

YEAR-END REPORT, 19 FEBRUARY 2004

Strong result for Vattenfall – significant improvement in Germany

- **Net sales increased by 10.8 per cent to SEK 111,935 million (SEK 101,025 m)**
- **Operating profit increased by 14.5 per cent to SEK 15,296 million (SEK 13,363 m)**
- **Net profit increased by 20.6 per cent to SEK 9,123 million (SEK 7,566 m)**

Net sales, earnings and cash flow during 2003

2003 was a very eventful year, both on the Nordic and European electricity markets, and an important year for Vattenfall's activities. We have taken several important steps to consolidate the Group, and to realise our vision of becoming a leading European energy company. The net sales increase of almost 11 per cent was due partly to higher electricity revenues in the Nordic Countries and Germany, and partly due to the Polish company, GZE, being consolidated as from January 2003, and that the German company, Bewag, is included for the full year of 2003 as opposed to only eleven months last year.

The improvement in operating profit is explained almost entirely by cost savings and higher electricity market prices in Germany, and also by a considerable improvement in profits in Poland. Excluding items affecting comparability, operating profit increased by 16.4 per cent to SEK 15,033 m (SEK 12,916 m). Net profit improved by 20.6 per cent to SEK 9,123 million (SEK 7,566 m). Excluding items affecting comparability, net profit increased 23.2 per cent to SEK 8,944 million (SEK 7,262 m).

Return on equity, excluding items affecting comparability, increased to 19.8 per cent from 18.3 per cent.

Over a four-year period, return on equity amounted to 13.8 per cent, which means that we are getting close to the return requirement of 15 per cent.

The financial position has improved considerably. Vattenfall has been in a period of consolidation, for which reason investment in growth has been low and the strong cash flow has been used to repay loans. Net debt was reduced by over SEK 8 billion to SEK 66.9 billion. Cash flow before financing activities amounted to SEK 9.8 billion against minus SEK 15.5 billion in 2002.

Net sales, earnings and cash flow during the fourth quarter of 2003

Net sales increased by 5.1 per cent to SEK 30,253 million (SEK 28,784 m), while operating profit was more-or-less unchanged at SEK 4,253 million (SEK 4,269 m). Operating profit, excluding items affecting comparability, decreased by SEK 351 million to SEK 3,902 million (SEK 4,248 m). Net profit decreased by SEK 346 million to SEK 3,170 million (SEK 3,637 m).

Cash flow before financing activities amounted to minus SEK 879 million compared with SEK 4,832 million for the equivalent period last year. Net debt increased by SEK 1.2 billion. Total interest-bearing liabilities decreased by SEK 0.8 billion to SEK 85.6 billion.

Market developments

Hot, dry weather gave considerably less hydropower production than normal. This led to considerably higher average electricity prices in the Nordic Countries and largest ever imports. The average price on the spot market of the Nordic Power Exchange, Nord Pool, was SEK 333 per MWh (33.3 öre per kWh) against SEK 252 per MWh in 2002. As the water level gradually rose in the storage reservoirs, the spot price declined during the autumn. At the end of the year, the so-called hydrological balance for the Nordic Countries amounted to 14.2 TWh, against a deficit of 36.4 TWh at the end of 2002. During 2003, total electricity consumption in Sweden declined by 2 per cent to 146 TWh (148.8 TWh). For the Nordic Countries as a whole, electricity consumption declined by about 3 per cent to 378 TWh (389 TWh).

Electricity prices in Germany were also higher on average during 2003 than during the previous year. The average price on the German Energy Exchange, EEX, amounted to EUR 29.48 per MWh as opposed to EUR 22.55 per MWh in 2002. The unusually hot summer months on the continent resulted in lower water levels, and thus lower cooling capacity, which made necessary downward adjustment in nuclear power production. In France, electricity production declined as a result of strikes, and there was an import requirement from Germany and other countries. Vattenfall's generation of electricity in Germany increased by some 10 per cent during early 2003, primarily due to resumed generation from the Brunsbüttel nuclear power plant.

Total electricity consumption in Germany in 2003 amounted to a preliminary figure of 525 TWh, an increase of about one per cent compared with 2002.

