YEAR-END REPORT 18 FEBRUARY 2005

Vattenfall reports another set of strong annual accounts

- **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)**

Net sales, financial performance and cash flow in 2004

2004 was a new record year for Vattenfall. Financial performance improved in all Vattenfall segments. 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. In Germany, the consolidation and integration programme followed by Vattenfall the past three years proved most successful. All targets established at Group level were achieved. Major investment programmes are underway in both electricity generation and electricity distribution and extensive efforts are being made to improve customer service. The consolidation programme is near completion and Vattenfall can now resume its strategy to create value through profitable growth with the vision of becoming a leading European power company.

Lower electricity prices led to only a marginal increase in sales of just over one per cent during 2004. Operating profit, on the other hand, increased by 28.2 per cent to SEK 19,607 million (15,296), which 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 the improvement in operating profit. Excluding items affecting comparability, operating profit increased by 25.0 per cent to SEK 18,788 million (15,033). Net profit improved 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 equity excluding items affecting comparability increased from 19.8 per cent to 21.4 per cent. Viewed over a four-year period, the return amounts to 17.2 per cent, which exceeds the 15 per cent requirement set by Vattenfall's owner, the Swedish State.

The company's financial position improved considerably. As Vattenfall has been in a phase of consolidation, growth investments have been low and the strong cash flow has been used to repay debt. Net debt was reduced during the year by SEK 11.5 billion to SEK 55.4 billion. Cash flow before financing amounted to SEK 13,472 million, compared with SEK 9,841 million in 2003.

Sales, financial performance and cash flow in Q4 2004

Sales increased by 7.1 per cent to SEK 32,405 million (30,253) while operating profit increased by 27.8 per cent to SEK 5,435 million (4,253). Excluding items affecting comparability, operating profit increased by 31.4 per cent to SEK 5,126 million (3,902). Due to an exceptionally low tax burden in 2003, net profit decreased by 5.8 per cent to SEK 3,212 million (3,410). Cash flow before financing activities amounted to SEK 1,889 million compared with SEK –879 million for the equivalent period the previous year. Net debt decreased by SEK 2.4 billion.

Market development

The water supply in the Nordic reservoirs improved successively during the year. This led to considerably lower average electricity prices in the Nordic countries. The average price on the spot market of the Nordic energy exchange Nord Pool was SEK 264 per MWh (SEK 26.4 per kWh) as against SEK 335 per MWh in 2003. At the end of the year, the surplus in the so-called hydrological balance for the Nordic countries amounted to 4.3 TWh as against a deficit of 14.2 TWh at the end of 2003. The water supply improved primarily during the last quarter, which was also reflected in later price trends. The average price on Nord

Pool's spot market during the last quarter was SEK 249 per MWh, compared with SEK 308 per MWh in 2003. Total electricity consumption in Sweden in 2004 amounted to 146 TWh (145 TWh). For the Nordic Countries as a whole, electricity consumption increased by almost three per cent to 391 TWh (380 TWh). German electricity prices developed irregularly, with average levels for 2004 somewhat lower than for the previous year. The average price on the spot market of the German energy exchange EEX was EUR 28.5 per MWh as against EUR 29.5 per MWh in 2003. Total electricity consumption in Germany up until the end of November 2004 was unchanged from 2003.

Important events during the fourth quarter of 2004:

- Vattenfall announced its interest in acquiring the Danish power company Elsam. In the middle of January 2005, a formal offer was made to a majority of Elsam shareholders.
- 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 regulation of the agreement, the assets associated with Barsebäck Kraft AB will not be depreciated as the compensation is expected to exceed Vattenfall's share of the costs for the depreciation. Vattenfall owns 74 per cent of Barsebäck.
- Vattenfall acquired Örestad Vindkraftpark and plans to build a large offshore wind power park in Öresund off the coast of Skåne in the south of Sweden with an investment of SEK 1.5 billion.
- A decision was made to integrate the three Nordic business units Sales Sweden, Sales Finland and MEGA into a single new unit, Nordic Sales.
- Vattenfall's holding in the Chinese company Hebei Hanfeng Power Generation was divested for a purchase sum of approximately SEK 540 million.
- In Poland, an extensive brand campaign was conducted in order to introduce the Vattenfall name to the Polish market and received much media focus.
- At the beginning of January 2005, Sweden was hit by widespread bad weather with hurricane-force winds. The damage to forests and infrastructure, in particular the electricity supply, was enormous. Vattenfall's costs for power-loss guarantees, repairs and additional work are estimated at approximately SEK 500 million.

Important events earlier in 2004:

- The business units in the Nordic countries were gathered under Business Group Nordic Countries. The Group is now organised in two Business Groups; one for the Nordic countries and one for continental Europe. Poland remains a separate business unit.
- Ownership in the Polish sales and distribution company GZE was increased from 54 per cent to 75 per cent.
- Three district heating plants in Berlin, with a combined capacity of 320 MW, were acquired for about SEK 440 million.
- 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.
- Vattenfall continued to streamline operations and sold its holdings in both A-Train AB and Russian Mosenergo and transferred the peat producing company Härjedalens Miljöbränsle AB to another owner.
- 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 development of wind power in Germany has led to the need for extensive expansion in the German electricity networks. Vattenfall has decided to extend capacity in its high voltage network by 3,000 MW with an investment of approximately EUR 260 million (approximately SEK 2.3 billion).

- At the beginning of 2004, Vattenfall decided to invest a further SEK 2 billion in improving operational reliability in the Swedish networks, bringing the total investment to SEK 10 billion over a five-year period. Moreover, compensation was increased to Swedish households losing power in the event of network disruptions.
- Investments were initiated under Vattenfall's renewal 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.
- In Sweden, Finland and Germany, the authorities have introduced – or plan to introduce – new models for regulating network tariffs.
- Vattenfall was the first Swedish power 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, preliminary charges can be discontinued and replaced with invoices for actual electricity consumption. By the end of 2004, 105,000 such meters had been installed.
- National allocation plans for CO_2 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.

