

Financial Review

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Capital Markets Day October 5th, 2004

1. Update on Vattenfall's steering model, financial targets and performance
 2. IFRS impact on Vattenfall
 3. Treasury and funding
 4. Vattenfall Trading Services
- *Appendices*

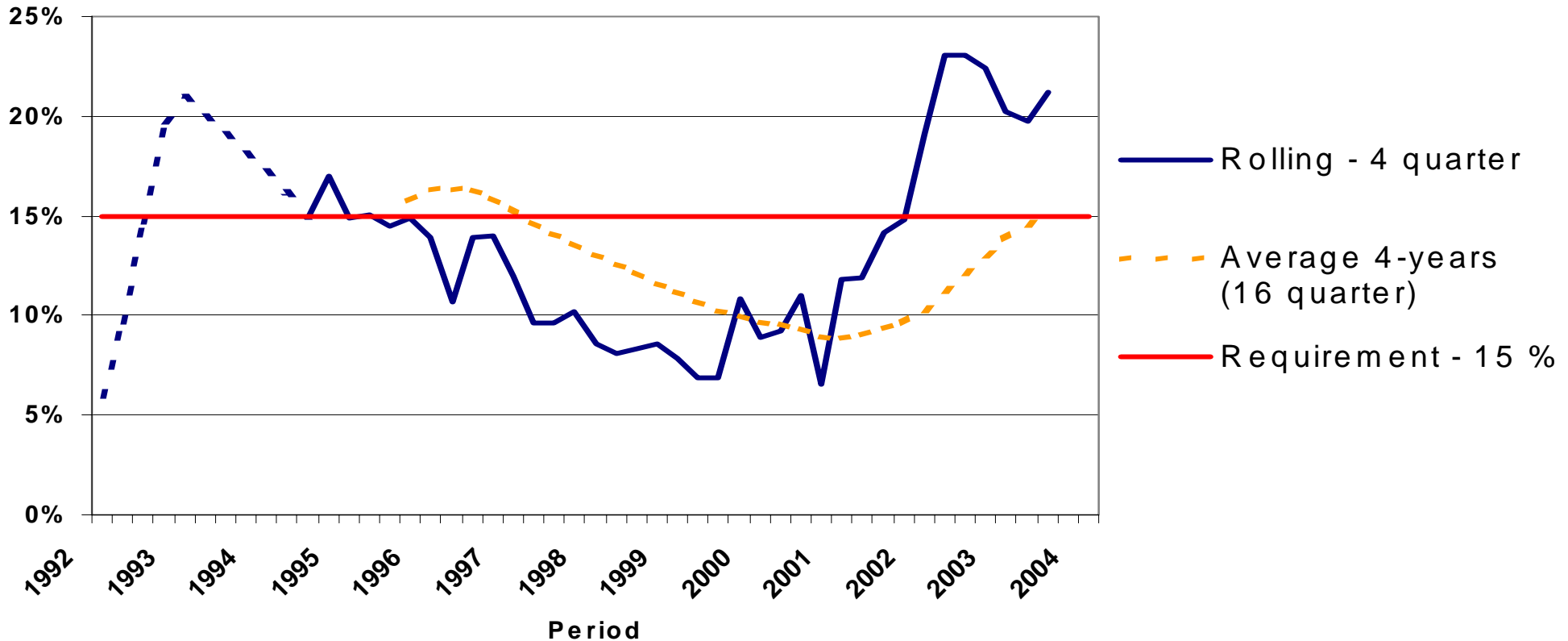
Financial targets

Key Ratio /Objective	Target	Q2 2004	Q1 2004	FY 2003
Return on equity (RoE), average 4-years	15 % (on visible equity after tax over a business cycle)	15.5**	14.6**	13.8**
Return on net assets (RoNA)	11 % (before tax -15 % RoE recalculated to the Groups requirement of return on net assets)	13.2*	12.6*	12.1
Pre-tax interest coverage	3.5 – 5 times	3.7*	3.6*	3.3
Credit rating	single A category	unchanged	unchanged	outlook changed to stable
Profit improvement in German operations	Cost savings of MEUR 400-500 annually from 2005	MEUR 378	MEUR 343	MEUR 338

*rolling 12-months value ** Average, 4 years (16 quarters)

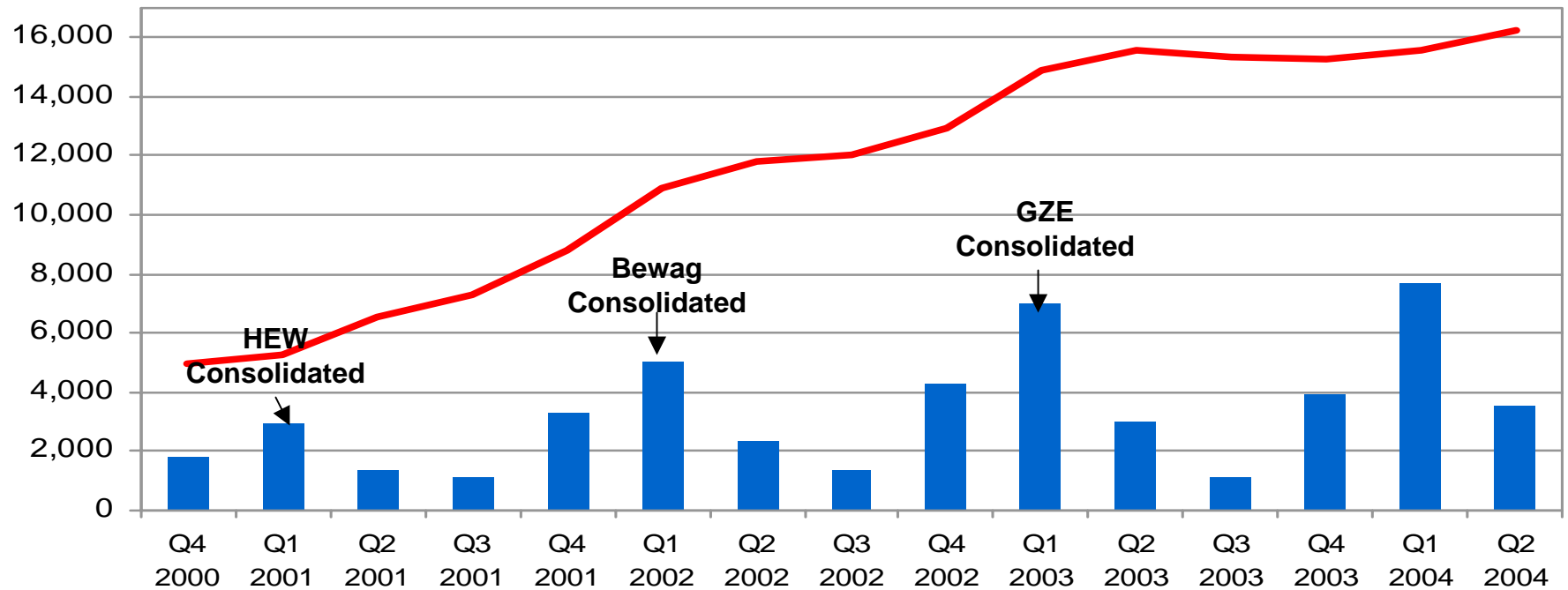
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Return on equity → average 4 years on target



