

VATTENFALL TREASURY AB

(incorporated with limited liability under the laws of Sweden)

under the subordinated guarantee of

VATTENFALL AB

(incorporated with limited liability under the laws of Sweden)

€1,000,000,000 Capital Securities Issue price: 99.188 per cent.

The €1,000,000,000 capital securities (the **Capital Securities**) are issued by Vattenfall Treasury AB (the **Issuer**) and unconditionally and irrevocably guaranteed on a subordinated basis by Vattenfall AB (the **Guarantor**).

Interest on the Capital Securities will be payable (subject as provided herein) annually in arrear on 29th June of each year, up to and including 29th June, 2015 (the **Reset Date**) with the first payment being due on 29th June, 2006. Thereafter interest will be payable quarterly in arrear on 29th June, 29th September, 29th December and 29th March of each year. Interest will accrue from and including 29th June, 2005 to but excluding the Reset Date at a rate of 5.250 per cent. per annum and thereafter at a floating rate of interest as described under “*Conditions of the Capital Securities – Interest*”.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Capital Securities to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Capital Securities to be admitted to trading on the London Stock Exchange’s market for listed securities. Admission to the Official List together with admission to the London Stock Exchange’s market for listed securities constitute official listing on the London Stock Exchange.

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Capital Securities. In particular, potential investors should be aware of the following: (i) the Capital Securities are deeply subordinated; (ii) the Capital Securities are perpetual securities with no fixed final redemption date; (iii) the Issuer will or may not pay accrued interest in certain circumstances; (iv) the Capital Securities may be redeemed at the option of the Issuer, in whole but not in part (a) on the Reset Date and on any Interest Payment Date (as defined therein) thereafter or (b) at any time prior to the Reset Date in the event of certain tax changes affecting the Issuer; and (v) there has been no prior public market for the Capital Securities. See “Investment Considerations”.

The Capital Securities are expected to be assigned, on issue, a rating of Baa1 (Positive Outlook) by Moody’s Investors Service Limited and a rating of BBB – (Positive Outlook) by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies Inc. The ratings reflect only the views of the rating agencies and do not represent the views of the Issuer. A rating is not a recommendation to buy, sell or hold Capital Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Capital Securities will initially be represented by a temporary global security (the **Temporary Global Capital Security**), without interest coupons, which will be deposited on or about 29th June, 2005 (the **Closing Date**) with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System, (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Capital Security will be exchangeable for interests in a permanent global security (the **Permanent Global Capital Security**) and, together with the Temporary Global Capital Security, the **Global Capital Securities**), without interest coupons, on or after 9th August, 2005 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Capital Security will be exchangeable for Capital Securities in definitive form only in certain limited circumstances. See “*Summary of Provisions relating to the Capital Securities while represented by the Global Capital Securities*”.

Joint Bookrunners and Advisers to the Issuer

Citigroup
(Structuring Agent)

JPMorgan

Merrill Lynch International

Co-Managers

ABN AMRO

BNP PARIBAS

Deutsche Bank

Handelsbanken Capital Markets

SEB Merchant Banking

*This document comprises listing particulars approved by the UK Listing Authority as required by the Financial Services and Markets Act 2000 (the **FSMA**) prepared for the purpose of giving information with regard to the Issuer, the Guarantor and the subsidiaries of the Guarantor (together with the Guarantor, the **Guarantor Group**) and the Capital Securities. A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 83 of the FSMA.*

The Issuer and the Guarantor accept responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer and the Guarantor (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer and the Guarantor, having made all reasonable enquiries, confirm that this Offering Circular contains or incorporates all information which is material in the context of the Capital Securities, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer and the Guarantor accept responsibility accordingly.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Capital Securities and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers (as defined under "Subscription and Sale" below). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Guarantor Group since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Guarantor or the Managers to subscribe for, or purchase, any of the Capital Securities. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

*Neither the Managers nor The Law Debenture Trust Corporation p.l.c. (the **Trustee**) have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Capital Securities or their distribution.*

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor or the Managers that any recipient of this Offering Circular should purchase any of the Capital Securities. Each investor contemplating purchasing Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantor.

*The Capital Securities have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Capital Securities may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Capital Securities and on distribution of this document, see "Subscription and Sale" below.*

IN CONNECTION WITH THE ISSUE OF THE CAPITAL SECURITIES, CITIGROUP GLOBAL MARKETS LIMITED OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF CAPITAL SECURITIES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE CAPITAL SECURITIES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CAPITAL SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT CITIGROUP GLOBAL MARKETS LIMITED (OR PERSONS ACTING ON BEHALF OF IT) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION COMMENCED OR CONTINUING ON OR AFTER 1 JULY 2005 MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN 30 DAYS AFTER THE ISSUE DATE OF THE CAPITAL SECURITIES.

*All references in this document to **U.S. dollars**, **USD** and **U.S.\$** refer to the currency of the United States of America, to **euro**, **EUR** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25th March, 1957), as amended, to **Swedish Kronor** and **SEK** refer to the currency of Sweden and to **Danish Kroner** and **DKK** refer to the currency of the Kingdom of Denmark.*

TABLE OF CONTENTS

Summary of the Offering	1
Investment Considerations	8
Terms and Conditions of the Capital Securities	13
Summary of Provisions Relating to the Capital Securities While Represented by the Global Capital Securities	29
Use of Proceeds	31
Description of the Issuer	32
Capitalisation and Indebtedness of the Issuer	33
Summary Financial Information of the Issuer	34
Income Statement of the Issuer	35
Balance Sheet for the Issuer	36
Description of the Guarantor Group	38
Summary Financial Information of the Guarantor	53
Consolidated Capitalisation and Indebtedness of the Guarantor Group	54
Consolidated Financial Statements of the Guarantor Group	55
Taxation	60
Subscription and Sale	61
General Information	63

SUMMARY OF THE OFFERING

The following summary of the Offering does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular. Any defined terms used in this summary of the Offering have the meanings given to them in the Conditions of the Capital Securities.