SUMMARY OF VATTENFALL'S FINANCIAL PERFORMANCE, CASH FLOW AND BALANCE SHEET

Amounts in SEK millions	2004	2003	Change %
Net sales	**113,366**	111,935	1.3
Operating profit before amortisation and dissolution of negative goodwill (EBITDA)	**31,453**	24,878	26.4
Operating profit (EBIT)	**19,607**	15,296	28.2
Operating profit excl. items affecting comparability	**18,788**	15,033	25.0
Financial items, net	**-2,248**	-2,936	-23.4
Profit before tax and minority interests	**17,359**	12,360	40.4
Net profit	**11,776**	9,123	29.1
Net profit excl. items affecting comparability	**11,230**	8,944	25.6
Return on net assets excl. items affecting comparability	**15.2**	12.1	
Return on equity excl. items affecting comparability	**21.4**	19.8	
Funds from operations (FFO)	**24,159**	18,804	28.5
Cash flow before financing	**13,472**	9,841	37.0
Free cash flow	**15,684**	11,606	35.1
Liquid assets	**13,616**	14,647	-7.0
Balance sheet total	**256,915**	264,965	-3.0
Equity including minority interests	**71,504**	61,885	15.5
Interest-bearing debt	**73,013**	85,547	-14.7
Net debt	**-55,411**	-66,890	-17.2

See page 17 for definitions.

Stockholm, 18 February 2005

Lars G Josefsson
President and Chief Executive Officer

Amounts in SEK millions	2004	2003	Change %

NET SALES, FINANCIAL PERFORMANCE AND CASH FLOW

Net sales	**113,366**	111,935	1.3

Comments:
Despite increased electricity generation, lower electricity market prices limited the increase in sales to just over one per cent. In the fourth quarter, sales increased by 7.1 per cent to SEK 32,405 million (30,253) compared with the same period in 2003.

Cost of products sold	**81,992**	84,792	-3.3

Comments:
The lower costs are primarily due to lower market prices leading to reduced costs for electricity purchases.

Operating profit	**19,607**	15,296	28.2
Operating profit excl. items affecting comparability	**18,788**	15,033	25.0

Comments:
The substantial improvement in financial performance can be explained by increased electricity generation volumes, advantageous hedging and successful cost-cutting programmes. In the fourth quarter, operating profit increased by 27.8 per cent to SEK 5,435 million (4,253). Excluding items affecting comparability, operating profit for the fourth quarter increased by 31.4 per cent to SEK 5,126 million (3,902).

Cash flow from operating activities	**23,973**	18,191	31.8
Free cash flow *	**15,684**	11,606	35.1
Cash flow before financing activities	**13,472**	9,841	36.9

** Cash flow from operating activities minus maintenance investments.*

Comments:
In 2003, cash flow was affected negatively by tax payments, which did not affect financial performance, totalling approximately SEK 2.5 billion and attributable to tax proceedings in Germany, a payment to the City of Hamburg totalling approximately SEK 900 million and an additional dividend distribution to the owner, the Swedish State, of SEK 190 million.

Financial items, net	**-2,248**	-2,936	-23.4

Comments:
Net interest items amounted to an monthly average of SEK –200 million (–275). Interest income totalled SEK 1,030 million (1,162) and interest expense totalled SEK 3,431 million (4,460). Net financial items improved by SEK 688 million, primarily as a result of lower interest rates and reduced debt volumes. Approximately SEK 300 million is explained by a change 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. In the fourth quarter, net financial items amounted to SEK –711 million as against SEK –795 million for the same period in 2003.

Dissolution of negative goodwill	**3,034**	4,754	-36.2

Comments:
Dissolution of negative goodwill reflects restructuring costs in acquired companies in Germany.

Amounts in SEK millions		31 December 2004	31 December 2003	Change %

FINANCIAL POSITION

Liquid assets	▼	**13,616**	14,647	-7.0
Committed credit facilities (unused)	▼	**5,606**	10,417	-46.2
Uncommitted credit facilities (unused)	▼	**8,192**	10,138	-10.3

Comments:

Committed credit facilities comprise a five-year revolving credit facility (RCF) of EUR 600 million and a bank overdraft facility of SEK 200 million. The RCF was renegotiated and prolonged at the end of 2004 to a new maturity date of 8 December 2009. During the first half of 2004, a number of so-called 364-day facilities totalling USD 650 million fell due. These were not prolonged as the need for such credit facilities no longer existed.

Net debt	▼	**55,411**	66,890	-17.2
Average duration (years) *	▼	**2.0**	2.1	
Average maturity *	▲	**6.7**	5.1	

** Excluding loans from associated companies and minority owners.*

Comments:

Net debt was reduced by SEK 11.5 billion to SEK 55.4 billion. During the fourth quarter, net debt decreased by SEK 2.4 billion. Total interest-bearing debt decreased during the year by SEK 12.5 billion to SEK 73.0 billion. The reduction during the fourth quarter was SEK 4.7 billion. The average remaining maturity in borrowings increased to 6.7 years as a result of a 20-year EUR 500 million Eurobond being issued in April 2004.

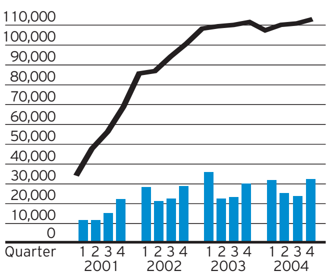
Vattenfall's credit rating remained unchanged during the year. The current rating is A-/A-2 from Standard & Poor's and A3/P-2 from Moody's, both with a "Stable Outlook".

Equity	▲	**62,316**	52,506	18.7
Minority interests	▼	**9,188**	9,379	-2.0
Total	▲	**71,504**	61,885	15.5

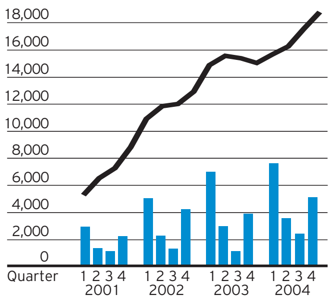
Comments:

Changes in equity are specified on page 15.