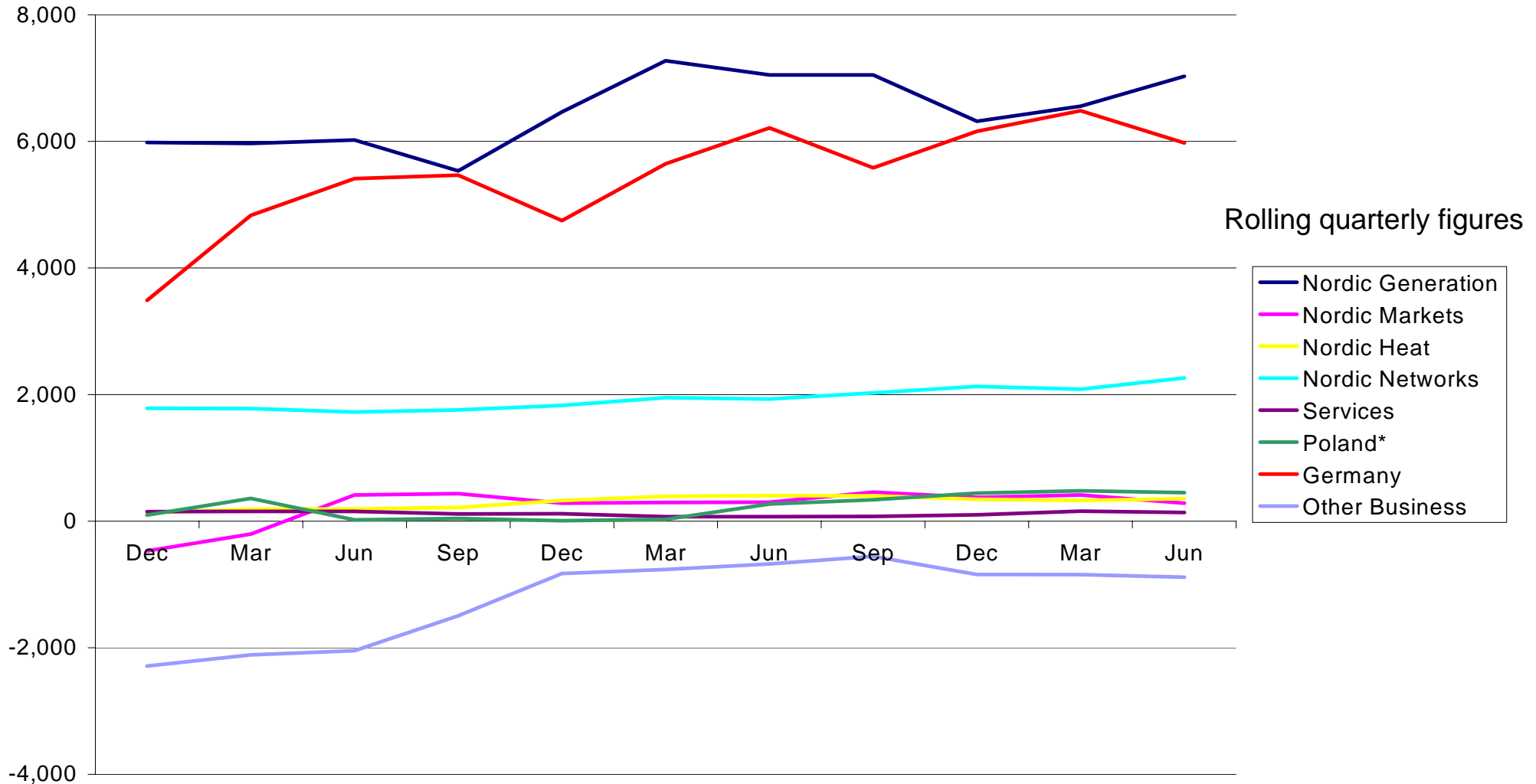
Strong EBIT development

Quarterly figures, MSEK

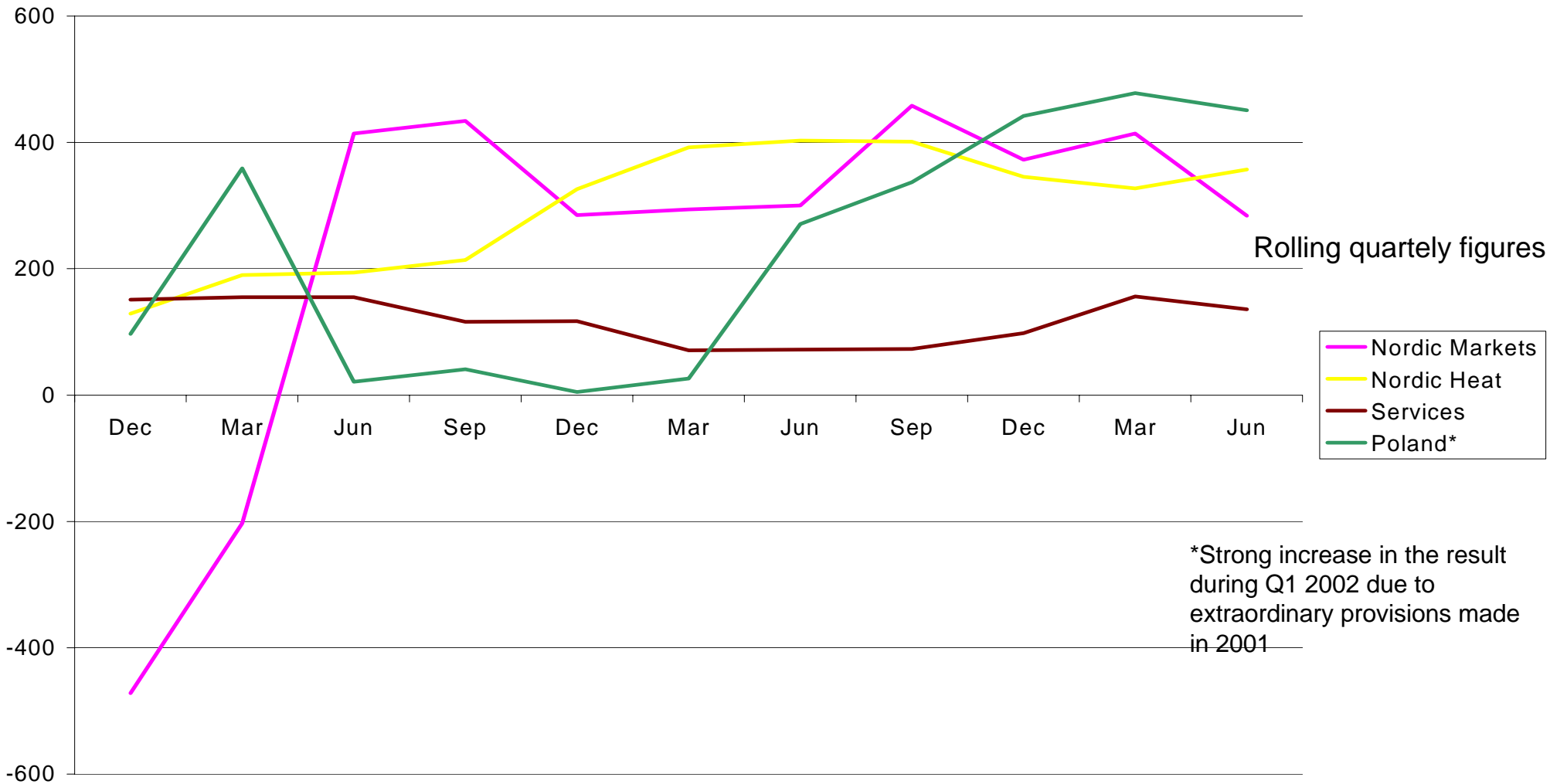


- Quarterly figures, SEK m, excluding items affecting comparability
- Rolling 4 quarter figures, SEK m, excluding items affecting comparability