- Issuer: Vattenfall Treasury AB
- Guarantor: Vattenfall AB
- Capital Securities: EUR 1,000,000,000 principal amount of capital securities.
- Issue Price: 99.188 per cent. of the principal amount.
- Status: The Capital Securities and the Coupons constitute unsecured and subordinated obligations of the Issuer. In the event of the voluntary or involuntary liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Issuer, the rights of the Holders to payments of the principal amount of the Capital Securities, Accrued Interest and any other amounts due in respect of the Capital Securities will rank:
- (a) *pari passu* without any preference among the Capital Securities;
 - (b) at least *pari passu* with any other present or future outstanding New Capital Securities of the Issuer;
 - (c) in priority to payments to holders of all classes of share capital of the Issuer in their capacity as such holders and any other obligation of the Issuer expressed by its terms to rank junior to the Capital Securities; and
 - (d) junior in right of payment to the payment of any present or future claims (i) of unsubordinated creditors of the Issuer, and (ii) of all creditors of the Issuer in respect of Issuer Subordinated Indebtedness, if any.
- For as long as any Capital Securities are outstanding, the Issuer intends not to issue any security (excluding share capital) or enter into other obligations ranking or expressed by their terms to rank junior to the Capital Securities. Potential investors should note that this is a statement of intention and not a binding undertaking. It does not form part of the Conditions of the Capital Securities.*
- Guarantee: The payment of the principal and interest in respect of the Capital Securities and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor (the **Guarantee**) in the Trust Deed. The obligations of the Guarantor under the Guarantee constitute unsecured, subordinated obligations of the Guarantor. In the event of the voluntary or involuntary liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Guarantor, the claims of the Holders under the Guarantee will rank:
- (a) at least *pari passu* with any capital securities expressed to rank *pari passu* with the Guarantee issued by the Guarantor and any guarantee in respect of any New Capital Securities;
 - (b) in priority to payments to holders of all classes of share capital of the Guarantor in their capacity as such holders and any other obligation of the Guarantor expressed by its terms to rank junior to the Guarantee; and
 - (c) junior in right of payment to the payment of any present or future claims (i) of all unsubordinated creditors of the

Guarantor, and (ii) of all creditors of the Guarantor in respect of Guarantor Subordinated Indebtedness.

For as long as any Capital Securities are outstanding, the Guarantor intends not to issue any security (excluding share capital) or enter into other obligations ranking or expressed by their terms to rank junior to the Guarantee. Potential investors should note that this is a statement of intention and not a binding undertaking. It does not form part of the Conditions of the Capital Securities.

Tenor: The Capital Securities are perpetual securities and have no fixed maturity date. The Issuer may only redeem the Capital Securities in certain circumstances. See “Redemption”.

Reset Date: 29th June, 2015.

Interest: From and including 29th June, 2005 to but excluding the Reset Date, interest on the Capital Securities will accrue at a rate of 5.250 per cent. per annum and will be payable annually in arrear on 29th June in each year commencing 29th June, 2006 until and including the Reset Date. From and including the Reset Date, interest will accrue at a floating interest rate per annum and will be payable quarterly in arrear on 29th June, 29th September, 29th December and 29th March of each year commencing 29th September, 2015. From and including the Reset Date the rate of interest for each interest period shall be Three Month EURIBOR plus a margin of 2.95 per cent.

Compulsory Interest Payment Date: The Issuer shall pay interest (including Deferred Interest if any) on each Interest Payment Date if during the period of one year preceding such Interest Payment Date:

- (a) the Guarantor, has declared or paid a dividend in any form, or made a payment of any nature, on any share capital or securities ranking junior to the Guarantee, if any; or
- (b) the Issuer has made a payment on any New Capital Securities or the Guarantor has made a payment under any guarantee of any such New Capital Securities (unless such payment was a compulsory interest payment under the terms of any New Capital Securities) or any other obligations ranking *pari passu* with the Capital Securities, if any, or any guarantee thereof or the Guarantor has made a payment on any capital securities issued by it ranking *pari passu* with the Guarantee (unless such payment was a compulsory interest payment under the terms of such capital securities) or any other obligations issued by it ranking *pari passu* with the Guarantee, if any; or
- (c) the Guarantor has redeemed, repurchased or otherwise acquired any share capital or securities ranking junior to the Guarantee, if any, by any means; or
- (d) the Issuer or the Guarantor, as the case may be, has redeemed, repurchased or otherwise acquired any other obligations, if any, ranking *pari passu* with the Capital Securities or the Guarantee, as the case may be, in accordance with their terms;

provided, however, that the relevant Interest Payment Date will not constitute a Compulsory Interest Payment Date if a Mandatory Non-Payment Event applies.

Cumulative Optional Interest Deferral: On any Interest Payment Date which is neither a Compulsory Interest Payment Date nor a Mandatory Non-Payment Date (such date an **Optional Interest Payment Date**), the Issuer may elect to defer (in whole or in part) any interest payment which would be due in respect of the Capital Securities.

Any interest in respect of any Capital Security not paid on an Optional Interest Payment Date shall constitute Deferred Interest. **Deferred Interest** will accumulate until paid on the next date following the relevant Optional Interest Payment Date on which:

- (a) the Guarantor declares or pays a dividend in any form, or makes a payment of any nature, on any share capital or securities ranking junior to the Guarantee, if any; or
- (b) the Issuer makes a payment on any New Capital Securities or the Guarantor makes a payment under any guarantee of any such New Capital Securities (unless such payment is a compulsory interest payment under the terms of any New Capital Securities) or on any other obligations ranking *pari passu* with the Capital Securities, if any, or any guarantee thereof or the Guarantor makes a payment on any capital securities issued by it ranking *pari passu* with the Guarantee (unless such payment is a compulsory interest payment under the terms of such capital securities) or any other obligations issued by it ranking *pari passu* with the Guarantee, if any; or
- (c) the Guarantor redeems, repurchases or otherwise acquires any share capital or securities ranking junior to the Guarantee, if any, by any means; or
- (d) the Issuer or the Guarantor, as the case may be, redeems, repurchases or otherwise acquires any other obligations, if any, ranking *pari passu* with the Capital Securities or the Guarantee, as the case may be, in accordance with their terms,

(such date a **Deferred Interest Payment Date**) provided, however, that Deferred Interest shall not be payable on a Deferred Interest Payment Date if a Mandatory Non-Payment Event has occurred prior to the relevant Deferred Interest Payment Date and is continuing on such date. If the Issuer elects to pay interest (in whole or in part) on any Optional Interest Payment Date, it shall also be obliged to pay any Deferred Interest on such Optional Interest Payment Date.

No interest will accrue on any Deferred Interest until a Deferred Interest Payment Date which is not a Mandatory Non-Payment Date.

Mandatory Non-Payment Event:

Any Interest Payment Date on which the Interest Coverage Trigger Ratio is less than or equal to 2.5000 (to be calculated to the fourth decimal place) to 1 in the most recently published annual audited consolidated financial statements of the Guarantor prior to that Interest Payment Date.

Interest Coverage Trigger Ratio:

Interest Coverage Trigger Ratio means the ratio of (a) the sum of Funds From Operations and Interest Paid to (b) Interest Expenses.