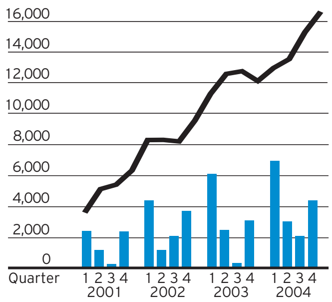
Net sales (SEK m)



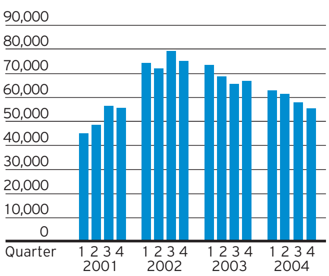
Operating profit, excl. items affecting comparability (SEK m)



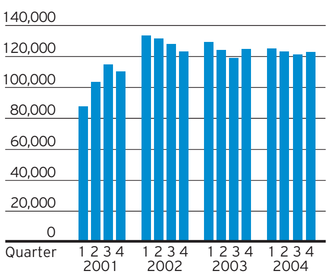
Profit before tax and minority interests, excl. items affecting comparability (SEK m)



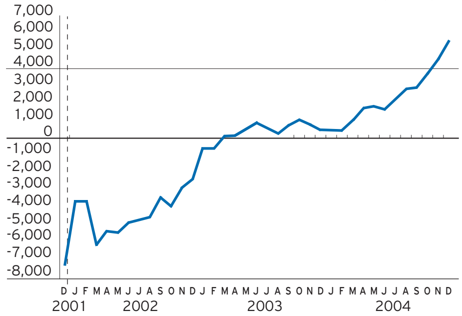
Net debt (SEK m)



Net assets (SEK m)



Value creation (SEK m)
(Difference between results achieved and the Group's required return)



Amounts in SEK millions	2004	2003	Change %
INVESTMENTS			
Maintenance investments	**8,289**	6,585	25.9
Growth investments	**4,312**	4,771	-9.6
– of which shares	**2,433**	2,761	-11.9
Total investments	**12,601**	11,356	11.0

Comments:

During 2004, the Group was in a phase of consolidation, which entailed continued low levels of growth investment.

Growth investments in shares comprise about SEK 1.5 billion in the form of 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. The remaining growth investments are divided between different projects and plants in the Nordic countries and Germany. Maintenance investments totalled about SEK 1.7 billion more in 2004 than in 2003. The normal level for maintenance investments is estimated to be SEK 7–9 billion per annum.

DIVESTMENTS

Divestments	**2,120**	2,057	3.1
– of which shares	**1,216**	789	54.2

Comments:

Divestments of shares during 2004 were primarily comprised of the holdings in A-Train AB, Russian Mosenergo and Chinese HHPGC.

PERSONNEL (Number of employees, expressed as full-time equivalents)

	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

Comments:

Part of the substantial cutback in Poland can be explained by 761 full-time equivalents in sold businesses. 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.

POWER AND HEAT SALES

Electricity balance, TWh

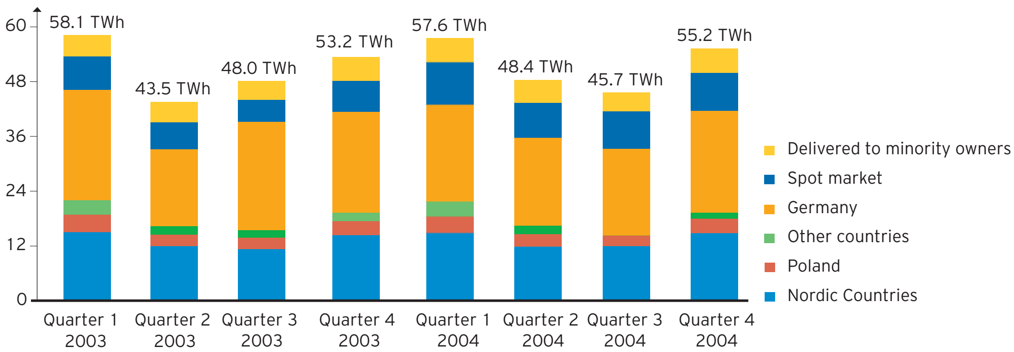
Sales	2004	2003
Sweden	**45.2**	44.8
Finland	**6.2**	5.7
Germany	**82.3**	87.0
Poland	**12.0**	12.0
Other countries	**7.3**	9.8
Spot market	**33.4**	24.9
Total electricity sales	***186.4***	*184.2*
Delivered to minority owners	**19.5**	17.9
Other	**1.0**	0.7
Total	**206.9**	202.8

Internal generation and electricity input	2004	2003
Hydro power	**33.6**	28.1
Nuclear power	**62.4**	56.5
Fossil-based and wind power	**71.1**	71.2
Total internal generation	***167.1***	*155.8*
Purchased power	**43.2**	47.3
Spot market	**8.8**	10.4
Total electricity input	***219.1***	*213.5*
Internal consumption	**-12.2**	-10.7
Total	**206.9**	202.8

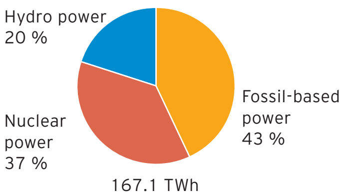
Heat sales, TWh	2004	2003
Nordic Countries *	**7.6**	7.9
Germany *	**15.5**	15.7
Poland	**11.4**	12.0
Total	**34.5**	35.6

** Including so-called "thermal heat" deliveries.*

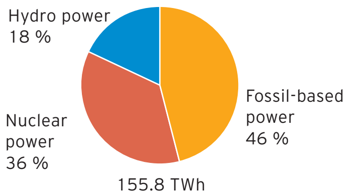
Electricity sales per quarter, TWh



Electricity generation 2004



Electricity generation 2003



Amounts in SEK millions		2004	2003	Change %
NORDIC COUNTRIES				
Nordic Generation				
Net sales	▼	**25,174**	29,531	-14.8
Operating profit	▲	**8,888**	6,266	41.8
Operating profit excl. items affecting comparability	▲	**8,891**	6,319	40.7
Electricity generation (TWh) *	▲	**87.9**	77.5	13.4
- of which hydro power	▲	**30.3**	25.8	17.4
nuclear power	▲	**57.5**	51.6	11.4
other	▶	**0.1**	0.1	0.0

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

Comments:

Sales decreased due to lower electricity market prices. Operating profit, however, increased considerably as a result of increased availability and increased generation volumes (+10.4 TWh), but also due to a large part of generation being hedged at a higher price than the previous year. Sales in the fourth quarter were 8.6 per cent lower than in the same period the previous year and amounted to SEK 6,676 million (7,306) while the operating profit increased by 24.9 per cent to SEK 2,416 million (1,934).

The greatly increased hydro power generation is explained by considerable improvements in water flows into the reservoirs. At the end of the year, the surplus in the so-called hydrological balance for the Nordic countries totalled 4.3 TWh compared to a deficit of 14.2 TWh at the end of 2003. The nuclear power plants exhibited absolute world-class availability and both Forsmark and the Ringhals Group posted their best generation results ever. The basis for the year's good results comprises the very efficiently implemented outages during the summer with, among other measures, turbine replacements in Forsmark 3.