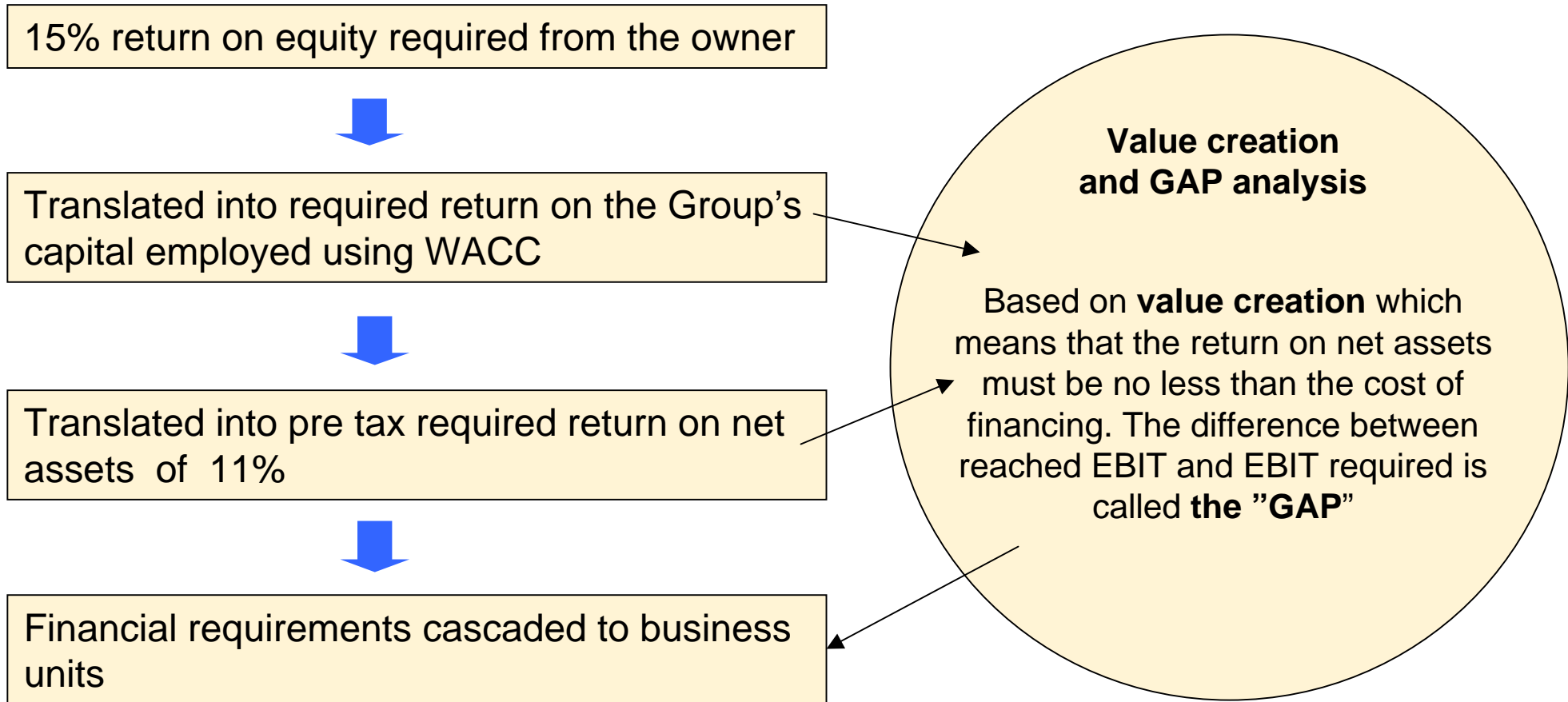
EBIT contribution per profit area



EBIT contribution per profit area



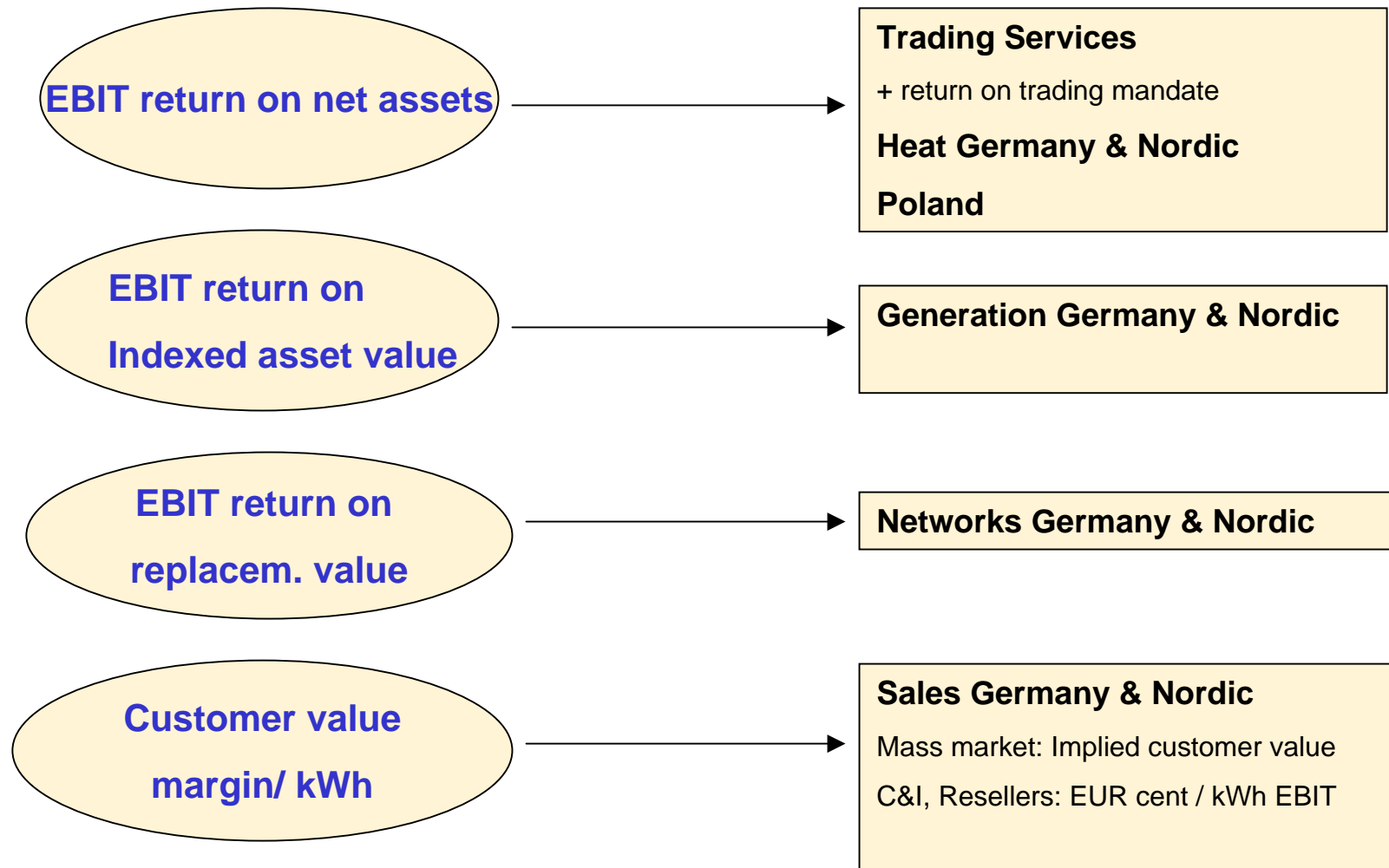
Vattenfall's steering model



Value creation targets established for each BU

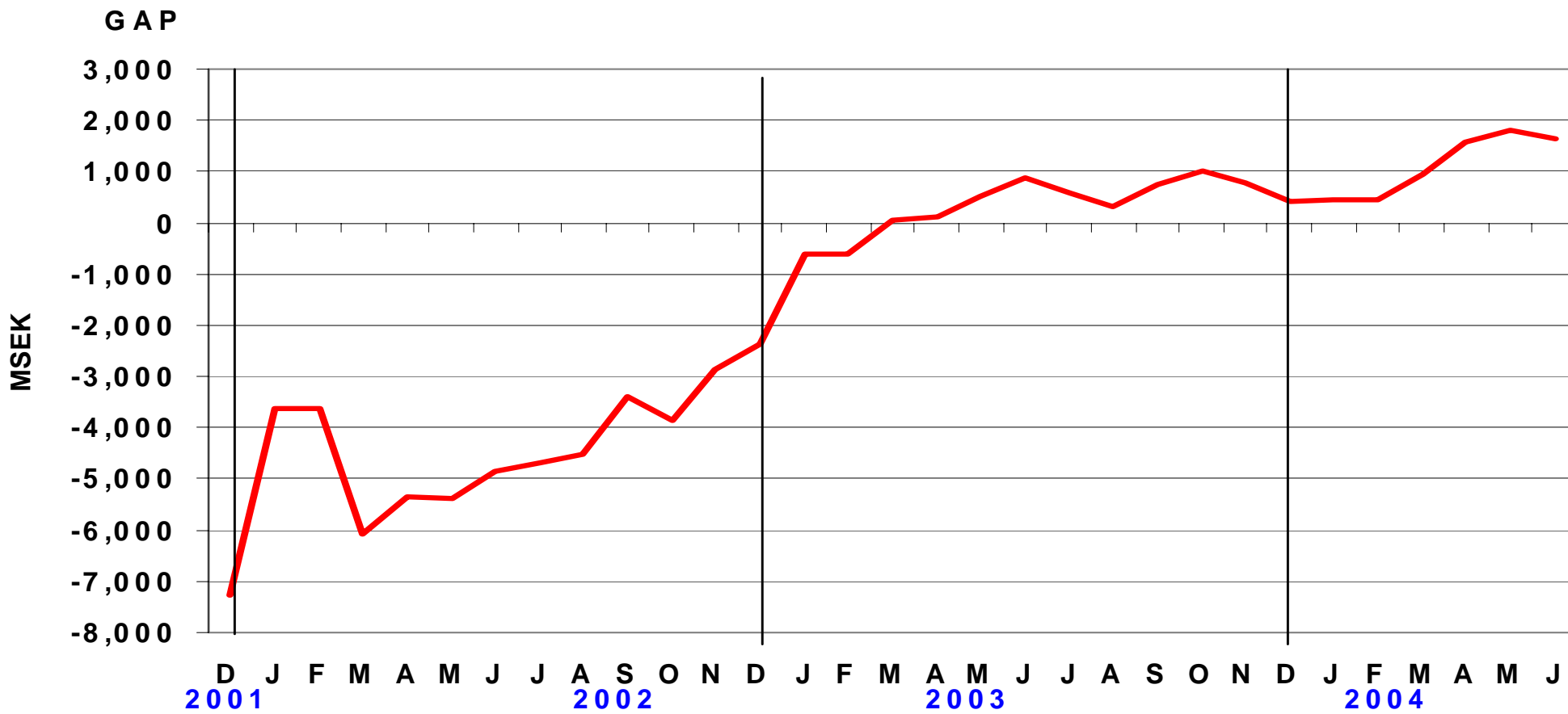
- ❑ The Group's net assets are defined as total balance sheet less cash and liquid assets and less non-interest bearing liabilities.
- ❑ Some units have "real" assets, mainly in generation and in the network business. For