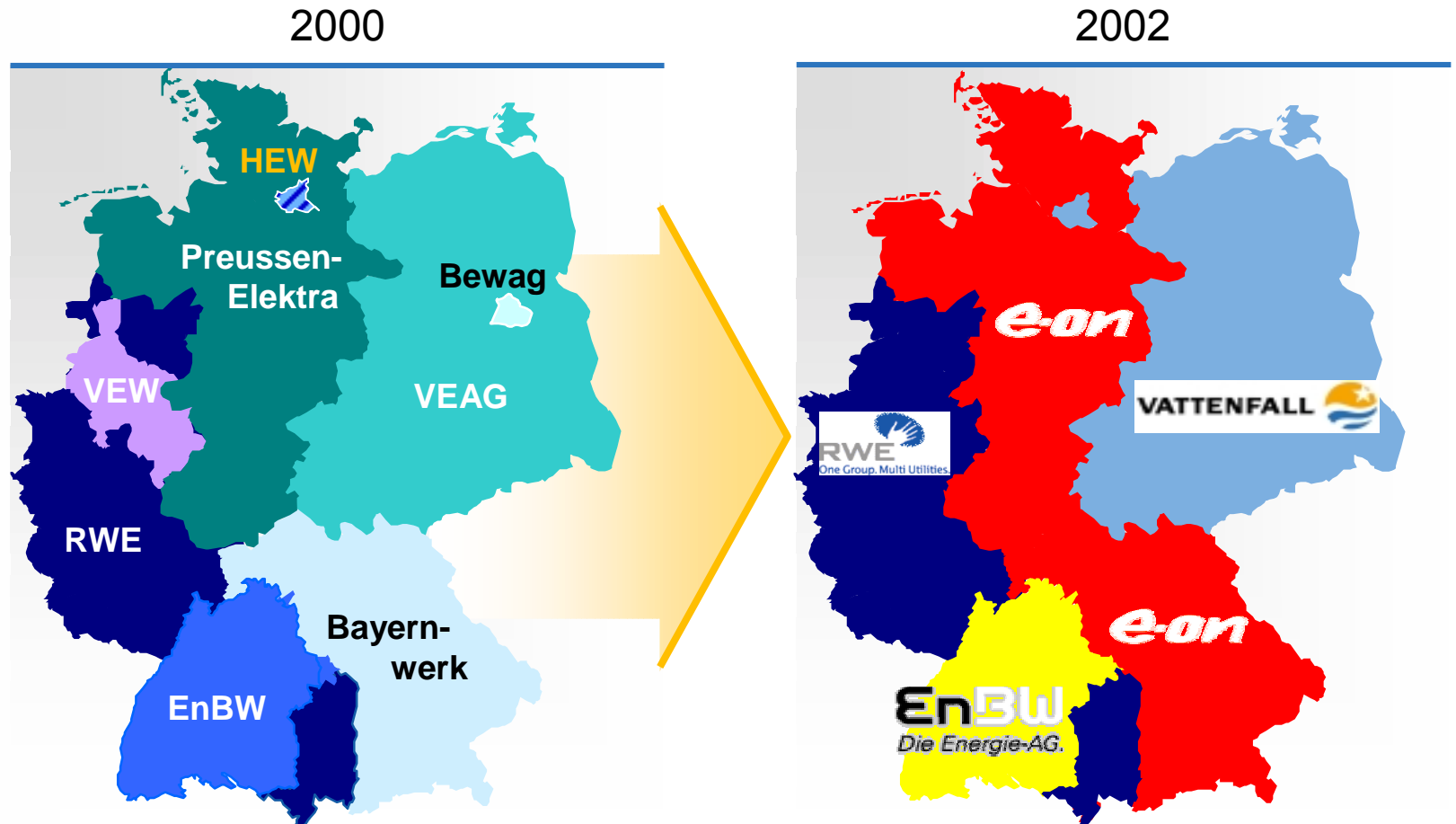


Vattenfall Europe – 4 into 1 is Done

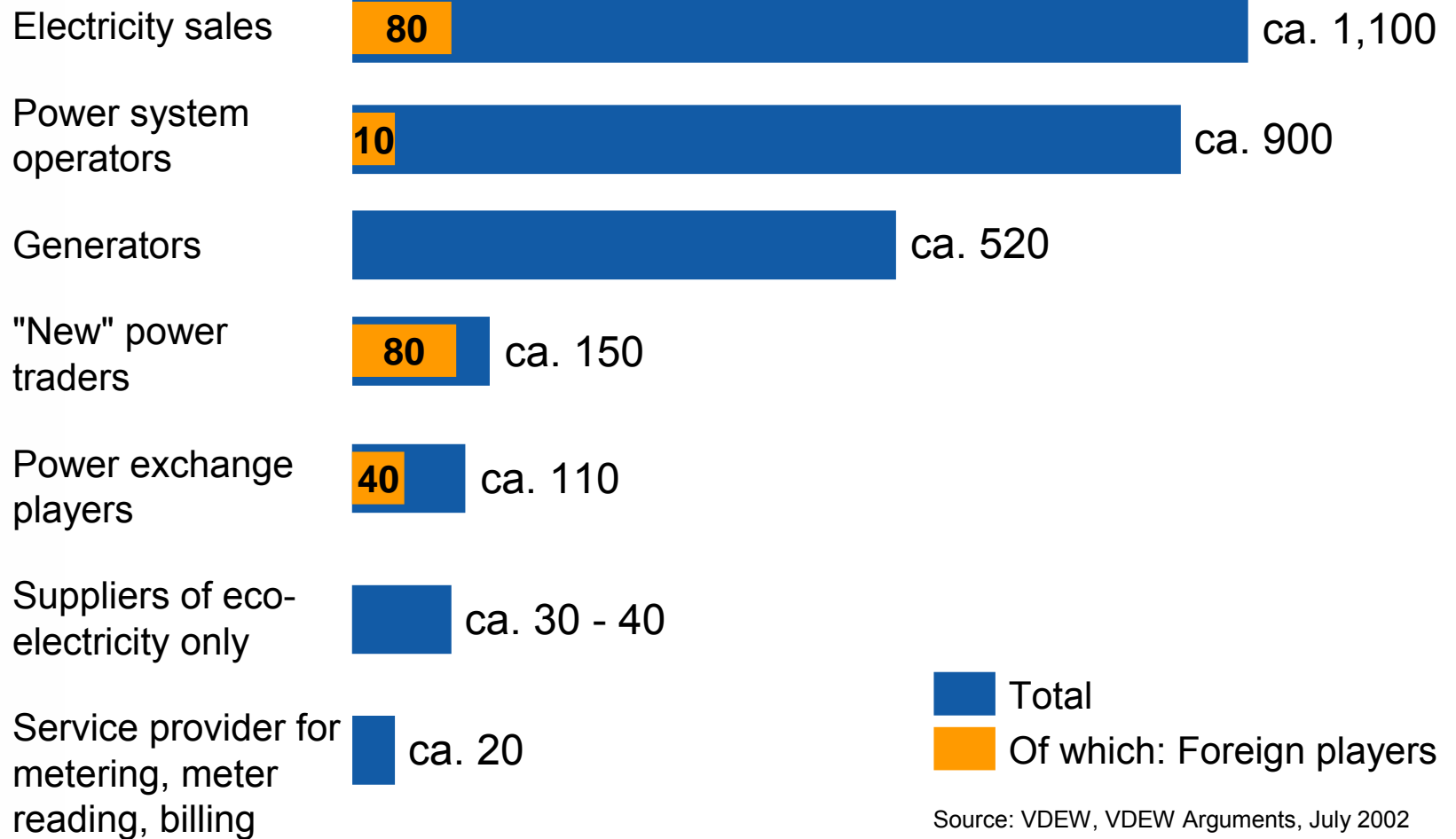
Dr. Klaus Rauscher,
Chairman of the Management Board, Vattenfall Europe AG
Vattenfall Capital Markets Day, October 21, 2003