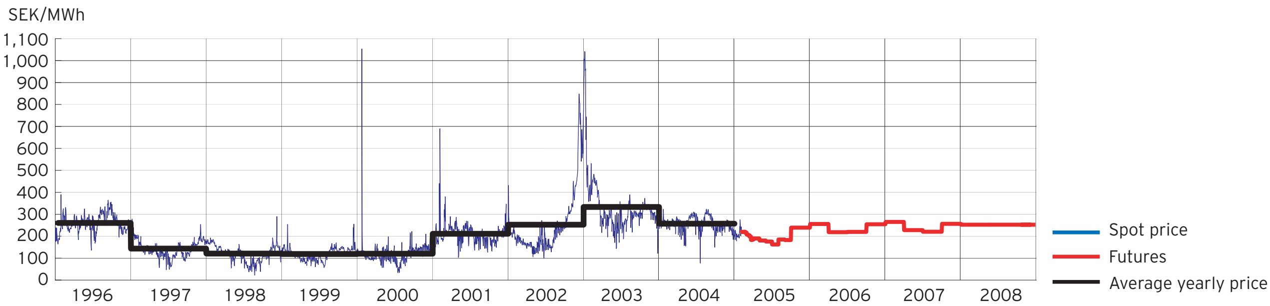
Market Nordic				
Net sales	▼	**20,286**	24,994	-18.8
Operating profit	▼	**222**	369	-39.8
Heat production (TWh)	▼	**1.8**	1.9	-5.3

Comments:

Market Nordic comprises the business units Sales Sweden, Sales Finland, MEGA and the Nordic section of Vattenfall Trading Services.

The decrease in sales in 2004 is largely 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.

Swedish electricity prices 1996–2008



Source: Nord Pool, February 3, 2005

Amounts in SEK millions		2004	2003	Change %
Nordic Heat				
Net sales	▲	**2,963**	2,868	3.3
Operating profit	▲	**353**	348	1.4
Operating profit excl. items affecting comparability	▲	**418**	345	21.2
Heat production (TWh)	▼	**5.8**	6.0	-3.3
Electricity generation (TWh)	▲	**0.4**	0.3	33.3

Comments:

Sales were at roughly the same level as in 2003. Operating profit was burdened in the amount of SEK 100 million in conjunction with the winding down of the Group's involvement in peat producer Härjedalens Miljöbränsle AB. Excluding items affecting comparability, operating profit increased by 21.2 per cent to SEK 418 million (345). During the fourth quarter sales increased by 9.3 per cent to SEK 940 million (860) and operating profit increased by 65.6 per cent to SEK 265 million (160). The improvement is primarily attributable to higher heat sales resulting from colder weather, increased "green certificate" income and lower operating and maintenance costs.

Nordic Distribution				
Net sales	▲	**8,231**	7,809	5.4
Operating profit	▲	**2,317**	2,131	8.7
Transmitted volume (TWh)	▲	**113.0**	106.7	5.9

Comments:

Nordic Distribution comprises the Electricity Networks Sweden and Electricity Networks Finland business units. The increase in sales and operating profit is explained by increased volumes and lower administration costs. During the fourth quarter, sales increased by 5.1 per cent to SEK 2,436 million (2,317) while operating profit decreased by 1.5 per cent to SEK 745 million (756).

At the beginning of January 2005, Sweden was hit by widespread bad weather with hurricane-force winds. The damage to forests and infrastructure, in particular the electricity supply, was enormous. Vattenfall's costs for power-loss guarantees, repairs and additional work are estimated at approximately SEK 500 million.

Services				
Net sales	▲	**3,103**	3,042	2.0
Operating profit	▲	**166**	100	66.0

Comments:

A little more than 70 per cent of the business unit's sales are attributable to internal assignments in Vattenfall. Sales increased marginally while operating profit exhibited considerable improvement as a result of a very good capacity utilisation. Operations were favoured by the ongoing investment programmes within the Nordic Generation and Nordic Distribution profit areas.

In the fourth quarter, sales were largely unchanged compared with the same period the previous year at SEK 981 million (991). Operating profit, however, decreased by 30.6 per cent to SEK 50 million (72). The reduction is primarily due to unusually high contractor margins at the end of 2003 while in the fourth quarter of 2004 these margins were more normal.

Amounts in SEK millions		2004	2003	Change %
GERMANY				
Net sales	▲	**66,761**	63,974	4.4
Operating profit	▲	**7,487**	6,318	18.5
Operating profit excl. items affecting comparability	▲	**7,085**	6,160	15.0
Heat production (TWh)	▼	**15.5**	15.7	-1.3
Electricity generation (TWh)	▲	**75.4**	74.6	1.1
– of which fossil-based power	▼	**67.2**	67.4	-0.3
nuclear power	▶	**4.9**	4.9	0.0
hydro power	▲	**3.3**	2.3	43.5

Comments:

The increase in profit in 2004 is due to the continuing cost-cutting programme within Vattenfall Europe but also 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 (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 administration 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. A number of disruptions took place within some coal-fired power plants and nuclear power plants, with a negative impact on generation volumes and financial performance.

Sales in the fourth quarter increased by 9.6 per cent compared with the same period the previous year, totalling SEK 19,359 million (17,656), while operating profit increased by 38.6 per cent to SEK 2,336 million (1,686).

POLAND				
Net sales	▼	**7,427**	7,845	-5.3
Operating profit	▲	**589**	443	33.0
Operating profit excl. items affecting comparability	▲	**569**	442	28.7
Heat production (TWh)	▼	**11.4**	12.0	-5.0
Electricity generation (TWh) *	▼	**3.2**	3.4	-5.9