these units we calculate real required cash flow returns, and transform them into required earnings to match the total Group's requirement
- ❑ The various business units carry different risk. We therefore differentiate the required returns between the BU's.

10 Financial requirements cascaded to business units

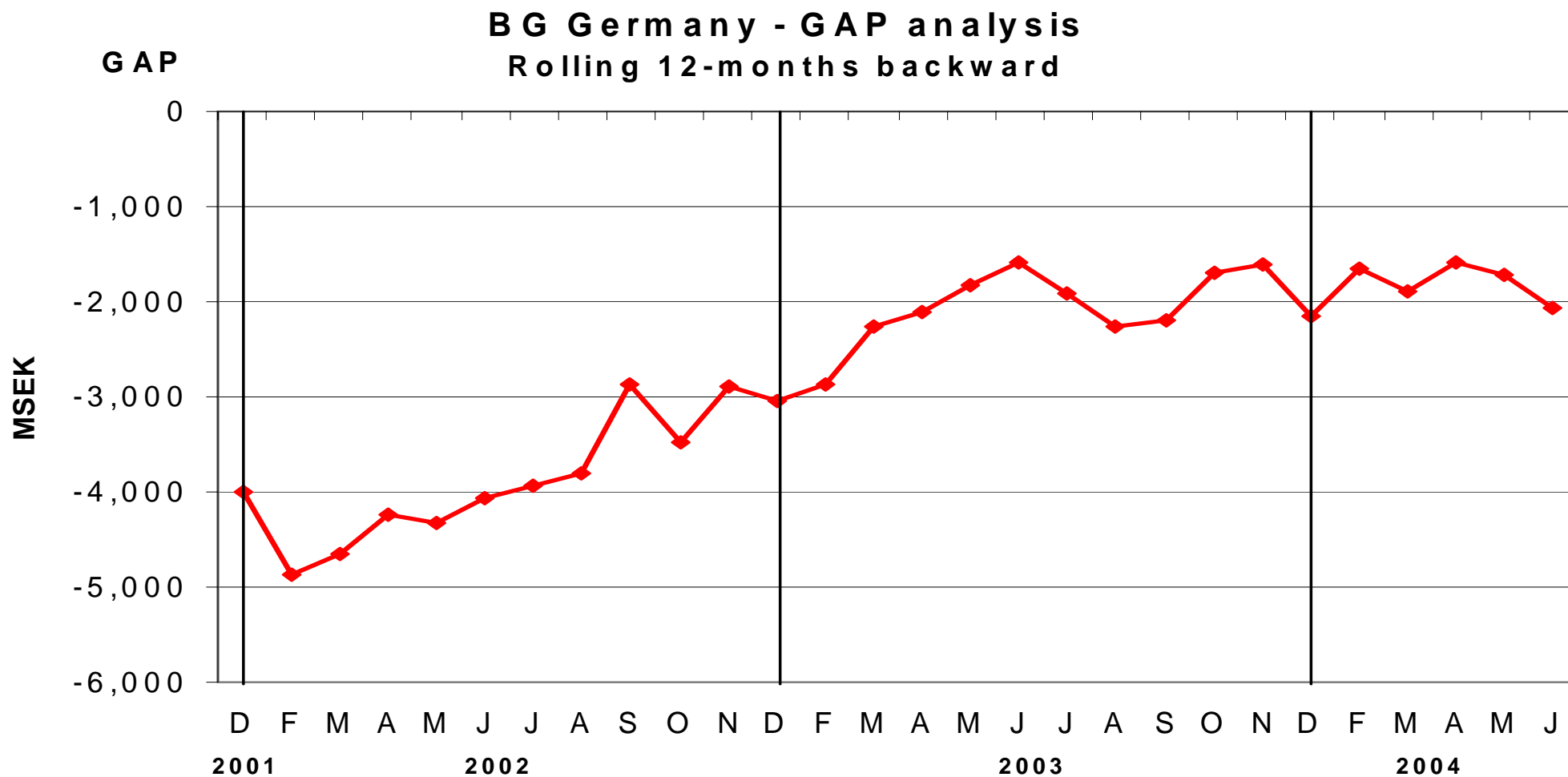


GAP-analysis Vattenfall Group

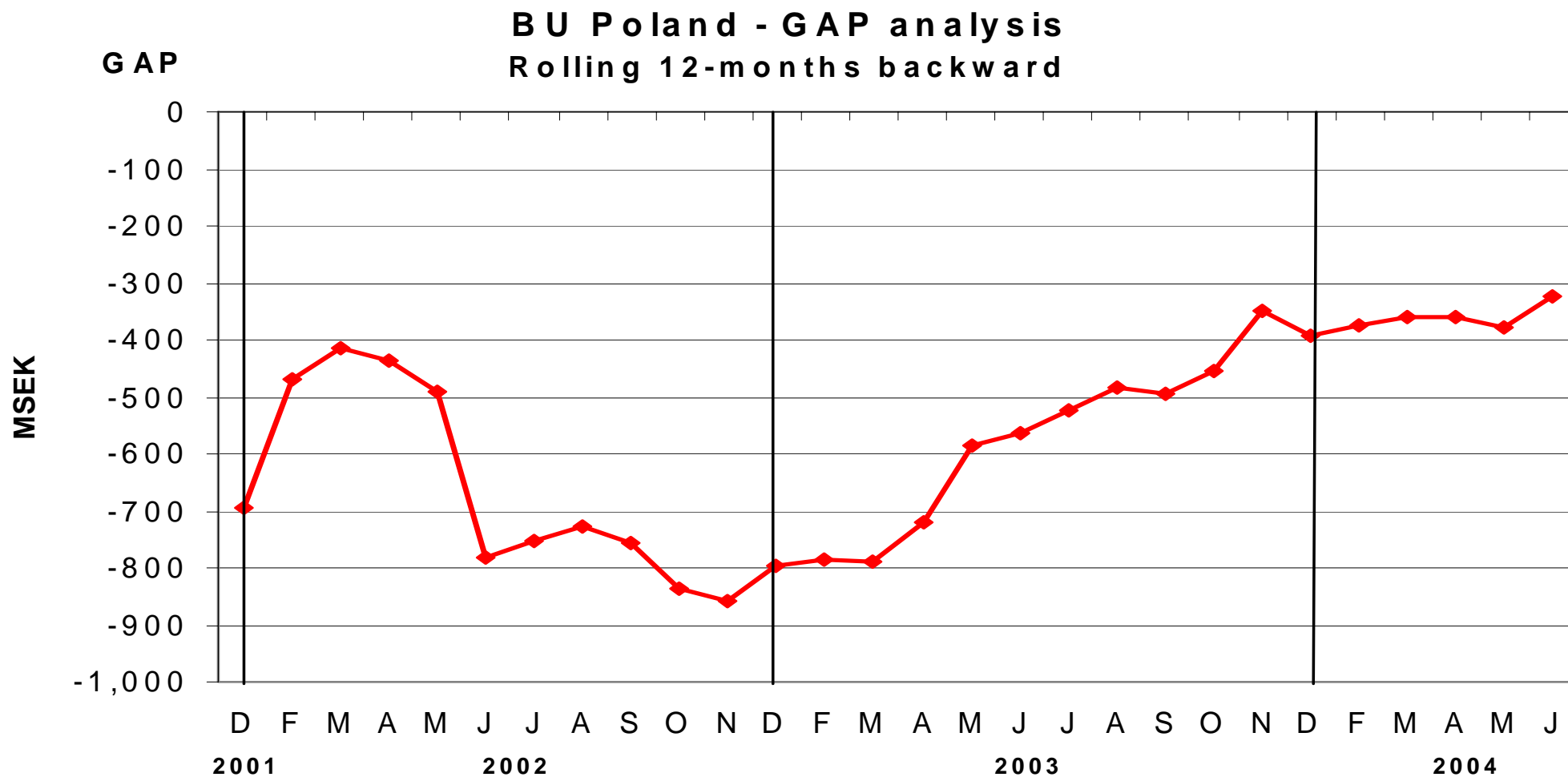
GAP-analysis (annualised) vs. long term requirement : 11% RoNA