Restructuring of the German Power Market



Market Players Following Deregulation

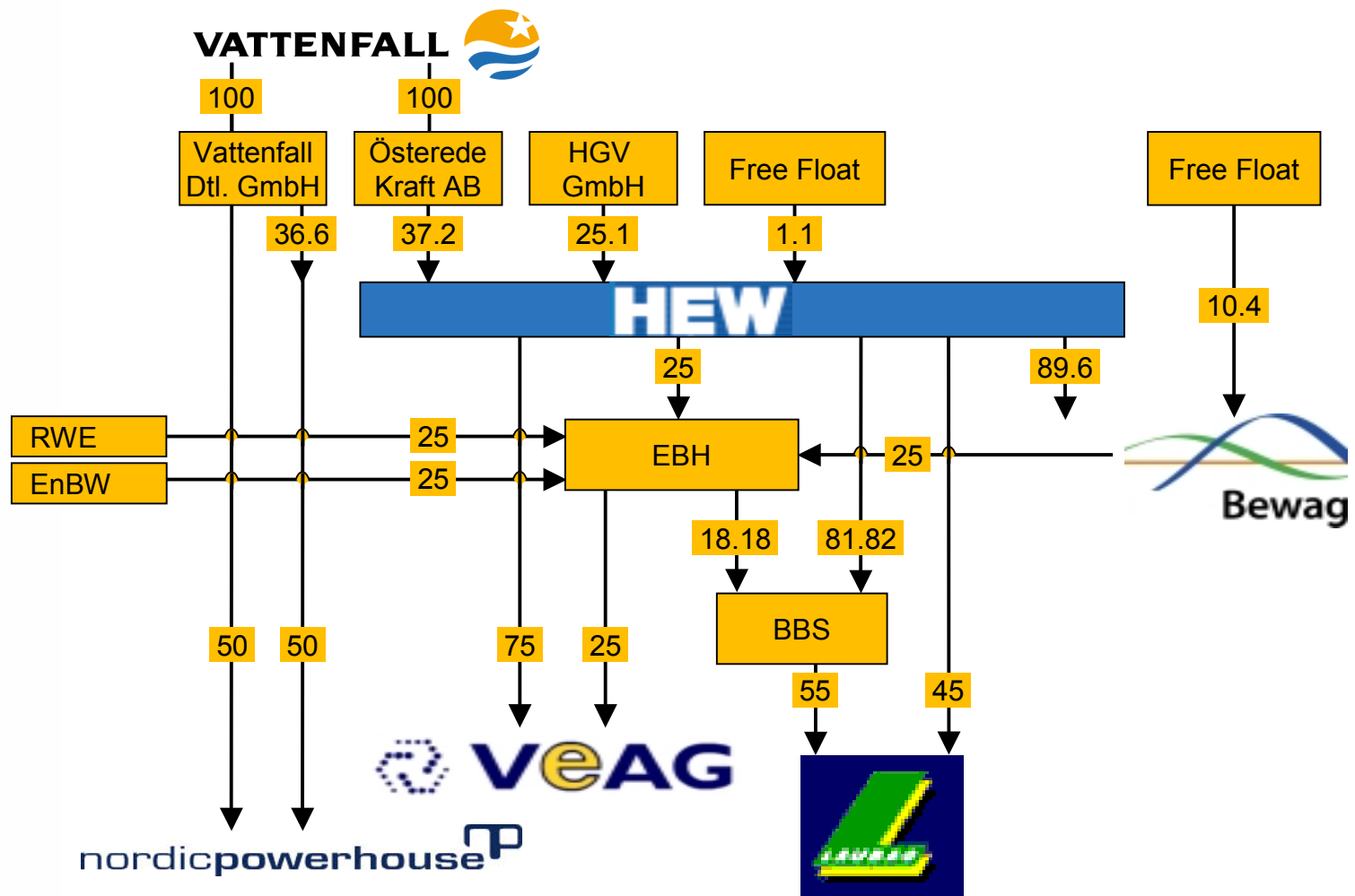


Source: VDEW, VDEW Arguments, July 2002

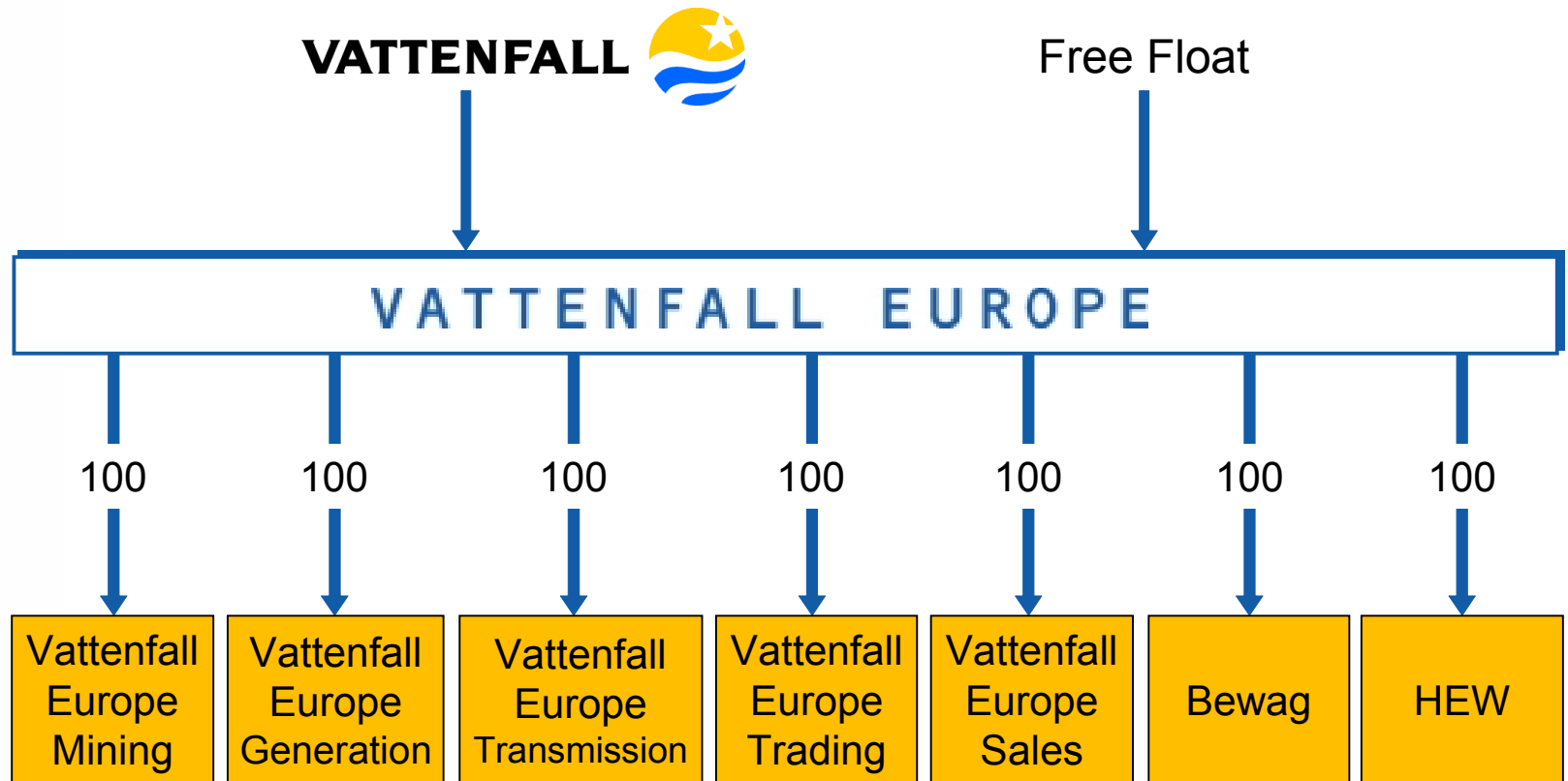
From Liberalisation to Consolidation

	Timeframe	General market tendencies
Orientation and restructuring	Mid 1997 to summer 1999	<ul style="list-style-type: none">● Unbundling● Restructuring of sales organisations● Focus on major customers
Professionalisation	Since summer 1999	<ul style="list-style-type: none">● Competition in the mass market (Yello market launch)● Internationalisation, co-operations/purchases/mergers (E.On, RWE)
Consolidation	Since 2002/2003	<ul style="list-style-type: none">● Profitability moves firmly to the fore● Insolvency of several competitors● Increasing price level again, also due to Renewable Energies Act, Combined Heat & Power Law, electricity tax

The Ownership Structure in 2002 ...



... and the Ownership Structure Today



Complex Merger

4 Different Corporate Structures

- Former East/West companies
- Diverse values and traditions
- Different levels of willingness to change

Corporate Culture

- Four different companies
- Four different cultures and traditions

Integration