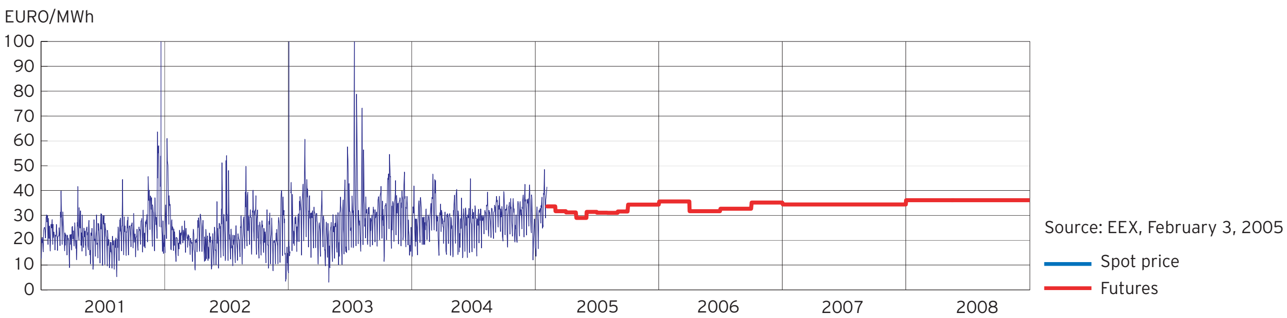
** 100% fossil-based power.*

Comments:

Despite lower volumes and increased fuel costs, Vattenfall's Polish operations continued to show very positive development. This was due to greatly optimised operations and significant cost-cutting. Sales for the fourth quarter increased by almost 2 per cent while operating profit was largely unchanged at SEK 151 million (153).

In local currency, sales and operating profit for the full year changed by –2.5 and +37.1 per cent respectively and during the fourth quarter by –5.4 and –6.6 per cent respectively. During the year, Vattenfall increased its holding in the distribution and sales company GZE from about 54 per cent to 75 per cent.

German electricity prices 2001–2008



Source: EEX, February 3, 2005

THE PARENT COMPANY
Net sales amounted to SEK 26,046 million (SEK 26,741). Profit after financial items amounted to SEK 11,502 million (6,172) and net profit amounted to SEK 7,035 million (4,577). Investments for 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.

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

In the preparation of this report, Vattenfall has applied the Accounting Principles specified in the Group's note 2 in Vattenfall's annual report for the year 2003 with the exception that, as mentioned in said note, as of 2004, Vattenfall applies the Swedish Financial Accounting Standards Council's recommendation (RR29) concerning employee benefits.

Through the application of RR29, the benefit-based pension plans of all Group companies are reported according to the same principles. In accordance with the recommendation's transition regulations, an opening provision has been calculated for 1 January 2004. The total effect of the transition is SEK 1,265 million and this has been reported as an increase in pension provisions. The altered principle entails a reduction in non-restricted equity of SEK 670 million after taking into account deferred tax and minority interests.

In accordance with the recommendation's transition regulations, Vattenfall has not restated previous financial years using the principles of the new recommendation.

As of 2005, the Vattenfall Group will apply international accounting standards. The effects of the transition to IFRS are presented below under the heading "Transition to International Financial Reporting Standards (IFRS)".

DIVIDEND
Net profit amounted to SEK 11,776 million (9,123), that is, SEK 89.42 (69.27) per share. The Board of Directors proposes a dividend of SEK 5,600 million, equal to SEK 42.52 per share.

ANNUAL GENERAL MEETING ETC.
The Annual General Meeting will be held in Stockholm on 26 April 2005. The Swedish and English versions of the annual report are expected to be published on www.vattenfall.se and www.vattenfall.com respectively on 21 March 2005. The printed annual report, in both Swedish and English, will be distributed at the beginning of April. The printed annual report can be ordered from Vattenfall AB, SE-162 87 Stockholm, Sweden, telephone +46 (0)8-739 50 00, e-mail info@vattenfall.se.

Stockholm, 18 February 2004

Vattenfall AB (publ)
Board of Directors

Vattenfall financial reports in 2005:

Three-month Interim Report	Tuesday, 26 April
Six-month Interim Report	Thursday, 29 July
Nine-month Interim Report	Thursday, 27 October

The income statement, balance sheet and cash flow statement for the full year and the fourth quarter respectively are presented below in summary. The effects of the transition to IFRS are presented below under the heading "Transition to International Financial Reporting Standards (IFRS)".

For additional information:
Lars G Josefsson, President and CEO, tel. +46 (0)8 739 50 05.
Matts Ekman, First Senior Executive Vice President, CFO, tel. +46 (0)8 739 50 08.
Knut Leman, Senior Vice President Communications, tel. +46 (0)8 739 50 31 or +46 (0)70 539 50 01.
Klaus Aurich, Head of Investor Relations, tel. +46 (0)8 739 65 14 or +46 (0)70 539 65 14.

VATTENFALL

CONSOLIDATED INCOME STATEMENT FOR 2004 AND OCTOBER–DECEMBER 2004

Amounts in SEK millions	Full year 2004	Full year 2003	Oct–Dec 2004	Oct–Dec 2003
Net sales	113,366	111,935	32,405	30,253
Cost of products sold *	-81,992	-84,792	-23,100	-21,903
Gross profit	31,374	27,143	9,305	8,350
Selling expenses, research & development costs and administrative expenses **	-12,139	-12,501	-3,654	-4,106
Other operating income and expenses, net	1,126	74	409	-44
Participations in the result of associated companies	-754	580	-625	53
Operating profit (EBIT) * **	19,607	15,296	5,435	4,253
Financial income	1,772	2,267	541	413
Financial expenses	-4,020	-5,203	-1,252	-1,208
Profit before tax and minority interests ******	17,359	12,360	4,724	3,458
Tax	-5,011	-2,831	-1,359	-44
Minority interests	-572	-406	-153	-4
Net profit for the period *********	11,776	9,123	3,212	3,410
Operating profit before amortisation and dissolution of negative goodwill (EBITDA)	31,453	24,878	8,467	5,982
Financial items, net	-2,248	-2,936	-711	-795
* *Of which amortisation, SEK millions*	*14,505*	*14,096*	*4,386*	*3,822*
* *Of which dissolution of negative goodwill, SEK millions*	*3,034*	*4,754*	*1,520*	*2,108*
** *Of which amortisation, SEK millions*	*375*	*240*	*166*	*15*
*** *Including items affecting comparability, SEK millions*	*819*	*263*	*309*	*351*
**** *Including items affecting comparability, SEK millions*	*817*	*278*	*310*	*360*
***** *Of which items affecting comparability adjusted for tax, SEK millions*	*546*	*179*	*192*	*240*

EARNINGS PER SHARE

	2004	2003
Number of shares (thousands)	131,700	131,700
Earnings per share, SEK	89.42	69.27