GAP-analysis Germany



GAP-analysis Poland



All key ratios stronger

KEY RATIOS		Q2 2004	Q2 2003/ FY 2003
RoNA, annualised *	▲	13.2	12.1 (FY)
RoE, annualised *	▲	20.1	19.8 (FY)
Operating margin *	▲	19.6	17.1 (Q2)
Pre-tax profit margin *	▲	18.2	14.5 (Q2)
Pre-tax interest coverage, times, annualised*	▲	3.7	3.3 (FY)
FFO/net debt, annualised	▲	35.3	28.1 (FY)
FFO net interest coverage, times	▲	13.2	9.5 (Q2)
Equity / asset ratio	▲	24.7	22.1 (Q2)
Net debt / equity (times)	▼	0.9	1.1 (Q2)
Net debt / net debt + equity	▼	48.4	53.1 (Q2)

*Excluding items affecting comparability

IFRS - Impact on Vattenfall

- Vattenfall is planning to adopt IFRS (International Financial Reporting Standards) as from January 1, 2005 in accordance with the transition rules outlined in IFRS 1, First time adoption.
- We are still evaluating some issues and have not yet confirmed all our conclusions with the auditors

IFRS – Areas & Impact

Areas	Impact
Negative goodwill	Negative goodwill will be dissolved. Provisions will decrease by approx SEK 10 bn. Equity will increase by approx SEK 10 bn
Amortization of goodwill	To be replaced by impairment test. Negligible impact.
German mining provisions	Assets may increase by SEK 4 bn and equity by 2 bn
Swed. nuclear decommissioning fund	Gross accounting requirement. The impact is currently being evaluated
Interest component in provisions (other than pension provisions)	Possibly to be posted as financial expense instead of operating expense. Amount: SEK 1 bn
Capitalisation of development costs	Retrospective accounting to be applied. Is currently being evaluated.
IAS 39 – Financial instruments	All financial instruments on balance sheet. Hedge accounting to be applied. The IAS 39 is not yet endorsed by the EC.

Please refer to appendix for more details

Treasury & Funding

Treasury policy

- Centralised Group Treasury (Vattenfall Treasury AB) has the overall responsibility for treasury operations, i.a.
 - funding (centralised funding unless local funding provide e.g. tax advantages)
 - investment of liquid assets
 - interest rate & FX
 - cash-pooling
- Local Treasury Centres focus on operative cash management and optimization of working capital
- Operating units focus on their operative result and net assets

Vattenfall group debt

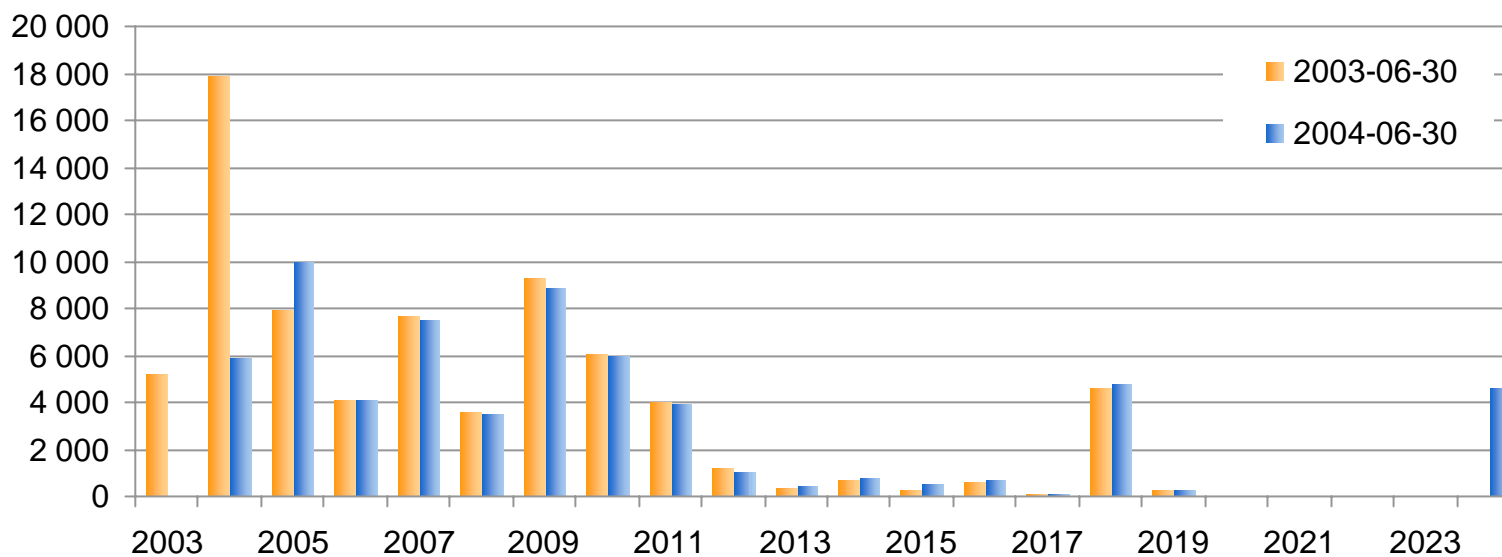
June 30, 2004 (SEK million)	Nordic	Germany	Poland	Total	Percent
Commercial Papers	0			0	0%
MTN	2,645			2,645	3%
EMTN	42,157			42,157	51%
Liabilities to associated companies *		15,234		15,234	19%
Liabilities to other shareholders **	3,902	357		4,259	5%
Bank loans and others	4,179	13,584	83	17,846	22%
Total	52,883	29,175	83	82,141	100%