International Shareholders

- Mirant vs. Vattenfall
- Shareholder value approach vs. management approach
- German Commercial Code vs. International Accounting Standards (IAS)

3 Different Unions

- Maintenance of individual co-determination rights
- Diverse focus and interests

Several German Federal States (Berlin, Brandenburg, Hamburg, Saxony)

- Employment / taxation
- Debt inherited from reunification

Vattenfall Europe – 4 into 1 is Done

- From vision to reality:
4 into 1 is Done
- Number 3 in German energy market and Number 1 in Western European heat market
- Vattenfall integration in Germany is a success
- Despite the complex restructuring process business and profits are growing

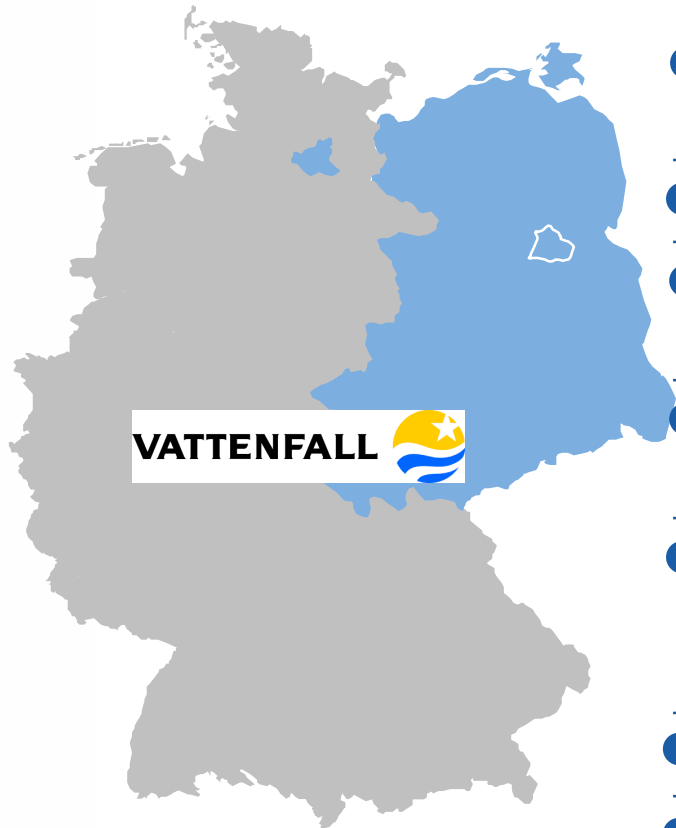


Strong Results of a Merger



- **Turnover:** € 6.6 billion (2002/IAS)
- **Employees:** Ca. 21,550 (30.06.03)
- **Customers:** Electricity: Ca. 3.4 million
Heat: ~1.2 million residential units
- **Output/p.a.:** Ca. 81 TWh
- **Network:** 10,500 km (transmission)
76,000 km (distribution)
- **Mining:** 59 million tons of lignite coal
- **Energy sources** Lignite coal, nuclear power, water power, hard coal, organic substances, rubbish, solar
- **Capacity:** Ca. 17,000 megawatt