PRIMARY SEGMENTS

	Net sales				Operating profit (EBIT)				Operating profit (EBIT) excl. items affecting comparability			
Amounts in SEK millions	Full year 2004	Full year 2003	Oct-Dec 2004	Oct-Dec 2003	Full year 2004	Full year 2003	Oct-Dec 2004	Oct-Dec 2003	Full year 2004	Full year 2003	Oct-Dec 2004	Oct-Dec 2003
NORDIC COUNTRIES												
Nordic Generation	25,174	29,531	6,676	7,306	8,888	6,266	2,416	1,934	8,891	6,319	2,420	1,919
Market Nordic	20,286	24,994	5,317	6,010	222	369	-93	-150	218	372	-93	-150
Nordic Heat	2,963	2,868	940	860	353	348	265	160	418	345	265	159
Nordic Distribution	8,231	7,809	2,436	2,317	2,317	2,131	745	756	2,309	2,127	744	758
Services	3,103	3,042	981	991	166	100	50	72	164	98	49	71
Other business	1,592	1,855	387	633	-403	-690	-423	-369	-854	-841	-446	-556
Eliminations *	-20,555	-27,585	-5,367	-6,815	–	11	–	11	–	11	–	11
Total Nordic Countries	40,794	42,514	11,370	11,302	11,543	8,535	2,960	2,414	11,146	8,431	2,939	2,212
GERMANY	66,761	63,974	19,359	17,656	7,487	6,318	2,336	1,686	7,085	6,160	2,052	1,538
POLAND	7,427	7,845	2,129	2,092	589	443	151	153	569	442	147	152
Eliminations **	-1,616	-2,398	-453	-797	-12	–	-12	–	-12	–	-12	–
Total	113,366	111,935	32,405	30,253	19,607	15,296	5,435	4,253	18,788	15,033	5,126	3,902

** Concerns trade between Market Nordic, Nordic Distribution and Nordic Generation.*
*** Concerns trade between Germany and Nordic Countries.*

SECONDARY SEGMENTS

	Net sales			
Amounts in SEK millions	Full year 2004	Full year 2003	Oct-Dec 2004	Oct-Dec 2003
Electricity	73,982	75,966	20,261	19,507
Electricity Networks	44,761	40,372	12,935	11,611
Heat	18,320	16,306	5,698	4,978
Other	6,262	7,988	1,942	2,564
Eliminations	-29,959	-28,697	-8,431	-8,407
Total	113,366	111,935	32,405	30,253

Primary segments are Nordic Countries, Germany and Poland. Nordic Countries is split into Nordic Generation, Market Nordic, Nordic Heat, Nordic Distribution, Services and Other Business. Secondary segments are Electricity, Electricity Networks, Heat and Other.

BALANCE SHEET

Amounts in SEK millions	2004-12-31	2003-12-31
Assets		
Fixed assets		
Intangible fixed assets	**5,065**	5,558
Tangible fixed assets	**179,029**	181,940
Financial fixed assets	**26,681**	28,705
Total fixed assets	**210,775**	216,203
Current assets		
Inventories	**7,470**	7,283
Current receivables	**25,054**	26,832
Liquid assets *	**13,616**	14,647
Total current assets	**46,140**	48,762
Total assets	**256,915**	264,965
Equity, provisions and liabilities		
Equity	**62,316**	52,506
Minority interests	**9,188**	9,379
Provisions **	**86,901**	91,884
Long-term interest-bearing liabilities	**64,119**	69,845
Other long-term liabilities	**2,135**	2,236
Current interest-bearing liabilities *	**8,894**	15,702
Other current liabilities	**23,362**	23,413
Total equity, provisions and liabilities	**256,915**	264,965
Pledged assets	**247**	112
Contingent liabilities	**10,441**	12,357
* *Of which interest rate arbitrage transactions, SEK millions*	**–**	*993*
** *Of which interest-bearing provisions, SEK millions*	**–**	*84*

Net assets

Amounts in SEK millions	2004	2003
Nordic Countries	**57,415**	56,367
Germany	**58,350**	62,171
Poland	**7,187**	6,270
Total net assets on balance sheet date	**122,952**	124,808
Net assets, weighted average value	**123,423**	124,229

Net debt

Amounts in SEK millions	2004	2003
Interest-bearing debt *	**-73,013**	-85,631
Liquid assets	**13,616**	14,647
Loans to minority owners in foreign subsidiaries	**3,986**	4,094
Total net debt	**-55,411**	-66,890
* *Of which loans from minority-owned German nuclear power companies.*	***14,458***	*14,979*

Provisions

Amounts in SEK millions	2004	2003
Pension provisions	**16,450**	14,946
Provisions 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 provisions	**86,901**	91,884

CASH FLOW STATEMENT

Amounts in SEK millions	2004	2003	Oct - Dec 2004	Oct - Dec 2003
CASH FLOW STATEMENT IN ACCORDANCE WITH THE SWEDISH FINANCIAL ACCOUNTING STANDARDS COUNCIL'S RECOMMENDATION NO. 7				
Operating activities				
Funds from operations (FFO)	**24,159**	18,804	**6,685**	6,373
Cash flow from changes in working capital	**-186**	-613	**-1,763**	-4,415
Cash flow from operating activities	**23,973**	18,191	**4,922**	1,958
Investment activities				
Investments	**-12,601**	-11,356	**-4,051**	-3,779
Divestments	**2,120**	2,057	**1,022**	857
Liquid assets in acquired/sold companies	**-20**	949	**-4**	85
Cash flow from investment activities	**-10,501**	-8,350	**-3,033**	-2,837
Cash flow before financing activities	**13,472**	9,841	**1,889**	-879
Financing activities				
New borrowings	**7,984**	6,610	**230**	663
Amortisation of debt	**-20,229**	-15,002	**-4,658**	-1,834
Dividend paid	**-2,600**	-1,937	**6**	-187
Cash flow from financing activities	**-14,845**	-10,329	**-4,422**	-1,358
Cash flow for the period	**-1,373**	-488	**-2,533**	-2,237
Liquid assets				
Liquid assets at the beginning of the year	**14,647**	15,473	**15,868**	16,689
Exchange rate differences	**342**	-338	**281**	195
Cash flow for the year	**-1,373**	-488	**-2,533**	-2,237
Liquid assets at the end of the year	**13,616**	14,647	**13,616**	14,647