*) Loans from minority owned German nuclear companies

**) Mainly loans from minority shareholders in the Swedish nuclear companies

Vattenfall maturity profile

SEK million



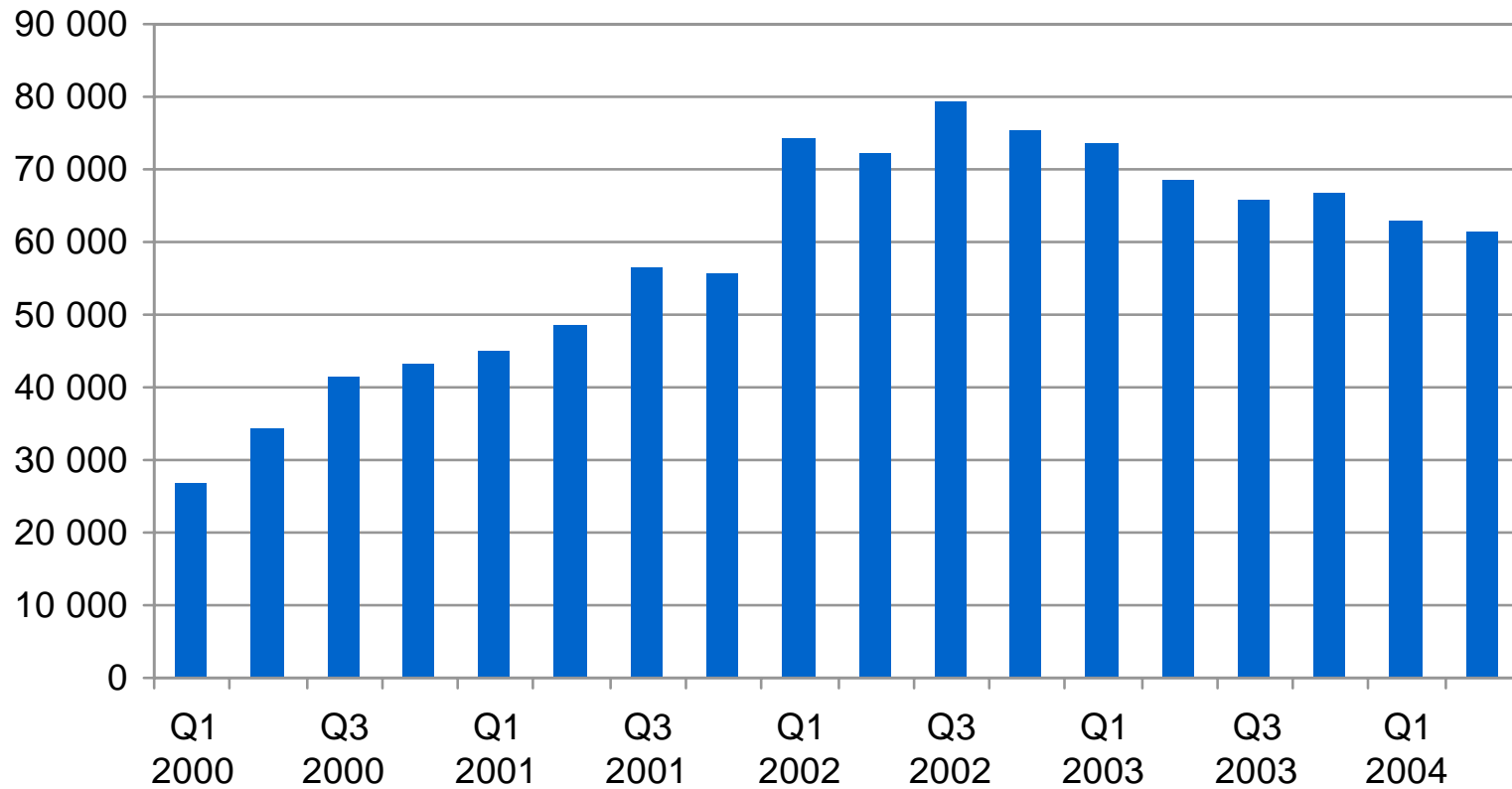
Excluding loans from associated companies and minority owners

	June 30, 2003	June 30, 2004
Net debt (SEK bn)	68.7	61.5
Average fixed interest period (years)	2.1	2.0
Average time to maturity (years)	5.2	6.4

Net debt development

SEK million

Net debt peaked in Q3, 2002



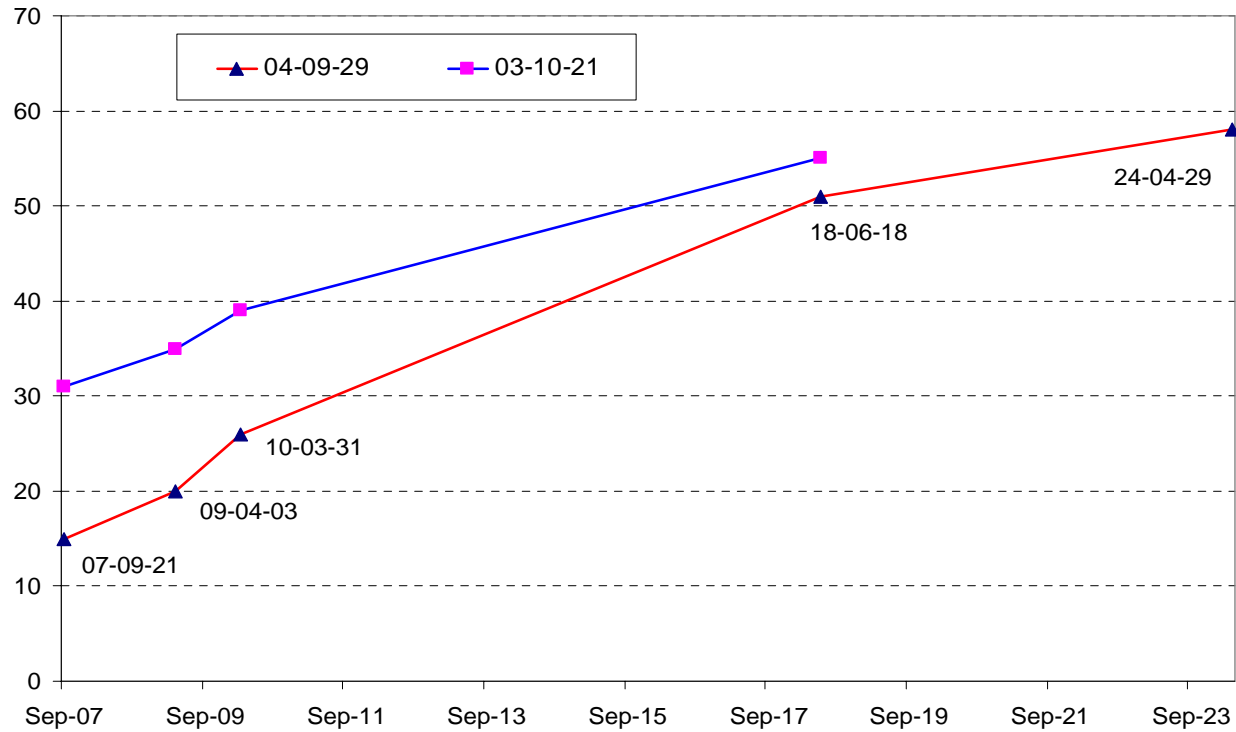
Liquidity and debt issuance programs

June 30, 2004 (SEK million)	Nordic	Germany	Poland	Total
Cash and bank	2,349	840	334	3,523
Liquid assets	9,315	3,719	1	13,035
Total	11,664	4,559	335	16,558
Unused Credit lines	5,480	5,971		11,451

Debt issuance programs

Program	Amount	Dealers
EMTN	6,000 MUSD	ABN, Barclays, BNP Paribas, Citigroup, Deutsche Bank, DrKW, Handelsbanken, JPMorgan, Merrill Lynch, Morgan Stanley, SEB, SG
Swed. MTN	10,000 MSEK	ABN, Handelsbanken, Nordea, SEB, Swedbank
US CP	2,000 MUSD	Goldman Sachs, Lehman Brothers, Merrill Lynch
Euro CP	1,000 MUSD	Deutsche Bank, JP Morgan, Lehman Brothers, SEB, UBSW
SEK CP	15,000 MSEK	Handelsbanken, Nordea, SEB, Swedbank
RCF	600 MEUR	ABN, Barclays, BNP Paribas, Citigroup, Dresdner Bank, Deutsche Bank, Handelsbanken, JPMorgan, Merrill Lynch, Morgan Stanley, SEB, SG