Important events during the fourth quarter of 2003:

- Continued streamlining of operations. Vattenfall sold its shareholding in the IT company, Song Networks Holding and in A-Train AB. The latter transaction was completed in January 2004.
- The decision to introduce an organisation for the Nordic Countries as from 2004. 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. In Germany, a further step in the process of integration was taken, with the appointment of a joint company management for HEW and Bewag, which involves an operational integration of the two companies.
- Interruptions in Vattenfall's Swedish networks occurred at the end of the year. At the beginning of 2004, Vattenfall decided to invest a further SEK 2 billion to a total of SEK 10 billion over 5 years, in order to improve operational reliability of its Swedish networks.
- The German nuclear power plant, Stade, was closed down in November. It is estimated that dismantling it will take approximately ten years. Vattenfall's share in Stade amounts to 33 per cent.
- The Swedish nuclear power plant, Barsebäck 2, resumed generation in December, after having been shut down for 5 months.

Important event earlier in 2003:

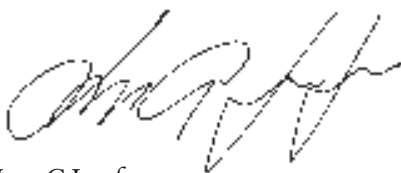
- Vattenfall's ownership share in the Polish sales and distribution company, GZE, was increased from 32 per cent to 53.7 per cent. GZE was consolidated into the Company as from 1 January 2003.
- A large customer service program – Number One for the Customer – was begun in Sweden. A number of tangible improvements for customers were launched, including the phasing out of the so-called “tillsvidarepris” contract (until further notice price agreement), the abolishment of prepayment charging and an introduction of “Easy Electricity Price”, i.e., a fixed monthly price for apartment customers. The programme also involves all of Vattenfall's 900,000 electricity network customers being given remote-readable electricity meters. Preliminary charges can thus be ended and replaced with invoicing of actual electricity consumption. During 2003, 44,000 such meters were installed.
- The merger of the four German companies, HEW, Bewag, VEAG and LAUBAG, to become Vattenfall Europe AG, was formally completed in August.
- Vattenfall's ownership of Vattenfall Europe AG was increased through the purchase of EnBW's share of about 2 per cent, and through purchases in the market. As a result of this, Vattenfall owns, directly and indirectly, about 94 per cent of the shares in Vattenfall Europe AG.
- Vattenfall's majority-owned nuclear power plant, Brunsbüttel, in Hamburg, resumed generation at the beginning of 2003, after having been shut down for over a year.

- The power plant, Goldistahl, in eastern Germany, was commissioned in September. With a capacity of 1,060 Megawatts, the plant is the largest pump storage power plant in Germany, and Vattenfall is thus number one in Germany when it comes to hydropower. Total investment was 620 MEUR (5.6 billion SEK).
- Two blocks of the oil-fired power station, Stenungsund, which had been put in reserve on a long-term basis, were returned to operation. The plant is responsible for the greater part of the reserve power of 800 MW that Vattenfall provides, in accordance with an agreement with Svenska Kraftnät which extends over several years.
- Investment has been started under Vattenfall's renewal programme for the Swedish generating installations. The programmes amount to SEK 16 billion for nuclear power and SEK 6 billion for hydropower.
- The Group's core values "Efficiency, Responsibility, Openness" were established and developed in a Company philosophy which is now being implemented throughout the entire Group.

SUMMARY OF VATTENFALL'S FINANCIAL PERFORMANCE AND CASH FLOW

Net sales	111,935	101,025	10.8
Operating profit before depreciation and dissolution of negative goodwill (EBITDA)	24,878	24,855	–
Operating profit (EBIT)	15,296	13,363	14.5
Operating profit excluding items affecting comparability	15,033	12,916	16.4
Financial items, net	–2,936	–3,376	13.0
Profit before tax and minority shares	12,360	9,987	23.8
Net profit for the period	9,123	7,566	20.6
Net profit excluding items affecting comparability	8,944	7,262	23.2
Return on net assets, excluding items affecting comparability	12.1	10.1	
Return on equity, excluding items affecting comparability	19.8	18.3	
Funds from operations (FFO)	18,804	17,106	9.9
Cash flow before financing	9,841	–15,455	n.a.
Free cash flow	11,606	10,821	7.3

Stockholm 19 February 2004



Lars G Josefsson
President and Chief Executive Officer

Vattenfall's three-month report 2004 will be published on 27 April 2004, the six-month report on 29 July 2004 and the nine-month report on 25 October 2004.