OPERATIVE CASH FLOW STATEMENT				
Cash flow before financing activities	**13,472**	9,841	**1,889**	-879
Financing activities				
Acquired/sold interest-bearing debt, net	**–**	-45	**–**	-45
Dividend paid	**-2,600**	-1,937	**6**	-187
Cash flow after dividend	**10,872**	7,859	**1,895**	-1,111
Net debt				
Net debt at the beginning of the year	**-66,890**	-75,207	**-57,850**	-65,638
Effect of altered definition	**84**	–	**–**	–
Cash flow after dividend	**10,872**	7,859	**1,895**	-1,111
Exchange rate differences on net debt	**523**	458	**544**	-141
Net debt at the end of the year	**-55,411**	-66,890	**-55,411**	-66,890

CHANGE IN EQUITY

Amounts in SEK millions	2004	2003
Opening balance	**52,506**	45,129
Transition effect on application of new accounting principles concerning pension commitments *	**-670**	–
Dividend	**-2,400**	-1,675
Translation differences	**772**	-1,213
Hedging	**332**	69
Displacement between equity and minority interests	**–**	1,073
Profit for the year	**11,776**	9,123
Closing balance	**62,316**	52,506

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

KEY RATIOS (definitions on page 17)
(In per cent unless otherwise stated)

	2004	2003	Oct -Dec 2004	Oct -Dec 2003
Operating margin	**17.3**	13.7	**16.8**	14.1
Operating margin excl. items affecting comparability	**16.6**	13.4	**15.8**	12.9
Pre-tax profit margin	**15.3**	11.0	**14.6**	11.4
Pre-tax profit margin excl. items affecting comparability	**14.6**	10.8	**13.6**	10.2
Return on equity	**22.4**	20.2	**–**	–
Return on equity excl. items affecting comparability	**21.4**	19.8	**–**	–
Return on net assets	**15.9**	12.3	**–**	–
Return on net assets excl. items affecting comparability	**15.2**	12.1	**–**	–
Interest coverage ratio (times)	**5.3**	3.4	**4.8**	3.9
Interest coverage ratio excl. items affecting comparability (times)	**5.1**	3.3	**4.5**	3.6
FFO interest coverage ratio (times)	**7.0**	4.6	**6.3**	6.3
FFO interest coverage ratio, net (times)	**11.7**	7.4	**10.4**	9.0
Equity/assets ratio	**27.8**	23.4	**27.8**	23.4
Net debt/equity ratio (times)	**0.77**	1.08	**0.77**	1.08
Net debt/equity plus net debt	**43.7**	51.9	**43.7**	51.9
Funds from operations (FFO)/interest-bearing debt	**33.1**	22.0	**–**	–
Funds from operations (FFO)/net debt	**43.6**	28.1	**–**	–
EBITDA/net financial items (times)	**14.0**	8.5	**11.9**	7.5
EBITDA/net financial items excl. items affecting comparability (times)	**13.6**	8.3	**11.5**	7.0
Interest-bearing debt/interest-bearing debt plus equity	**50.5**	58.0	**50.5**	58.0

QUARTERLY INFORMATION

Amounts in SEK millions	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Income statement								
Net sales	**32,405**	23,890	25,261	31,810	30,253	23,184	22,479	36,019
Cost of products sold	**-23,100**	-18,468	-18,771	-21,653	-21,903	-19,108	-17,071	-26,710
Other expenses and revenue, net	**-3,245**	-2,390	-2,677	-2,701	-4,150	-3,030	-2,773	-2,474
Participations in the result of associated companies	**-625**	-453	116	208	53	149	158	220
Operating profit before depreciation (EBITDA)	**8,467**	5,229	6,990	10,767	5,982	3,803	4,776	10,317
Operating profit (EBIT)	**5,435**	2,579	3,929	7,664	4,253	1,195	2,793	7,055
Financial items, net	**-711**	-334	-513	-690	-795	-759	-490	-892
Profit before tax and minority interests	**4,724**	2,245	3,416	6,974	3,458	436	2,303	6,163
Net profit	**3,212**	1,693	2,106	4,765	3,410	37	1,514	4,162
Balance sheet								
Fixed assets	**210,775**	213,227	214,904	218,451	216,203	209,708	216,170	221,798
Current assets	**32,524**	32,897	34,918	37,863	34,115	37,441	39,838	47,682
Liquid assets	**13,616**	15,868	16,558	13,028	14,647	16,689	19,119	12,818
Total assets	**256,915**	261,992	266,380	269,342	264,965	263,838	275,127	282,298
Equity	**62,316**	58,398	56,724	57,352	52,506	47,689	48,654	49,185
Minority interests	**9,188**	9,010	8,893	8,891	9,379	9,802	11,962	13,261
Provisions	**86,901**	89,251	91,204	93,273	91,884	90,275	93,953	96,434
Interest-bearing debt	**73,013**	77,703	82,141	80,124	85,547	86,237	91,761	90,143
Other liabilities	**25,497**	27,630	27,418	29,702	25,649	29,835	28,797	33,275
Total equity, provisions and liabilities	**256,915**	261,992	266,380	269,342	264,965	263,838	275,127	282,298
Net assets	**122,952**	121,389	123,254	125,169	124,808	119,151	124,191	129,502
Net debt	**-55,411**	-57,850	-61,512	-62,916	-66,890	-65,638	-68,704	-73,473
Cash flow								
Funds from operations (FFO)	**6,685**	2,784	5,700	8,990	6,373	648	4,086	7,697
Cash flow from changes in working capital	**-1,763**	3,070	-163	-1,330	-4,415	4,673	3,235	-4,106*
Cash flow from operating activities	**4,922**	5,854	5,537	7,660	1,958	5,321	7,321	3,591*
Cash flow from investment activities	**-3,033**	-2,226	-2,162	-3,080	-2,837	-2,814	-1,866	-833
Cash flow before financing activities	**1,889**	3,628	3,375	4,580	-879	2,507	5,455	2,758*
Borrowing/amortisation of debt, net	**-4,428**	-4,259	2,781	-6,339	-1,171	-4,437	2,555	-5,339*
Dividend paid	**6**	–	-2,590	-16	-187	-52	-1,597	-101
Cash flow from financing activities	**-4,422**	-4,259	191	-6,355	-1,358	-4,489	958	-5,440*
Cash flow for the period	**-2,533**	-631	3,566	-1,775	-2,237	-1,982	6,413	-2,682

* A reclassification has been made compared with the interim report for the first quarter of 2003.

