and auditing.

EnBW One of Germany's four largest power companies.

Endesa Spain's largest power company.

Enel Italy's largest power company.

E.ON One of Germany's four largest power companies and the main shareholder of Sydkraft.

EPD Environmental Product Declaration. A system based on Type III declarations in ISO TR 14025 which aims at providing objective, credible and comparable information on the environmental impact of products and services, see www.environdec.com/eng.

EU-25 The 25 countries constituting the European Union after the latest enlargement (1 May 2004)

EW Elektrociepłownia Warszawskie S.A., a Polish subsidiary of Vattenfall

Ex-ante tariff regulation Approval of tariffs prior to implementation.

Ex-post tariff regulation Tariffs amended after implementation if deemed necessary.

FFO Funds From Operation.

Fortum Finland's largest power company.

Forward market A market in which buyers and sellers agree on a fixed price for the future delivery of an underlying instrument, such as electricity. (See also Derivative Instruments).

Green Certificates Tradable certificates issued for renewable electricity generation.

GZE Górnośląski Zakład Elektroenergetyczny S.A., a Polish subsidiary to Vattenfall.

ISDA agreement A bilateral general agreement prepared in accordance with guidelines issued by the International Swap Dealers Association. The agreement regulates the parties' legal obligations in derivative transactions with each other.

ISO 14001 International standard for environmental management systems.

ISO TR 14025 is a standard used to provide quality-assured and comparable information about the environmental impact of products and services. See also <http://www.environdec.com>.

Kyoto protocol International agreement to reduce emissions of greenhouse gases
Local network Electricity distribution network with a voltage of 0.4–20 kV.

Legal unbundling Legal separation of transmission/distribution from other activities (generation/supply).

Lignite Brown coal.

NordPool The Nordic power exchange.

NTPA Negotiated third party access. Access to the network granted on the basis of bilateral negotiations between grid.

OTC Over the Counter. Trading (directly or via a broker) outside the official exchanges in physical and financial contracts.

POLPX The Polish Power Exchange; Towarowa Gielda Energii.

Regional network Electricity distribution network with a voltage in

PSE Polskie Sieci Elektroenergetyczne – Polish Power Grid Company
Sweden of 40–130 kV.

Regulator Competent authority that supervises the market to ensure effective competition and fair pricing.

Renewable energy sources Non finite energy sources such as wind, solar, geothermal, wave, tidal, hydro power, biofuels.

Replacement power Replacement delivery, in accordance with a riparian court decision, to the owner of another power station on the same river.

Retailer Firm at the end of the distribution chain, which normally buys a product from a wholesaler in order to sell it to the final consumer.

RTPA Regulated third party access. Access to the network granted on the basis of published and regulated tariffs

RWE One of Germany's four largest power companies.

SKB Svensk Kärnbränslehantering AB (Swedish Nuclear Fuel and Waste Management Co). Responsible for the management of radioactive waste in Sweden.

Spot market A market where trade is conducted with immediate delivery.

Statkraft Norway's largest power company.

Swap A financial instrument that is a combination of spot and forward transactions, a type of financial exchange agreement.

Thermal power Electricity generated by a gas turbine or steam process in a coal-fired or nuclear power plant.

TSO Transmission system operator. Responsible for operating, ensuring the maintenance of and developing the transmission system in a given area.

Unbundling Separation of the transmission/distribution system interests from the other interests of a company.

Value chain Generation, transmission, distribution and sale of electricity.

Volatility A measure of the extent to which the price of a commodity varies over a particular period.

ABOUT ENERGY

Energy terms

Units of power

Power is energy per unit of time

Power is expressed in Watts (W)

1 kW (kilowatt) = 1,000 W

1 MW (megawatt) = 1,000 kW

1 GW (gigawatt) = 1,000,000 kW

Units of energy

Energy is power multiplied by time

1 kWh (kilowatt-hour) = 1 kW expended over an hour

1 MWh (megawatt-hour) = 1,000 kWh

1 GWh (gigawatt-hour) = 1,000,000 kWh

1 TWh (terawatt-hour) = 1,000,000,000 kWh

Voltage

1 kV (kilovolt) = 1,000 volt (V)

Energy units in practice

1 kWh is enough to run a standard Swedish car heater for about an hour or an 11 W low energy light bulb for almost four days.

1 MWh is enough to heat a small house for a couple of weeks and is generated in about 20 minutes by Vattenfall's largest wind power park in windy conditions.

1 GWh is enough to meet the energy needs of an average Swedish town with a population of 100,000 for eight hours and can be generated in one hour by the Harsprånget hydro plant or in 20 minutes by the Forsmark nuclear power plant.

1 TWh is enough to run two large news print machines for a year. It's also enough to power all of Sweden's railways, underground railways and trams for five months. Ringhals nuclear power plant can generate this power in twelve days.



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