Funds From Operations mean, in respect of any Interest Payment Date, either (i) the line item “cash flow from operating activities” plus the absolute value of the line item “cash flow from changes in operating assets and operating liabilities”, if such line item is negative or (ii) the line item “cash flow from operating activities” less the absolute value of the line item “cash flow from changes in operating assets and operating liabilities”, if such line item is positive (or, in all cases, substantially equivalent line items in the opinion of the Board of Directors of the Issuer as certified by two Directors of the Issuer to the Trustee) as shown in the most recently published annual audited consolidated cash flow statement of the Guarantor prepared in accordance with International Financial Reporting Standards (IFRS) or any other accounting principles adopted by the Guarantor in preparing its consolidated accounts prior to the relevant Interest Payment Date.

Interest Paid, in respect of any Interest Payment Date, shall be derived from the most recently published annual audited consolidated cash flow statement of the Guarantor prepared in accordance with IFRS or any other accounting principles adopted by the Guarantor in preparing its consolidated accounts prior to the relevant Interest Payment Date and as certified by two Directors of the Issuer to the Trustee.

Interest Expenses mean, in respect of any Interest Payment Date, “interest expenses”, net of discounting effects attributable to provisions (or similar items in the opinion of the Board of Directors of the Issuer as certified by two Directors of the Issuer to the Trustee) as shown in the most recently published annual audited consolidated financial statements of the Guarantor prepared in accordance with IFRS or any other accounting principles adopted by the Guarantor in preparing its consolidated accounts prior to the relevant Interest Payment Date plus any payments of interest on the Capital Securities during the fiscal year to which such financial statements relate (as certified by two Directors of the Issuer to the Trustee). For the avoidance of doubt, “interest expenses” shall not include capital losses, foreign exchange losses or discounting effects attributable to provisions (or similar items in the opinion of the Board of Directors of the Issuer as certified by two Directors of the Issuer to the Trustee).

Copies of each such certificate provided to the Trustee by two Directors shall be available for inspection at the specified office of each Paying Agent.

The Guarantor’s consolidated financial statements for fiscal years ended on and prior to 31st December, 2004 were prepared in accordance with Swedish generally accepted accounting principles (**Swedish GAAP**). As an example, the Interest Coverage Trigger Ratio for the fiscal years ended 31st December, 2004, 2003, and 2002 would have been determined as follows:

	Fiscal Year Ended 31st December,		
	2004	2003	2002
	<i>(in SEK millions)</i>		
Cash flow from operating activities ⁽¹⁾	23,973	18,191	20,103
Cash flow from changes in operating assets and operating liabilities ⁽²⁾	186	613	(2,997)
Funds From Operations	24,159	18,804	17,106
Interest Paid⁽³⁾	3,693	4,467	5,822
Sum of Funds from Operations adjusted for Interest Paid	27,852	23,271	22,928
Interest Expenses⁽⁴⁾⁽⁵⁾	3,431	4,460	6,196
Interest Coverage Trigger Ratio⁽⁵⁾	8.1177	5.2177	3.7004

(1) Page references for annual reports for fiscal years ended 2004, 2003, and 2002 are page 70, page 70, and page 44, respectively.

(2) Page references for annual reports for fiscal years ended 2004, 2003, and 2002 are page 70, page 70, and page 44, respectively.

(3) Page references for annual reports for fiscal years ended 2004, 2003, and 2002 are page 71, page 71, and page 44, respectively.

(4) Page references for annual reports for fiscal years ended 2004, 2003, and 2002 are page 85, page 82, and page 53, respectively. Interest Expenses for the fiscal year ended 31st December, 2003 were restated to SEK 4,460 million in the fiscal year ended 31st December, 2004.

(5) The basis for calculating Interest Expenses in 2002 differed from the basis that was used in 2003 and 2004. If Interest Expenses in 2002 were calculated using the basis that was used in 2003 and 2004, capital losses of SEK 1,484 million would have been excluded, resulting in Interest Expenses of SEK 4,712 million and an Interest Coverage Trigger Ratio of 4.8659.

The Guarantor intends to disclose the Interest Coverage Trigger Ratio in its published annual audited consolidated financial statements for as long as the Capital Securities remain outstanding. Potential investors should note that this is a statement of intention and not a binding undertaking. It does not form part of the Conditions of the Capital Securities.

Mandatory Non-Payment Date:

Any Interest Payment Date on which a Mandatory Non-Payment Event occurs or is continuing.

Mandatory Non-Payment of Interest:

The Issuer shall not pay any interest on any Mandatory Non-Payment Date. Any such interest on the Capital Securities not paid shall not constitute Deferred Interest and shall cease to be due and payable by the Issuer. For a period of twelve months after such Mandatory Non-Payment Date, the Guarantor (to the fullest extent permitted by any applicable laws):

- (a) will not propose to its shareholders and, will otherwise act to prevent the declaration or payment of any dividend on its share capital or any payment on other obligations ranking junior to or *pari passu* with the Guarantee, if any; or
- (b) will not redeem, repurchase or otherwise acquire any of its share capital or other obligations ranking junior to or *pari passu* with the Guarantee, if any.

Redemption:

The Capital Securities may be redeemed by the Issuer (a) on the Reset Date, (b) on any Interest Payment Date thereafter, (c) upon the occurrence of a Tax Event on any date prior to the Reset Date or (d) if either the Issuer or the Guarantor is required to pay Additional Amounts (see “Taxation”).

It is the intention of the Issuer and the Guarantor that the Capital Securities will constitute a permanent component of the Guarantor’s consolidated capital. Accordingly, the Issuer intends to redeem the Capital Securities with proceeds raised through the issuance of equity by the Guarantor or through the issuance of New Capital Securities on, or within a period of six months prior to, the redemption date of the Capital Securities. The New Capital Securities will be perpetual and will rank equally with the Capital Securities. The New Capital Securities will not be redeemable prior to the tenth anniversary of their issue date other than for tax reasons in which case it may occur earlier to such date. The terms of the New Capital Securities will permit the Issuer to suspend or cancel payments in the same manner as the Capital Securities. If the interest rate on the New Capital Securities increases at any point over the life of the New Capital Securities, the New Capital Securities will contain a capital replacement provision that is identical to this provision (to the extent that the New Capital Securities are redeemable).

Principal Amount:

Any reference to principal or principal amount in respect of the Capital Securities shall be deemed to include, as applicable, any Additional Amounts and any premium or any other amounts payable in respect of the Capital Securities.

Redemption Amount:

In the case of redemption in accordance with “Redemption – (a), (b) or (d)” above, the Capital Securities will be redeemed at their principal amount together with Accrued Interest.

In the case of redemption in accordance with “Redemption – (c)” above, the Capital Securities will be redeemed at an amount equal to the greater of (i) their principal amount and (ii) the Make-Whole Amount, in each case together with Accrued Interest.

Taxation:

All payments in respect of the Capital Securities and the Guarantee will

be made without withholding or deduction for or on account of Swedish withholding taxes, unless required by law. If such withholdings or deductions are required, the Issuer or, as the case may be, the Guarantor shall pay Additional Amounts, subject to customary exceptions.