Vattenfall yield curve

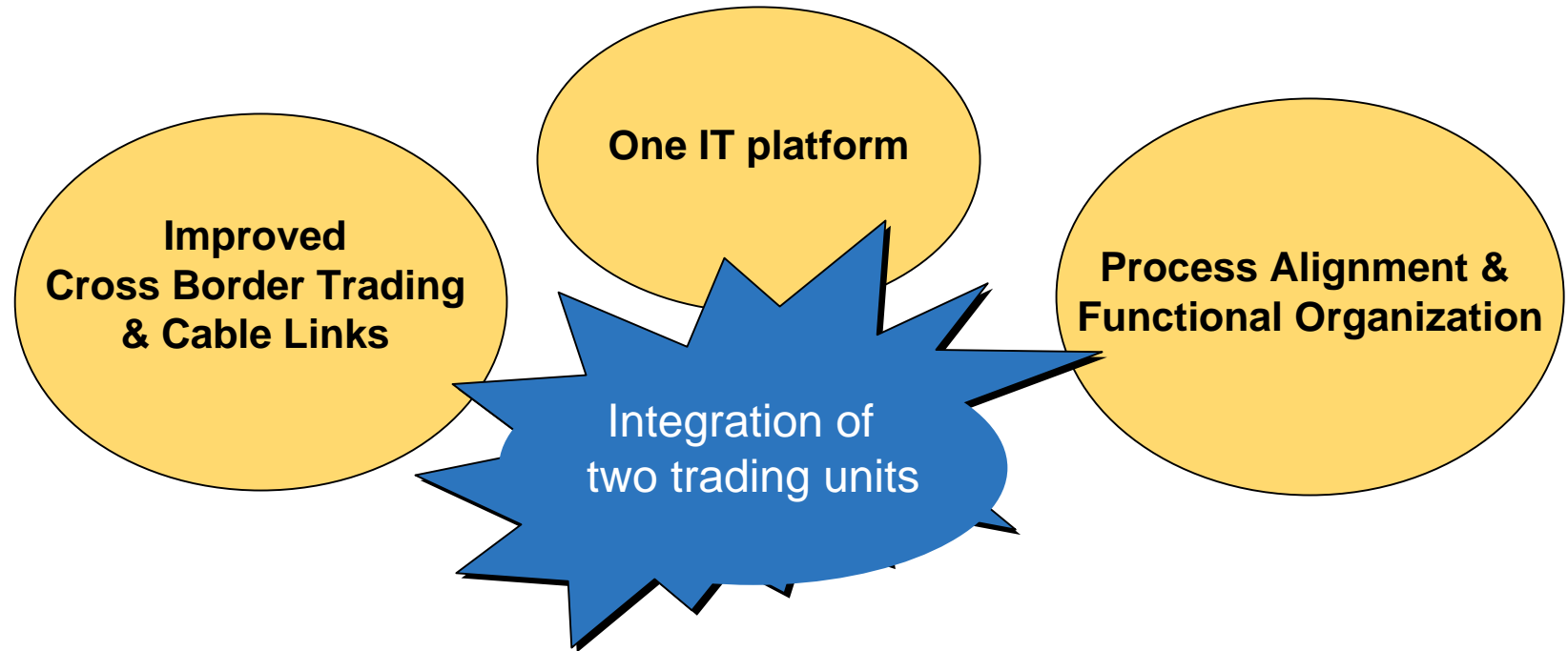


(Midswap and midbond)

Vattenfall Trading Services

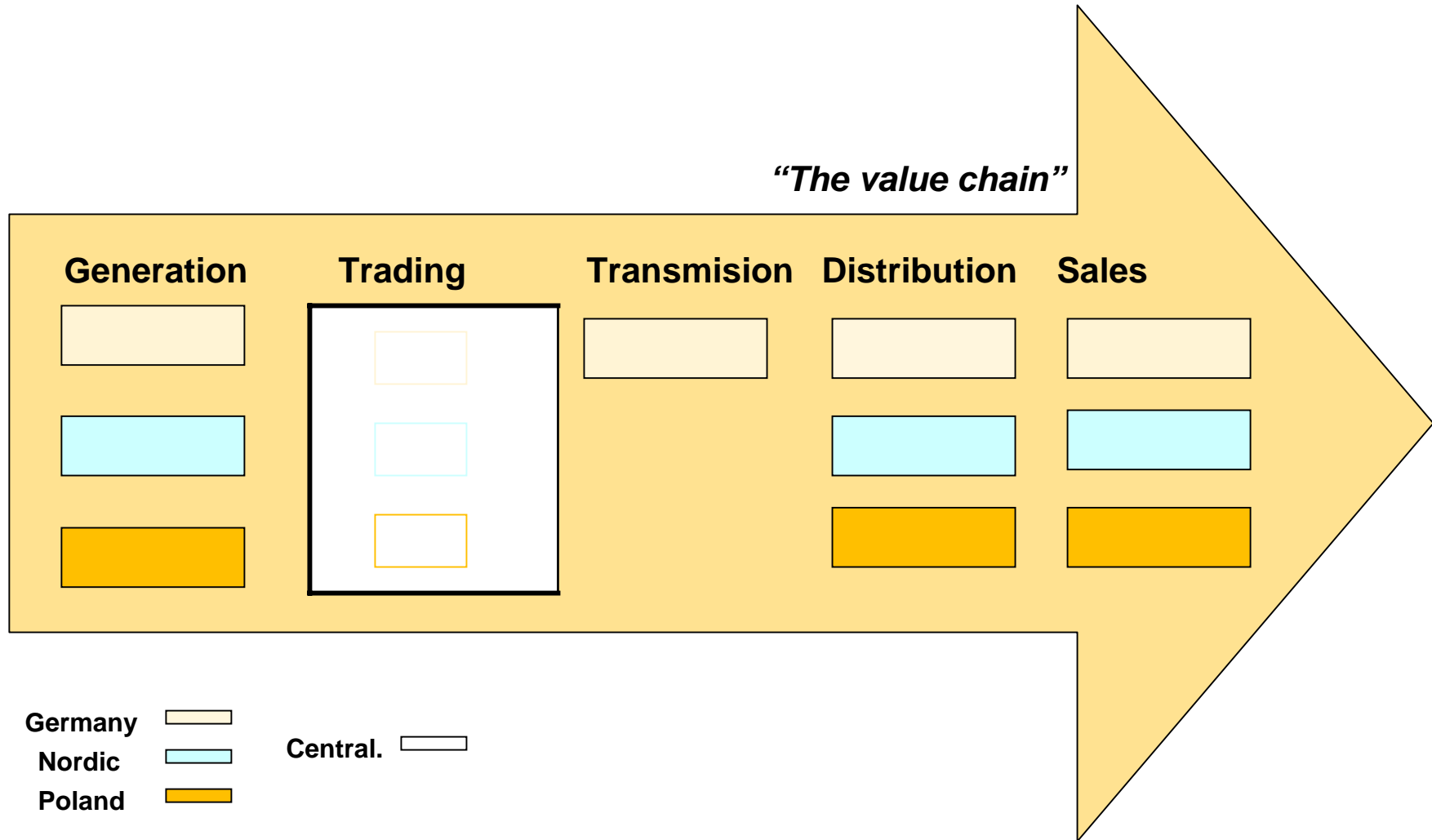
Vattenfall's Central Power Trading Platform

Integration of trading units - the rationale



- Realising synergies
- Scale benefits
- Centralising expertise and key staff

Centralised trading



Centralised trading includes...

Vattenfall Trading Services is the central power trading platform for the Vattenfall units, providing single market access to the wholesale market

- **Power trading (physical and financial)**
 - including online-optimisation and balance area management in Germany

- **Financial trading to manage power-related risks:**
 - CO₂, coal, gas
 - *Coming soon:* aluminium, oil