Market Position in Germany



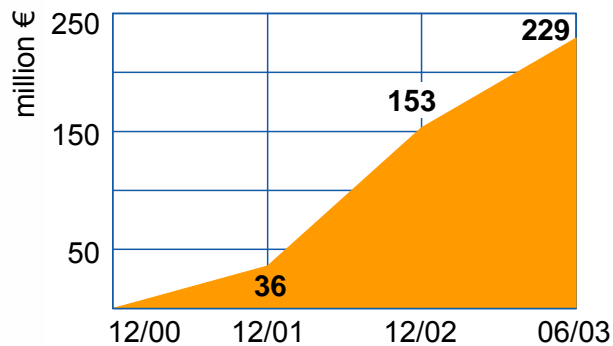
- **Generation:** 16% of 105,000 MW installed generating capacity
- **Mining:** 33% of lignite output
- **Transmission:** 27% of 38,600 km network (220/380 kV)
- **Distribution:** 4.9% of 1,550,000 km network (≤ 110 kV)
- **Sales:** 16% of 500 TWh energy consumption, 8% of 44 million customers
- **Heat:** 23% in Hamburg, 37% in Berlin
- **Trading:** 12% of wholesale trading volume (2,500 TWh) in Germany

Profit Improvement

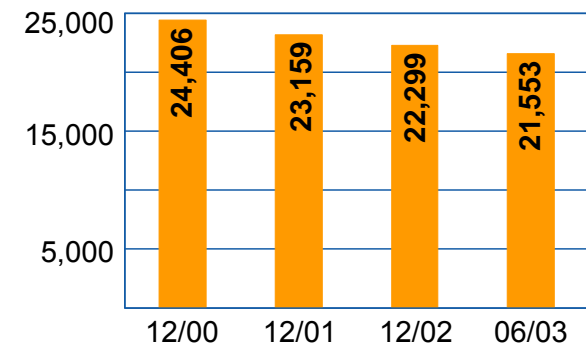
EBIT (IAS):

- Plan 02 : € 470 million
- Actual 02: € 517 million
- Plan 03 : € 570 million (full year)
- Actual 03: € 463 million (first half year)

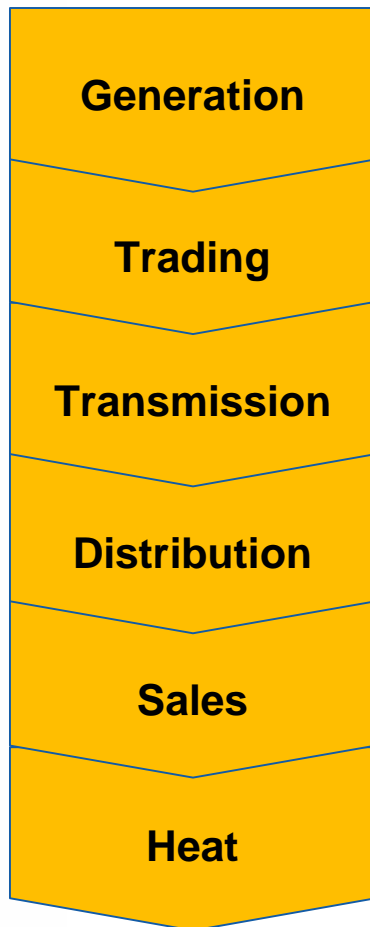
Cost Reductions Achieved:



Staff Reductions Achieved:

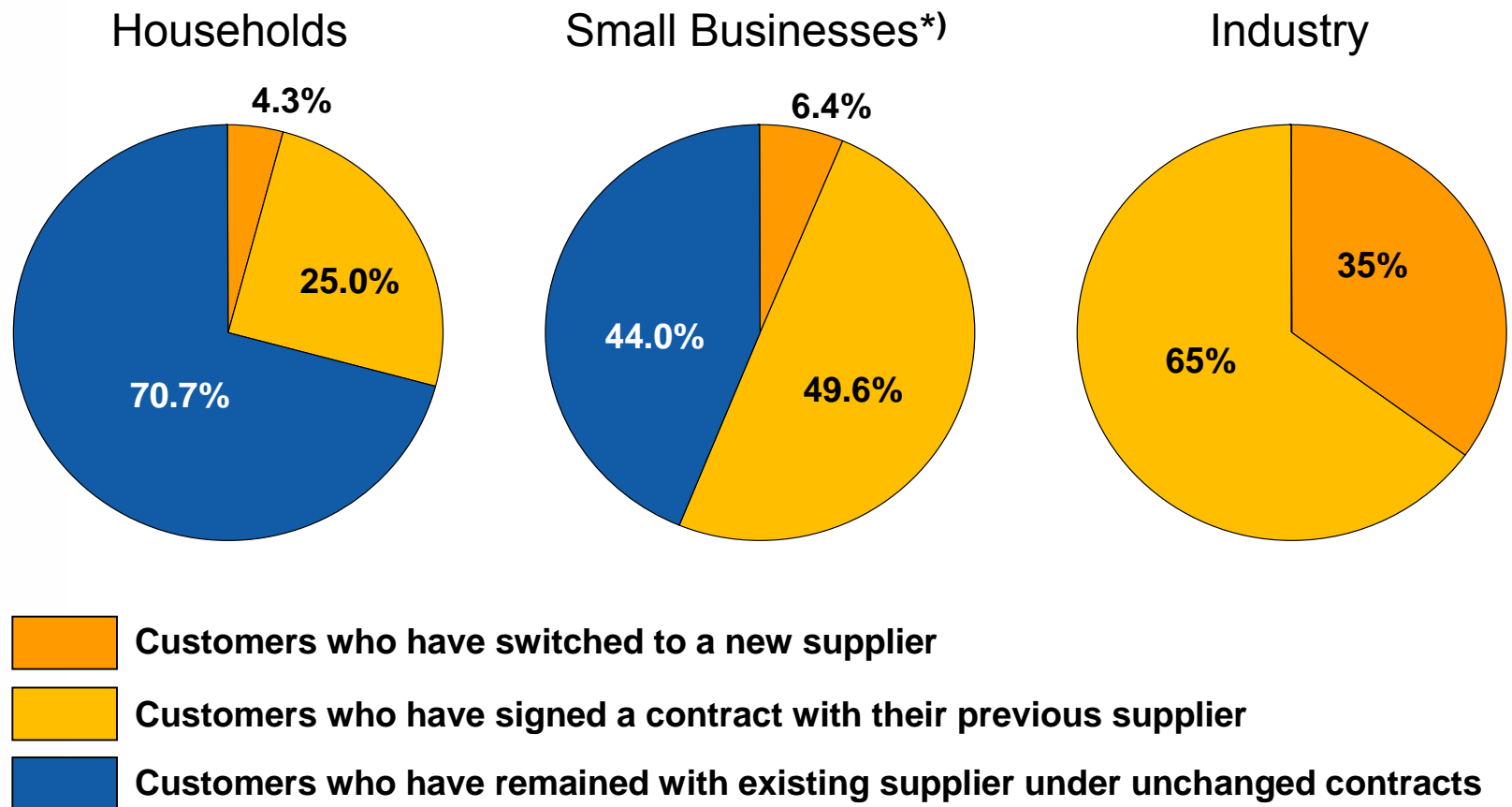


Challenges of the Value Chain



- Market price as reference price
- High wholesale price level
- Liquidity development
- International integration
- Stronger regulatory influence
- Technical network problems due to wind energy feeds
- Stronger regulatory influence
- Unbundling pressure on network payments
- Customer switching
- "Margins not volume" back to the fore
- Stable market situation
- Dependence on Combined Heat and Power Law requirements