Events of Default:

An Event of Default shall have occurred if:

- (a) default is made in the payment of any interest due and payable in respect of the Capital Securities for a period of 30 calendar days; or
- (b) a court or agency or supervisory authority in Sweden (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, liquidator or administrator in any bankruptcy (*konkurs*) or liquidation (*likvidation*) of either the Issuer or the Guarantor, and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 30 days (or such longer period as the Trustee may permit); or
- (c) proceedings shall be commenced for the dissolution of either the Issuer or the Guarantor or the Issuer or the Guarantor shall file a petition to take advantage of any insolvency statute or voluntarily suspend payment of its obligations; or
- (d) the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

Event of Default in respect of Interest:

Upon the occurrence of an Event of Default in respect of interest, the Trustee at its discretion may, and if so requested by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to being indemnified and/or secured to its satisfaction) institute such steps as it thinks desirable to obtain a judgment against the Issuer for any amounts due. The Trustee will not be able to declare the principal amount of the Capital Securities due and repayable.

Event of Default in respect of Insolvency Proceedings:

With respect to an Event of Default in respect of Insolvency Proceedings or the Guarantee ceasing to be in full force and effect, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to being indemnified and/or secured to its satisfaction), (i) give notice to the Issuer and the Guarantor that the Capital Securities are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with Accrued Interest as provided in the Trust Deed and (ii) institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Capital Securities if either the Issuer or the Guarantor is declared bankrupt (*konkurs*) or put into liquidation (*likvidation*) by a competent court.

Non-payment:

If the Issuer shall default in the payment of principal in respect of any Capital Security which has become due and payable in accordance with its terms or the Guarantor shall default in the payment of any amount due under the Guarantee, the Trustee at its discretion may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to

being indemnified and/or secured to its satisfaction), institute such steps, including the obtaining of a judgment against the Issuer or, as the case may be, the Guarantor for any amount due in respect of the Capital Securities or the Guarantee, as it thinks desirable with a view to obtaining payment of the amount due or having the Issuer or, as the case may be, the Guarantor declared bankrupt (*konkurs*), put into liquidation (*likvidation*) or subjected to a company re-construction (*företagsrekonstruktion*). For the avoidance of doubt, these provisions do not apply to a default in the payment of interest.

Form and Denomination: The Capital Securities will be in bearer form in the denomination of EUR 1,000.

The Capital Securities will be represented initially by the Temporary Global Capital Security without interest coupons which is to be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg on or about 29th June, 2005.

Interests in the Temporary Global Capital Security will be exchangeable for interests in the Permanent Global Capital Security, without interest coupons or talons, not earlier than 40 days after 29th June, 2005 upon certification as to non-US beneficial ownership.

The Permanent Global Capital Security will be exchangeable for definitive Capital Securities in bearer form only in the limited circumstances to be set out therein.

Use of Proceeds: The net proceeds of the issue of the Capital Securities, after deduction of underwriting fees and other expenses, will be applied by the Issuer for its general corporate purposes.

Governing Law: The Capital Securities and the Guarantee will be governed by English law, except for the provisions of the Capital Securities and the Guarantee, as the case may be, related to subordination, which will be governed by the laws of Sweden.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Capital Securities in the United States, the United Kingdom, the Republic of Italy and Sweden and such other restrictions as may be required in connection with the offering and sale of the Capital Securities, see "*Subscription and Sale*".

Ratings: The Capital Securities are expected to be assigned, on issue, a rating of Baa1 (Positive Outlook) by Moody's Investors Service Limited and a rating of BBB – (Positive Outlook) by Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc. The ratings reflect only the views of the rating agencies and do not represent the views of the Issuer. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Trustee: The Law Debenture Trust Corporation p.l.c.

Principal Paying Agent: Citibank, N.A.

Listing: Application has been made to the UK Listing Authority for the Capital Securities to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. This Offering Circular comprises listing particulars issued in compliance with the Listing Rules.

INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the Capital Securities about which prospective Holders should be aware. This summary is not intended to be exhaustive and prospective Holders should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision. Each of the Issuer and the Guarantor believes that the risks described below are the principal risks inherent in the transaction for Holders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Capital Securities may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risk of holding the Capital Securities are exhaustive. There can be no assurance that payment to Holders of interest, principal or any other amounts on or in connection with the Capital Securities are made on a timely basis or at all.

The Issuer's ability to meet its obligations under the Capital Securities

The ability of the Issuer to meet its obligations under the Capital Securities or of the Guarantor to meet its obligations under the Guarantee will be ultimately dependent on their respective financial situations. Certain specific considerations include the following.

Factors that may affect the Issuer's ability to fulfil its obligations under the Capital Securities

The Issuer operates as the funding vehicle for the Guarantor Group. As such it issues debt instruments and manages liability portfolio duration. Derivatives are used extensively in these operations. The Issuer could suffer losses as a consequence of ineffective hedging and/or through a default by one of its derivatives counterparties that would, in isolation, affect the ability to fulfil its obligations under the Capital Securities. This risk should, however, be mitigated through the Guarantee issued by the Guarantor in which the Guarantor undertakes to assume responsibility for the Issuer's obligations under the Capital Securities.

Factors that may affect the Guarantor's ability to fulfil its obligations under the Capital Securities or the Guarantee

Generation

Generation asset downtime

The failure to keep generation assets running, either through ageing plants and equipment or through an accident, will cause a drop in generation revenues. In some instances a loss can be recoverable through insurance cover.

Hydrological balance

Approximately 25 per cent. of the Guarantor Group's electricity generation capacity and 20 per cent. of electricity generation comes from Swedish hydropower plants. An increase in the level of water in the dams may push electricity prices down with lower revenues for the Guarantor as a consequence. This risk can however be mitigated by hedging.

Phasing out and decommissioning of nuclear generation

The Guarantor Group owns nuclear power plants in Germany and Sweden representing approximately 22 per cent. of generation capacity and 37 per cent. of generation of the Guarantor Group. In both countries there are agreements to phase out nuclear generation. To date one of the Guarantor Group's plants has been closed in Germany and two plants have been closed down in Sweden. In Germany the phase out schedule is based on a volume cap for nuclear generation while in Sweden no schedule – apart from the closure of Barsebäck 2 on 31st May, 2005 – for the closure of the remaining nuclear generation capacity has been agreed upon. The costs for the decommissioning have been provided for in the balance sheet as of January 2005 (including the segregated Swedish Nuclear Waste Fund). Any increase in these decommissioning costs would affect the Guarantor Group's earnings as the balance sheet provisions would have to be increased.