KEY RATIOS (definitions on page 17)
(In per cent unless otherwise stated)

Amounts in SEK millions	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Return on net assets (1)	**15.9**	14.9	13.8	12.8	12.3	12.2	12.1	11.9
Return on net assets (1) (2)	**15.2**	14.2	13.2	12.6	12.1	12.3	12.2	11.6
Return on equity (1)	**22.4**	25.1	21.2	19.8	20.2	22.4	23.0	23.1
Return on equity (1) (2)	**21.4**	23.9	20.1	19.4	19.8	22.5	23.2	22.3
Funds from operations (FFO)/interest-bearing debt (1)	**33.1**	30.7	26.4	25.1	22.0	22.1	22.7	21.1
FFO/net debt (1)	**43.6**	41.2	35.3	31.9	28.1	29.1	30.4	26.0
Interest coverage ratio (times)	**5.3**	4.1	4.6	7.4	3.9	1.3	3.2	5.9
Interest coverage (times) (2)	**5.1**	3.9	4.2	7.4	3.6	1.2	3.4	5.9
FFO interest coverage ratio (times)	**7.0**	4.8	7.0	9.3	6.3	1.4	5.0	7.1
Equity/assets ratio	**27.8**	25.8	24.7	24.7	23.4	21.9	22.1	22.2
Net debt/equity plus net debt	**43.7**	46.2	48.4	48.7	51.9	53.3	53.1	54.1
Net debt/equity ratio (times)	**0.77**	0.86	0.94	0.95	1.08	1.14	1.13	1.18

(1) = rolling 12-month values

(2) = excluding items affecting comparability

DEFINITIONS

Items affecting comparability: Capital gains and capital losses in shares and other fixed assets.

Operating margin (per cent): Operating profit in relation to net sales.

Pre-tax profit margin (per cent): Profit before tax and minority interests in relation to net sales.

Return on equity (per cent): Profit for the year in relation to equity at the beginning of the year.

Return on net assets (per cent): Operating profit in relation to a weighted average of the balance sheet totals for the period, minus non-interest-bearing debt, provisions, interest-bearing receivables and liquid assets.

Interest coverage ratio (times): EBIT plus financial income in relation to financial expenses.

FFO interest coverage ratio (times): FFO plus financial expenses in relation to financial expenses.

FFO net interest coverage ratio (times): FFO plus financial items in relation to net financial items.

Equity/assets ratio (per cent): Equity including minority interests in relation to the balance sheet total at the end of the year, minus interest arbitrage transactions.

Net debt/equity (times): Interest-bearing debt minus loans to minority owners in foreign subsidiaries and liquid assets in relation to equity including minority interests.

Net debt/net debt plus equity (per cent): Interest-bearing debt minus loans to minority owners in foreign subsidiaries and liquid assets in relation to interest-bearing debt, minus loans to minority owners in foreign subsidiaries and liquid assets plus equity including minority interests.

FFO/interest-bearing debt (per cent): FFO in relation to interest-bearing debt.

FFO/net debt (per cent): FFO in relation to interest-bearing debt minus loans to minority owners in foreign subsidiaries and liquid assets.

EBITDA/net financial items (times): EBITDA in relation to financial items.

Interest-bearing debt/interest-bearing debt plus equity (per cent): Interest-bearing debt in relation to interest-bearing debt plus equity including minority interests.

Free cash flow: Cash flow from operating activities minus maintenance investment in installations.

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortisation.

EBIT: Earnings Before Interest and Tax.

FFO: Funds From Operations.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As of 2005, the Vattenfall Group applies 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 recommendations, which have been 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 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 current IFRS, which may undergo changes before 31 December 2005 with subsequent effects on the reported amounts. As a starting point, it is assumed in IFRS 1 that all standards shall be applied retroactively, but there are exceptions to this rule.

RESTATED EQUITY AND NET PROFIT FOR THE GROUP

Summarised Reconciliation of Consolidated Equity (SEK millions)

	note	1 January 2004	31 December 2004
Equity according to Swedish GAAP		**51,836**	**62,316**
Negative goodwill	A	10,123	6,928
Amortisation of goodwill	B	–	134
Obligations for decommissioning, restoration etc.			
- nuclear power operations	C	3,284	4,220
- mining operations	D	2,748	2,763
Development costs	E	547	464
Deferred tax	F	-2,188	-2,414
Minority interests	G	9,379	9,188
Total change under IFRS		23,893	21,283
Equity according to IFRS		**75,729**	**83,599**

Summarised Reconciliation of Consolidated Net Profit (SEK millions)

	note	Amount
Net Profit 2004 according to Swedish GAAP		**11,776**
Negative goodwill	A	-3,034
Amortisation of goodwill	B	122
Obligations for decommissioning, restoration etc		
- nuclear power operations	C	886
- mining operations	D	42
Development costs	E	-77
Deferred tax	F	-192
Minority interests	G	572
Total change under IFRS		-1,681
Net Profit according to IFRS		**10,095**

Notes

A. Negative goodwill

Negative goodwill arising from business combinations after valuation of the net assets has been made shall be reported directly in the income statement according to IFRS 3 – Business Combinations. Negative goodwill reported as such in the balance sheet according to Swedish GAAP shall, according to IFRS, be reported directly against equity.

B. Amortisation of goodwill

IFRS 3 – Business Combinations also stipulates no amortisation of goodwill. Goodwill and other intangible assets that are not subject to amortisation shall be assessed for impairment at least annually to examine whether there is a need to write down the asset.

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 plant. 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 utilised.

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 according to 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 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 the 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 according to IFRIC 1.

E. Capitalisation of development costs

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 if the requirements for capitalisation 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 does not permit retroactive application upon the adoption of the equivalent recommendation.

F. Deferred tax

Some of the adjustments described above will lead to differences between the valuations in the consolidated financial statements and annual tax accounts. Deferred tax is reported for these differences.

G. Minority interests

IAS 27 – Consolidated and Separate Financial Statements requires 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 profit for the year or equity.

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 in this report in accordance with the transition 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 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 for derivative instruments, the derivative instrument shall be reported at the lower of the acquisition value and the fair value (lowest value principle).

For fair value hedges, in addition to the change in value of the hedge, the change in value of the underlying item shall also be 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 market-listed shares are classified as "available for sale". According to Swedish GAAP, current financial assets are reported at the lower of the acquisition value and the fair value. Liabilities are reported at amortised cost.

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

This report has been translated from the Swedish original.

Vattenfall AB (publ)
Company No. 556036-2138
Postal address: SE-162 87 Stockholm, Sweden
Tel +46 8 739 5000 www.vattenfall.com