- **Trading on own assets and capacities**
 - cross border and cables

Vattenfall trading services - summary

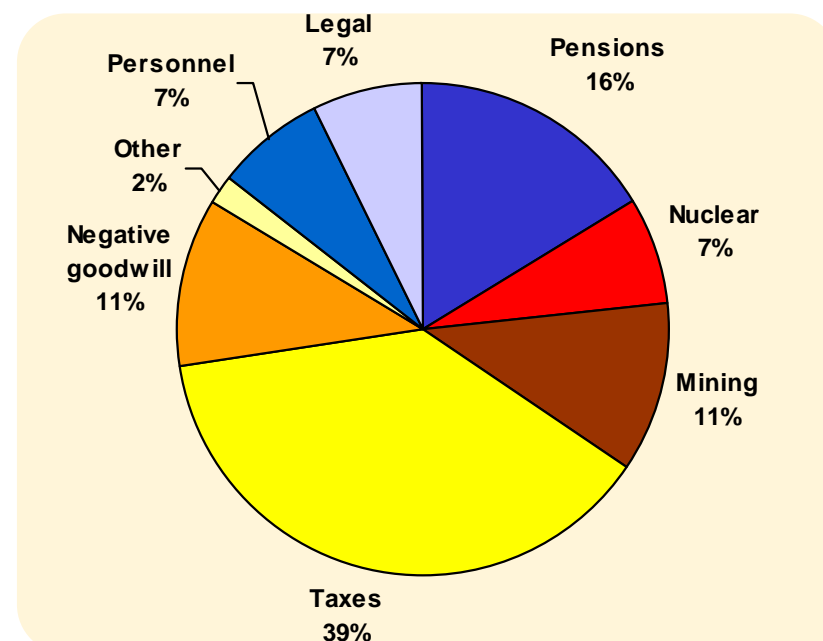
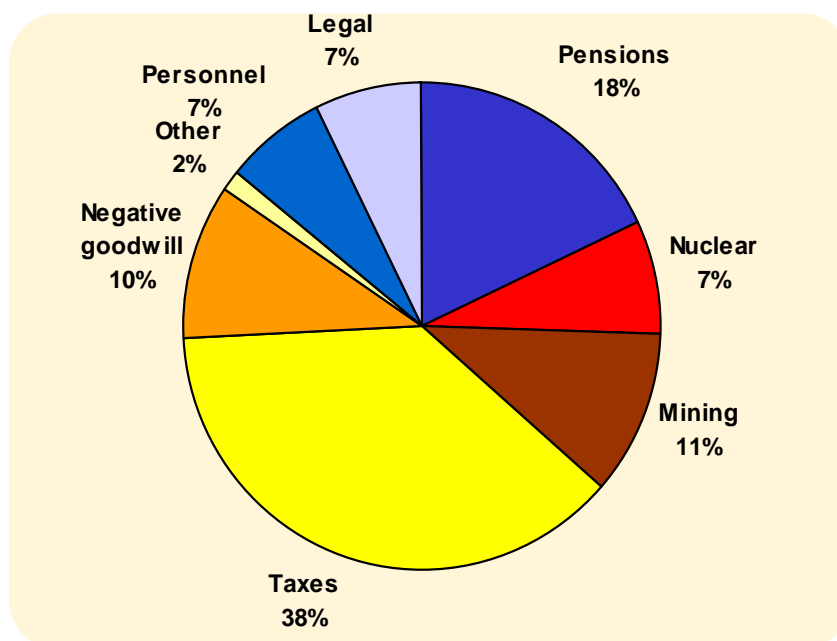
- is a complete trading infrastructure for Vattenfall
- focuses on portfolio and risk management
- centralises expertise and key staff
- increases Group transparency
- can serve as a platform for further expansion, e.g. if entering new commodity or geographical markets

Provisions

Group provisions slightly lower

Dec 31, 2003

91,884 MSEK



Vattenfall Takes the Lead.....



Turning Power into Possibilities

Appendices

Areas where Vattenfall will/may be affected by the adoption of IFRS:

- **Negative goodwill**

Negative goodwill at the date of transition will be de-recognised by a corresponding entry to equity. Provisions will accordingly decrease by approx. 10 billion SEK and equity will increase by the same amount.

- **Amortization of goodwill**

Goodwill will not be subject to amortization.

– impairment test is to be made instead. Vattenfall's goodwill amortization for 2003 was only 0.3 billion SEK.

IFRS impact on Vattenfall

Areas where Vattenfall will/may be affected by the adoption of IFRS:

- **Swedish nuclear decommissioning costs**

Provisions for the decommissioning of the Swedish Nuclear Power Plants to be recognized in the Balance Sheet as well as the power plants share of the segregated Nuclear Waste Fund. Gross accounting to be applied. Vattenfall's share of the Nuclear Waste Fund is 20 billion SEK. The impact is currently being evaluated.

- **German mining business**

Provisions for resettlement in the German lignite mining business shall be recognized in the balance sheet when the obligations arise. Total assets may increase by SEK 4 billion. Equity may increase by SEK 2 billion.

IFRIC has issued the Interpretation, IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities. We are currently evaluating the impact of this Interpretation. Concerns the German nuclear operations, only.

Areas where Vattenfall will/may be affected by the adoption of IFRS:

- **Accounting for the interest component in provisions**
Where discounting is used, the carrying value of provision increases in each period to reflect passage of time. Today, all such increases are reported as operational expenses. As from 2005 the interest component will be reported as financial expense, except for the interest component in pension provisions which will continue to be reported as operational expense. The reclassification is estimated to amount to SEK 1 billion.
- **Capitalisation of development costs**
When Vattenfall started to capitalize development costs we followed the transition rules outlined in the Swedish Financial Accounting Standards Council's recommendation no.15, without retrospective application. However, according to the IFRS transition rules, retrospective application shall be applied. We are currently evaluating the impact of this interpretation.

Areas where Vattenfall will/may be affected by the adoption of IFRS:

- Financial Instruments

The adoption of IAS 39 - Financial Instruments, will have an impact on Vattenfalls accounts as from January 1, 2005 - if the Standard is endorsed by the EC. All financial instruments to be posted on balance sheet. Hedge accounting will be applied. We are currently evaluating the impact of this Standard.

Provisions

Provision – a liability of indeterminate timing, normally regarded to lie somewhere between debt and equity

Vattenfall's consolidated provisions amount to SEK 91bn (€10.0bn) representing one third of total balance sheet, but cash outflow is limited

Breakdown as of June 30, 2004

SEK bn

Pension	16.4
Deferred taxes	34.4
Nuclear	6.8
Mining	7.8
Other environmental	2.2
Personnel (non-pension)	6.3
Tax and legal disputes	6.7
Negative goodwill	9.2
Other	1.4
Total	91.2

Limited amount of unfunded pension provisions

Calculation of pension provisions as of Dec. 31, 2003 according to IAS 19

SEK bn

Pension commitments	30.7
Less: Pension Funds	-14.5
Total Balance Sheet Provisions	=16.2
- of which Sweden	-0.1
- of which Germany	16.3

Funded / unfunded as of Dec. 31, 2003

Sweden	Funded through Vattenfall Pension Foundation (SEK 4.7bn). Off balance sheet
Germany	Partly funded / partly unfunded

Various pension systems in germany

Company	Type	DC / DB	Funding
HEW	Classic book reserve	Defined benefit	Unfunded
Bewag (pre 1984)	Book reserve	Defined benefit	Unfunded
Bewag (post 1984)	Pensionskasse	Defined contribution	Overfunded
VEAG	Unterstützungskasse	Defined contribution	Funded
Laubag	Knappschaft (a top up Social Plan)	Defined benefit	Funded

- Total German on balance sheet pension provision amount to SEK16.3bn as of Dec. 31, 2003.
- No earmarked cash assets since the obligations are long-term and cash was used to repay debt and fund ongoing business, generating far higher returns.

Provisions (continued)

Deferred taxes

Total amount: SEK 34.4bn (€3.8bn)

Tax calculated on the difference between asset book value and the taxation value (which is normally much lower due to larger depreciation).
Assuming going concern – no cash payments will occur

Negative Goodwill

Total amount: SEK 9.2bn (€1.0bn)

Arose due to translation differences between German GAAP and Sw. GAAP when consolidating the acquired German entities (mainly VEAG) into Vattenfall. The German assets were highly depreciated. Adding back depreciation according to Sw. GAAP resulted in "negative goodwill" which is being utilised against restructuring costs in Germany.

Provisions (continued)

Mining provisions **Total amount: SEK 7.8bn (€0.9bn)**

Recultivation of the land in Germany used for excavating the lignite. Amount is expected to remain virtually unchanged.

Environmental **Total amount: SEK 2.2bn (€0.2bn)**

Mainly related to former Bewag and VEAG real estate which was contaminated before 1990. Amount to be utilised over a long time period.

Other Provisions **Total amount: SEK 14.4bn (€1.6bn)**

Comprises i.a. personnel related measures other than pensions (SEK 6.3bn, €0.7bn), provisions for ongoing or future legal and tax-related disputes (SEK 6.7bn, €0.7bn) and others (SEK 1.4, €0.2).