Emission rights

As of 2005, most countries within the EU have been allocated national quotas of emission rights to CO₂ emitting facilities under the Kyoto Protocol. The allocation shall be gradually lowered until 2012 reducing emission rights quotas which will increase upward pressure on emission rights prices. Projections of the future price of these emission rights are uncertain. Rising emission rights' prices would increase the generation costs for the Guarantor Group's fossil fired plants. On the other hand the Guarantor Group's non-fossil assets will gain in value as a result of rising electricity prices.

Wind power

Wind power is today a small part of the Guarantor Group's electricity generation portfolio but there is a stated ambition from the owner of the Guarantor, the Swedish State, that this share should increase over the coming years. Wind power generation is dependent on subsidies or so called "Green Certificates". An expansion of the wind power portfolio would make the Guarantor Group more vulnerable to changes in the regulatory framework for such subsidies and certificate systems.

Hedging of future production

The Guarantor Group's income is heavily dependent on the prices it can achieve for the electric energy it generates. In order to counteract the impact of electricity price volatility, the Guarantor Group hedges future generation through selling some of its future generation under forward or future contracts. The hedging policy allows for some deviation depending on the Guarantor Group's view on future price development. There is a risk that these views might be wrong from time to time causing losses to the Guarantor Group.

Fuel price risks

The Guarantor Group is dependent on the price of coal and uranium as fuel for its coal fired and nuclear plants. Unforeseen and sudden increases in these fuels will cause the Guarantor Group's costs to rise and, unless electricity and heat prices rise as well, margins to fall.

Transmission/distribution

New regulatory framework for network business

In Germany, Finland and Sweden new regulatory models are being introduced for network operations in order to regulate network tariffs. The models are designed to encourage operators to invest in order to increase efficiency in the systems whilst maintaining a reasonable return on investments. It is not yet possible to see what the financial outcome will be for the Guarantor Group.

Investments in German transmission

The capacity in the German transmission system needs to be increased in order to allow for higher volumes of wind-generated power. There is a risk that the Guarantor Group will not be allowed to pass on to customers all costs due to the capacity upgrade.

Sales and trading

Long term supply contracts

Sales operates in a highly competitive market both in Germany and in the Nordic countries. Large clients often require long term contracts with complex structures designed to accommodate their respective businesses. When entering into these contracts, the Guarantor Group is required to carefully hedge its exposure under these long term contracts in order to manage these risks. If any of the Guarantor's hedging strategies are ineffective, losses could result.

Counterparty risks

The Guarantor Group can run large counterparty exposures in its energy sales and trading operations. Default by one of these counterparties could put future contracted income at risk unless such potential exposure has been managed through the use of efficient credit monitoring and adequate documentation.

Other

Risks in investment programme

The Guarantor Group runs large and ongoing investment programmes to update and renew its portfolio of generation, transmission and distribution assets. The ability to manage these investment programmes within set time- and cost-frames is vital for profitability.

Risk of losses in treasury operations

The Guarantor Group operates a group treasury centre in Stockholm and one local treasury centre in Berlin. The main goal of the treasury operation is to identify and manage the financial risks of the Guarantor Group. Access to liquidity is controlled through a limit on a minimum level for cash and committed credit facilities equal to the higher of 10 per cent. of the Guarantor Group's turnover or the sum of loan maturities during the next three months. The debt portfolio shall have an average time to maturity of not less than five years and duration of 2.5 years +/- 12 months. Currency and interest rate

risks outside of the liability portfolio are measured using Value At Risk and stress tests and strictly defined risk limits. Risk monitoring is performed on a daily or weekly basis through a separate risk control unit. Losses in relation to these treasury operations could be caused by the occurrence of (but not limited to) the following events:

- (a) major movements in interest rates and/or the value of currencies caused by an extraordinary event or events on the relevant market could prove that the assumptions made in the risk models were insufficient and, as a consequence, large losses could occur;
- (b) incorrect trade collection and/or reporting, intentional or unintentional, caused by errors at front- or back-office could have the effect that internal risk measurement systems are unable to correctly measure the Guarantor Group's exposure which in turn could lead to unexpected losses;
- (c) incorrect handling of third party payments could result in claims from a third party and lead to unexpected losses; or
- (d) a default by one of the external counterparties could cause losses through loss in value on a deposit made with such counterparty, loss in value of a security issued by such counterparty, loss in value of derivatives positions with such counterparty and/or losses caused by settlement exposures with such counterparty.

No Prior Public Market

The Capital Securities constitute a new issue of Capital Securities. Prior to this offering, there has been no public market for the Capital Securities. Although application has been made to admit the Capital Securities to trading on the London Stock Exchange, there can be no assurance that an active public market for the Capital Securities will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Capital Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Guarantor and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Capital Securities, which may trade at a discount to the price at which a purchaser purchased the Capital Securities.

Ratings of Capital Securities

The ratings assigned to the Capital Securities by the rating agencies are based on the Issuer's and Guarantor's financial situation, but take into account other relevant structural features of the transaction, including, *inter alia*, the terms of the Capital Securities, and reflect only the views of the rating agencies. The ratings address the likelihood of full and timely payment to the Holders of all payments of interest on each interest payment date and repayment of principal on any redemption date. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the rating agencies as a result of changes in or unavailability of information or if, in the rating agencies' judgement, circumstances so warrant. Other rating agencies could seek to rate the Capital Securities and if such "unsolicited ratings" are lower than the comparable rating assigned to the Capital Securities by the rating agencies described herein, such shadow ratings could have an adverse effect on the value of the Capital Securities. For the avoidance of doubt and unless the context otherwise requires any references to "ratings" or "rating" in this Offering Circular are to ratings assigned by Moody's and by Standard & Poor's only. Future events could have an adverse impact on the ratings of the Capital Securities. A credit rating is not a recommendation to buy, sell or hold Capital Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

An Investment in the Capital Securities May Not be Suitable for all Prospective Holders

The Capital Securities are not suitable investments for all investors. In particular, prospective Holders should not purchase the Capital Securities unless they understand the credit, liquidity and market risks associated with the Capital Securities.

The Capital Securities are complex securities. Prospective Holders should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the information contained in this Offering Circular in the context of its financial situation and tolerance for risk. Potential Holders should carefully consider, among other things, the factors described in this section before purchasing the Capital Securities.

Change of law

The structure of the issue of the Capital Securities and the ratings which have been or are expected to be assigned to the Capital Securities are based on the relevant laws in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative practices after the date of this document.