Customer Switching



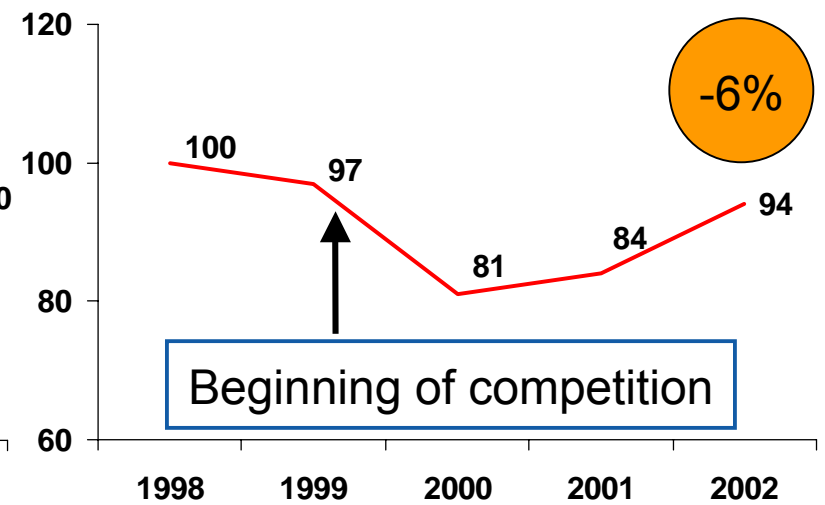
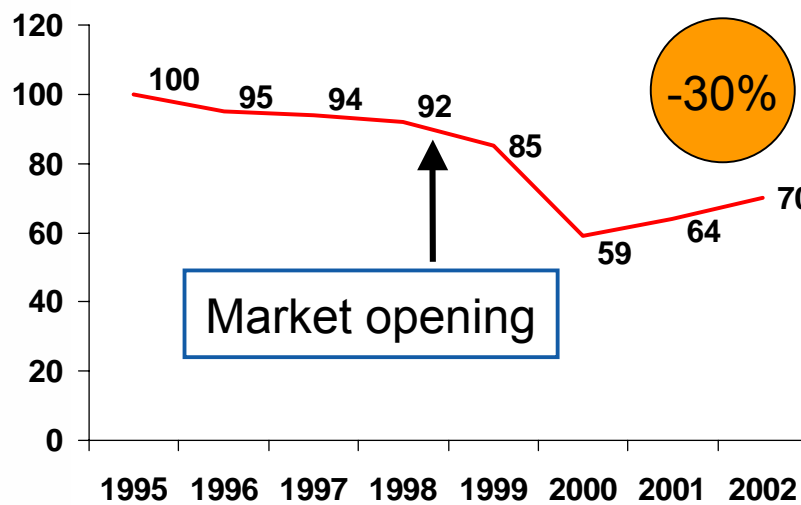
*) Employing up to 50 people