The Capital Securities are Deeply Subordinated Obligations

The Capital Securities are unsecured, subordinated obligations of the Issuer and are currently the most junior debt instruments of the Issuer, ranking behind claims of unsubordinated creditors of the Issuer and creditors of the Issuer in respect of Issuer Subordinated Indebtedness (as defined herein), at least *pari passu* with any present and future outstanding capital securities of the Issuer and currently in priority to payments to holders of all classes of share capital of the Issuer in their capacity as such holders and any other obligation of the Issuer expressed by its terms to rank junior to the Capital Securities. Consequently, if the Issuer's financial condition were to deteriorate, Holders could suffer direct and materially adverse consequences, including suspension of, on a cumulative basis, interest payments. If the Issuer were to liquidate (whether voluntarily or involuntarily), Holders could lose their entire investment.

The Guarantee constitutes an unsecured, subordinated obligation of the Guarantor which ranks behind claims of unsubordinated creditors of the Guarantor and creditors of the Guarantor in respect of Guarantor Subordinated Indebtedness (as defined herein), at least *pari passu* with any capital securities of the Guarantor and currently in priority to payments to holders of all classes of share capital of the Guarantor in their capacity as such holders and any other obligation of the Guarantor expressed by its terms to rank junior to the Guarantee. Consequently, if the Guarantor's financial condition were to deteriorate, Holders could suffer direct and materially adverse consequences, including suspension of, on a cumulative or non-cumulative basis, interest payments. If the Guarantor were to liquidate (whether voluntarily or involuntarily), Holders could lose their entire investment.

Perpetual Nature of the Capital Securities

The Capital Securities have no fixed final redemption date and Holders have no rights to call for the redemption of the Capital Securities, although the Issuer may redeem the Capital Securities in certain circumstances (including at its option on the Reset Date or any Interest Payment Date thereafter or following the occurrence of certain tax changes affecting the Issuer). Therefore, Holders should be aware that they may be required to bear the financial risks of an investment in the Capital Securities for an indefinite period of time.

Statements of Intention

Various statements of intention have been ascribed to the Issuer and the Guarantor in this Offering Circular ("*Summary of the Offering*"). These statements of intention do not constitute binding undertakings and do not form part of the Conditions of the Capital Securities. For example, while it is the intention of the Issuer and the Guarantor that the Capital Securities will constitute a permanent component of the Guarantor's consolidated capital, there can be no assurance that the intentions of either the Issuer or the Guarantor in relation to this matter or to the other matters stated will not change at a future date.

Restrictions on Interest Payments

In the following circumstances, the Issuer will not pay or may elect not to pay any interest payment which would otherwise fall due in respect of the Capital Securities. The Issuer will not pay any interest due on the relevant date and such interest shall cease to be due and payable by the Issuer to the extent that the Interest Coverage Trigger Ratio is less than or equal to 2.5000 to 1 in the most recently published annual audited consolidated financial statements of the Guarantor prior to that date. The Issuer may (in its sole discretion) elect to defer any interest which would otherwise be due on any interest payment date (unless that date is a Mandatory Non-Payment Date or Compulsory Interest Payment Date) and any such interest will accumulate until paid in full on the next Deferred Interest Payment Date provided that no Mandatory Non-Payment Event has occurred prior to the relevant Deferred Interest Payment Date. No interest will accrue on any Deferred Interest.

If the Issuer does not pay interest (as a result of a Mandatory Non-Payment Event), the Guarantor may not make or pay any distribution in respect of any class of its share capital (including preference share capital) or any obligation expressed to rank junior to or *pari passu* with the Guarantee,

if any, or redeem, repurchase or otherwise acquire any of its share capital or other obligations ranking junior to or *pari passu* with the Guarantee, if any, for a period of 12 months after the relevant Mandatory Non-Payment Date.

As this provision purports to fetter the discretion of both the board and the shareholders of the Guarantor in respect of certain payments to the shareholders, it may be unenforceable in relation to the Guarantor as a matter of Swedish law. Although the Issuer and the Guarantor believe this to be highly unlikely there is a risk that, notwithstanding the obligations on the Guarantor not to make such payments, the board may propose and the shareholder of the Guarantor may require such payments to be made. This risk is mitigated to the extent that provisions of Swedish company law apply which prohibit the payment of dividends where such payment would be contrary to sound business practices.

Redemption upon Occurrence of a Tax Event or in Relation to Withholding Tax

The Issuer will have the right, upon the occurrence of a Tax Event (as defined herein) or for withholding tax reasons, to redeem the Capital Securities. Redemption for withholding tax reasons will be at a redemption amount equal to the principal amount of each Security, together with interest (if any) on the principal amount accrued to, but excluding, the date of redemption. No make-whole premium reflecting any changes in the prevailing interest rates will be payable upon such redemption. On redemption upon the occurrence of a Tax Event a make-whole premium may be payable. There can be no assurance that Holders will be able to reinvest the amounts received upon any such redemption at a rate that will provide the same rate of return as their investment in the Capital Securities.

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following is the text of the Conditions of the Capital Securities which (subject to modification) will be endorsed on each Capital Security in definitive form (if issued):

The €1,000,000,000 capital securities (the **Capital Securities** which expression shall in these Conditions, unless the context otherwise requires, include any further capital securities issued pursuant to Condition 16 and forming a single series with the Capital Securities) of Vattenfall Treasury AB (the **Issuer**) are constituted by a Trust Deed (the **Trust Deed**) dated 29th June, 2005 and made between the Issuer, Vattenfall AB (the **Guarantor**) as guarantor and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include any successor as trustee) as trustee for the holders of the Capital Securities (the **Holder**s) and the holders of interest coupons appertaining to the Capital Securities (the **Couponholders** and **Coupons**, respectively, which expression includes, unless the context otherwise requires, talons for further interest coupons (the **Talons**), and the holders of Talons).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 29th June, 2005 (the **Agency Agreement**) made between the Issuer, the Guarantor, the initial Paying Agents named therein and the Trustee are available for inspection during normal business hours by the Holders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Capital Securities at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Capital Securities are in bearer form, serially numbered, in the denomination of €1,000 (the **Specified Denomination**) each with Coupons and one Talon attached on issue.

1.2 Title

Title to the Capital Securities and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Capital Security or Coupon as the absolute owner for all purposes (whether or not the Capital Security or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Capital Security or Coupon or notice of previous loss or theft of the Capital Security or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS AND SUBORDINATION

2.1 Ranking

The Capital Securities and the Coupons constitute unsecured and subordinated obligations of the Issuer. In the event of the voluntary or involuntary liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Issuer, the rights of the Holders to payments of the principal amount (any reference to principal in these Conditions to be interpreted in accordance with Condition 6.7) of the Capital Securities, Accrued Interest and any other amounts due in respect of the Capital Securities will rank:

- (a) *pari passu* without any preference among themselves;
- (b) at least *pari passu* with any other present or future outstanding New Capital Securities of the Issuer;
- (c) in priority to payments to holders of all classes of share capital of the Issuer in their capacity as such holders and any other obligation of the Issuer expressed by its terms to rank junior to the Capital Securities; and
- (d) junior in right of payment to the payment of any present or future claims (i) of all unsubordinated creditors of the Issuer, and (ii) of all creditors of the Issuer in respect of Issuer Subordinated Indebtedness, if any.

2.2 New Capital Securities

The Issuer reserves the right to issue any New Capital Securities in the future, provided, however, that any such obligations may not in the event of voluntary or involuntary liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Issuer rank prior to the Capital Securities.

2.3 The Issuer undertakes that, so long as any Capital Securities are outstanding, it will not issue any form of share capital to any person or entity other than the Guarantor or any of its subsidiaries.

3. GUARANTEE

3.1 Guarantee

The payment of the principal and interest in respect of the Capital Securities and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor (the **Guarantee**) in the Trust Deed.

3.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute unsecured, subordinated obligations of the Guarantor. In the event of the voluntary or involuntary liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Guarantor, the claims of the Holders under the Guarantee will rank:

- (a) at least *pari passu* with any capital securities expressed to rank *pari passu* with the Guarantee issued by the Guarantor and any guarantee in respect of any New Capital Securities;
- (b) in priority to payments to holders of all classes of share capital of the Guarantor in their capacity as such holders and any other obligation of the Guarantor expressed by its terms to rank junior to the Guarantee; and
- (c) junior in right of payment to the payment of any present or future claims (i) of all unsubordinated creditors of the Guarantor, and (ii) of all creditors of the Guarantor in respect of Guarantor Subordinated Indebtedness.

3.3 Undertaking

The Guarantor has undertaken in the Trust Deed that, so long as any Capital Securities are outstanding, it will not:

- (a) sell, charge or otherwise dispose of or in any way assign its rights in respect of the share capital of the Issuer; or
- (b) issue any subordinated and undated capital securities on terms equivalent to the Capital Securities which, in the event of voluntary or involuntary liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Guarantor, rank prior to the Guarantee.

4. INTEREST

4.1 Interest Rate and Interest Payment Dates

The Capital Securities bear interest on their outstanding principal amount from and including the Interest Commencement Date to but excluding the Reset Date. Such interest will be payable (subject to the provisions contained in Condition 5.2 and 5.3) annually in arrear on 29th June of each year (each a **Fixed Interest Payment Date**) commencing on 29th June, 2006 up to and including the Reset Date. Thereafter, the Capital Securities bear interest payable (subject to the provisions contained in Conditions 5.2 and 5.3) quarterly in arrear on 29th June, 29th September, 29th December and 29th March in each year (together with each Fixed Interest Payment Date each, a **Interest Payment Date**) commencing on 29th September, 2015. If any Interest Payment Date falling after the Reset Date would otherwise fall on a date which is not a Business Day, it will be postponed to the next Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Business Day

and the Interest Period shall be adjusted accordingly. Each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called a **Interest Period**.

4.2 **Interest Accrual**

Each Capital Security will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of the principal in respect of the Capital Security is improperly withheld or refused or unless default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

4.3 **Fixed Rate of Interest**

In relation to any Interest Period from and including the Interest Commencement Date to but excluding the Reset Date (the **Fixed Interest Period**), the rate in respect of the Capital Securities will be 5.250 per cent. per annum.

If interest is required to be paid in respect of a Capital Security on any date during the Fixed Interest Period in respect of a period of less than a full year, it shall be calculated by applying the rate of interest to the principal amount of such Capital Security, multiplying the product by the Fixed Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

4.4 **Floating Rate of Interest**

The rate of interest in respect of the Capital Securities (the **Floating Rate of Interest**) for each Interest Period from and including the Reset Date will be Three Month EURIBOR plus a margin of 2.95 per cent., as determined by the Principal Paying Agent.

After the Reset Date, whenever it is necessary to compute an amount of interest in respect of any Capital Security for a period other than an Interest Period, such interest shall be calculated on the basis of the actual number of days in such period divided by 360 and otherwise in accordance with Condition 4.5 below.

4.5 **Determination of Floating Rate of Interest and Floating Interest Amount**

The Principal Paying Agent shall, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the euro amount (the **Floating Interest Amount**) payable in respect of interest on each Capital Security of the Specified Denomination for the relevant Interest Period. The Floating Interest Amount shall be determined by applying the Floating Rate of Interest to the principal amount of such Capital Security, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

4.6 **Publication of Floating Rate and Floating Interest Amount**

The Principal Paying Agent shall cause the Floating Rate of Interest and the Floating Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor, the Trustee and to any stock exchange or other relevant authority on which the Capital Securities are at the relevant time listed and to be published in accordance with Condition 14 as soon as possible after their determination, and in no event later than the second Business Day thereafter. The Floating Interest Amount and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

4.7 **Determination by the Trustee**

The Trustee shall, if the Principal Paying Agent defaults at any time in its obligation to determine the Floating Rate of Interest and Floating Interest Amount in accordance with the above provisions, determine the Floating Rate of Interest and Floating Interest Amount, the former at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the latter in the manner provided in Condition 4.5 and the determinations shall be deemed to be determinations by the Principal Paying Agent and in doing so the Trustee shall be entitled to seek (at the expense of the Issuer) and rely upon advice from any reputable investment bank or other reputable and suitably qualified expert deemed appropriate by the Trustee for such purpose.

4.8 **Notifications, etc. to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them), the Principal Paying Agent or the Trustee, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Principal Paying Agent, the Paying Agents and all Holders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Guarantor, or the Holders or the Couponholders shall attach to the Reference Banks (or any of them), the Principal Paying Agent or, if applicable, the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition.

5. **INTEREST PAYMENT AND DEFERRAL**

5.1 **Compulsory and Optional Interest Payment**

The Issuer shall pay interest on each Compulsory Interest Payment Date and, save as provided below, on each Optional Interest Payment Date and Deferred Interest Payment Date.

5.2 **Cumulative Optional Interest Deferral**

On any Optional Interest Payment Date, the Issuer may elect to defer any Interest Payment which would otherwise be due on that date (in whole or in part). Any interest in respect of any Capital Security not paid on an Optional Interest Payment Date shall constitute **Deferred Interest**. Deferred Interest will accumulate until paid in full on the next Deferred Interest Payment Date following the relevant Optional Interest Payment Date provided, however, that Deferred Interest shall not be payable on a Deferred Interest Payment Date if a Mandatory Non-Payment Event has occurred prior to the relevant Deferred Interest Payment Date and is continuing on such date. If the Issuer elects to pay interest (in whole or in part) on any Optional Interest Payment Date, it shall also be obliged to pay any Deferred Interest on such Optional Interest Payment Date. No interest will accrue on any Deferred Interest until a Deferred Interest Payment Date which is not a Mandatory Non-Payment Date.