Source: VDEW, VDEW Power Data, March 2003

Development of Prices

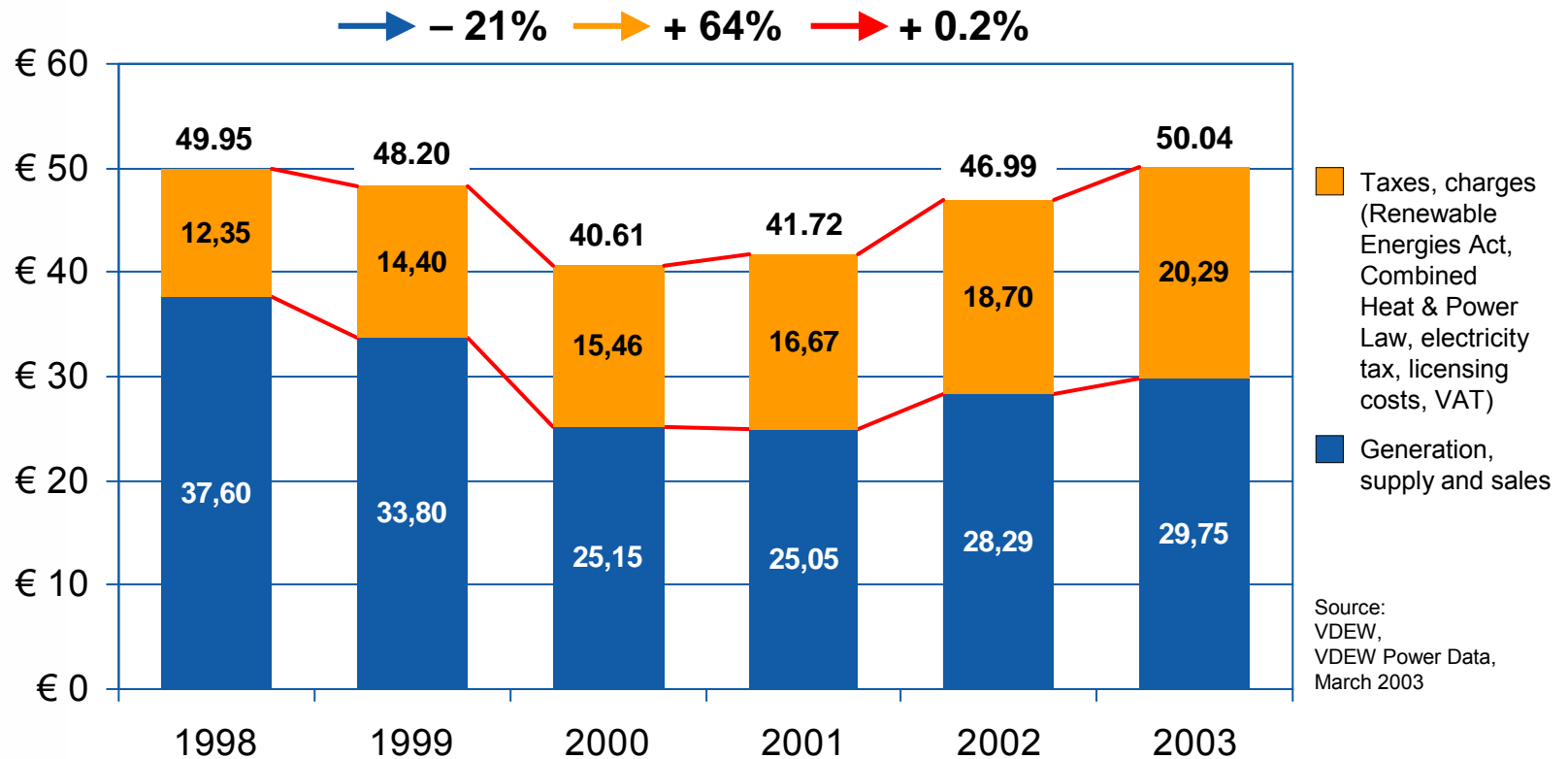
Industry:
1995 = 100

Households (3,500 kwh/p.a.):
1998 = 100



Source: VDEW, VDEW Power Data, March 2003

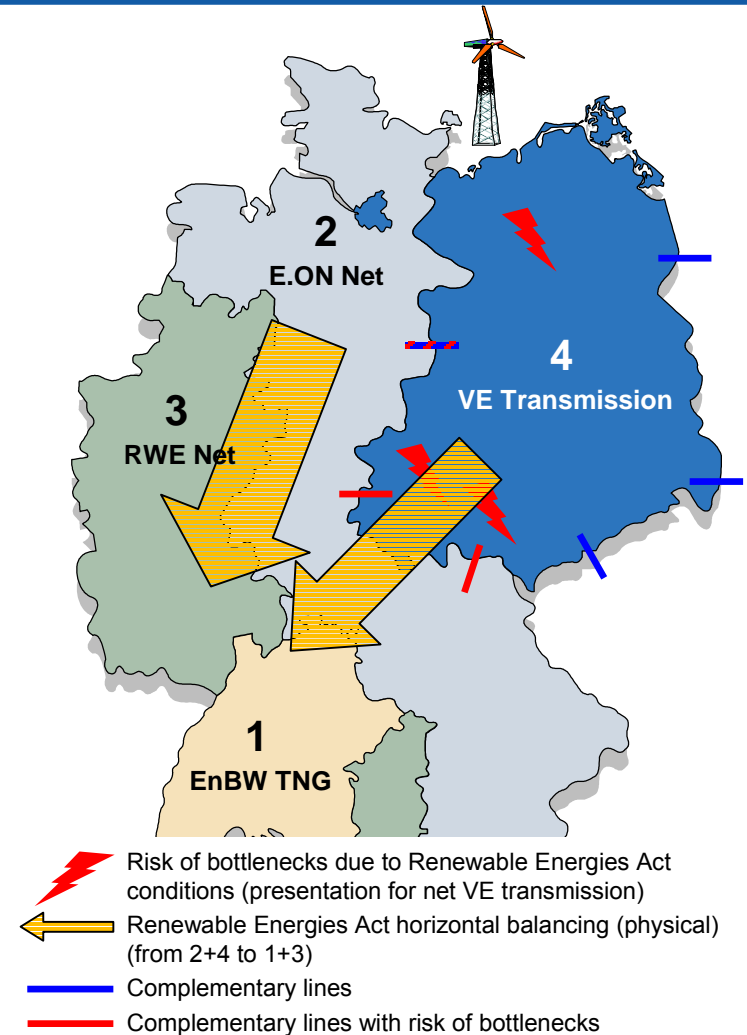
Government Takes Competition Gains



Average electricity bill of a three-person household (3,500 kwh/a)

Renewable Energies Act

- Network bottlenecks due to strong expansion of wind energy
- Massive strengthening of network required
- Up to 2011: Network investment of € 500 million required
- Minutes reserve with costs up to € 600 p.a.



Emission Trading

Early Actions Must be Recognised

- | | |
|-------------------|---|
| ➔ Equal Treatment | Irrelevant <u>when, rather that</u> emission reduction measures have taken place |
| ➔ Fair play | Recognition of the performance by those who invested in climate protection early on |
- Protection of confidentiality for investments concluded
 - Continued operation of the modern power stations and lignite coal mining plants, thus securing workplaces in Eastern Germany
 - Securing the competitiveness of the newly formed Vattenfall Europe AG

Vattenfall – Leading, European and Responsible

- German market in maturing process
- Strong dependence on political framework
- Vattenfall Europe – good position in core business
- Successful and fast consolidation
- Vattenfall – a leading, European and responsible energy company



CO₂ German National Plan

Free of Charge Allocation with Recognition for Early Actions

- Equal treatment of earlier and future emission reductions
- Fixing of the plant CO₂ emission allocation at the beginning of the period
- Transferability of emission entitlements to substitute plants
- No cut-off problems with decommissioning, production reductions, new substitute buildings and production relocations

Additionally

- Credit for "Joint Implementation" and "Clean Development Mechanism" measures
- Banking, also between the allocation periods

The German Merger Wave at its Peak