Notwithstanding any other provisions in these Conditions or the Trust Deed, the deferral of any interest on an Optional Interest Payment Date in accordance with this Condition 5.2 shall not constitute a default for any purpose by the Issuer.

The Issuer shall:

- (a) if it wishes to elect to defer any Interest Payment, as soon as practicable and in any event not less than 20 Business Days prior to the relevant Interest Payment Date; and
- (b) in respect of any payment of Deferred Interest on a Deferred Interest Payment Date, as soon as practicable,

in the case of (a), give notice of such election (which shall be irrevocable) or, in the case of (b), give notice of such Deferred Interest Payment Date (which, save as provided above, shall be irrevocable) to each stock exchange on which the Capital Securities are for the time listed, to the Trustee, the Guarantor (if applicable) and, in accordance with Condition 14, to the Holders.

5.3 **Mandatory Non-Payment of Interest**

The Issuer shall not pay any interest on any Mandatory Non-Payment Date. Any interest (excluding Deferred Interest) not paid on such Mandatory Non-Payment Date shall not constitute Deferred Interest and shall cease to be due and payable by the Issuer. If any interest has been cancelled as a result of a Mandatory Non-Payment Event, then for a period of twelve months after the relevant Mandatory Non-Payment Date the Guarantor (to the fullest extent permitted by any applicable laws):

- (a) will not propose to its shareholders and will otherwise act to prevent the declaration or payment of any dividend on its share capital or any payment on other obligations ranking junior to or *pari passu* with the Guarantee, if any; and
- (b) will not redeem, repurchase or otherwise acquire any of its share capital or other obligations ranking junior to or *pari passu* with the Guarantee, if any.

The Issuer shall, as soon as practicable and in any event not later than 10 Business Days prior to the Mandatory Non-Payment Date, give notice of the occurrence of a Mandatory Non-Payment Event to each stock exchange on which the Capital Securities are for the time listed, to the Trustee (in a certificate signed by two Directors of the Issuer which shall also contain the certifications referred to in the definition of Interest Coverage Trigger Ratio), the Guarantor (if applicable) and, in accordance with Condition 14, to the Holders.

6. PAYMENTS AND EXCHANGES OF TALONS

6.1 Payments in respect of Securities

Payments of principal and interest in respect of each Capital Security will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Capital Security, except that payments of interest due on a Interest Payment Date or Deferred Interest Payment Date (subject to the provisions set out in Condition 5) (including all Deferred Interest) will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

6.2 Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

6.3 Missing Unmatured Coupons

Each Capital Security should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons). Upon the date on which any Capital Security becomes due and repayable, all unmatured Coupons appertaining to the Capital Security (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

6.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Capital Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.5 Payment only on a Presentation Date

A holder shall be entitled to present a Capital Security or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

6.6 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

6.7 Interpretation of principal and interest

Any reference in these Conditions to principal or principal amount in respect of the Capital Securities shall be deemed to include, as applicable:

- (a) any Additional Amounts which may be payable with respect to principal under Condition 8 or under any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed; and
- (b) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Capital Securities.

Any reference in these Conditions to interest in respect of the Capital Securities shall be deemed to include, as applicable:

- (a) any Deferred Interest; and
- (b) any Additional Amounts which may be payable with respect to interest under Condition 8 or under any undertaking given in addition thereto or in substitution therefor, pursuant to the Trust Deed.

7. REDEMPTION AND PURCHASE

7.1 No Fixed Maturity Date

The Capital Securities are perpetual securities in respect of which there is no fixed maturity date and the Issuer shall (subject to the provisions of Condition 2 and without prejudice to the provisions of Condition 9) only have the right to repay them or purchase them in accordance with the following provisions of this Condition 7 or as provided in Condition 10.3.

7.2 Redemption for Withholding Tax Reasons

Unless notice of redemption has been given pursuant to Condition 7.4, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time (on or prior to the Reset Date) or on any Interest Payment Date (following the Reset Date), on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable and specify the date fixed for redemption), if the Issuer satisfies the Trustee immediately before the giving of the aforementioned notice that:

- (i) on the occasion of the next payment due under the Capital Securities, the Issuer has or will become obliged to pay Additional Amounts or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such Additional Amounts, in each case as a result of any change in, or amendment to, the laws or regulations of Sweden or any political subdivision thereof or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Interest Commencement Date; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Amounts were a payment in respect of the Capital Securities then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, two Directors of the Guarantor stating that the requirement referred to in (i) above will apply on the occasion of the next payment due under the Capital Securities and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Holders and the Couponholders.

Capital Securities redeemed pursuant to this Condition 7.2 will be redeemed at their principal amount, together with any Accrued Interest.

7.3 Redemption at the Option of the Issuer

The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable and specify the date fixed for redemption), elect to redeem all, but not some only, of the Capital Securities on the Reset Date or on any Interest Payment Date thereafter at their principal amount together with any Accrued Interest.

7.4 Redemption on a Tax Event

Upon the occurrence of a Tax Event, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time (on or prior to the Reset Date) or on any Interest Payment Date (following the Reset Date), on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable and shall specify the date fixed for redemption), at an amount

equal to the greater of (i) the principal amount and (ii) the Make-Whole Amount (as determined by the Quotation Agent), together, in each case, with any Accrued Interest.

7.5 **Purchases**

The Issuer or the Guarantor or any of their respective subsidiaries may at any time purchase Capital Securities (provided that, in the case of Capital Securities in definitive form, all unmatured Coupons appertaining to the Capital Securities are purchased with the Capital Securities) in any manner and at any price. If purchases are made by tender, tenders must be available to all Holders alike.

7.6 **Cancellations**

All Capital Securities which are (a) redeemed or (b) purchased by or on behalf of the Issuer or the Guarantor or any of their respective subsidiaries will forthwith be cancelled, together, in the case of Capital Securities in definitive form, with all relative unmatured Coupons attached to the Capital Securities or surrendered with the Capital Securities, and accordingly may not be held, reissued or resold.

7.7 **Notices Final**

Upon the expiry of any notice as referred to in paragraph 7.2, 7.3 or 7.4 above, the Issuer shall be bound to redeem the Capital Securities in accordance with the terms of such paragraph.

8. **TAXATION**

8.1 **Payment without Withholding**

All payments in respect of the Capital Securities by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Sweden or any political subdivision of, or any authority in, or of, Sweden having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Capital Securities or, as the case may be, Coupons in the absence of the withholding or deduction (such amounts **Additional Amounts**); except that no Additional Amounts shall be payable in relation to any payment in respect of any Capital Security or Coupon:

- (a) to, or to a third party on behalf of, a Holder or Couponholder who is liable to the Taxes in respect of the Capital Security or Coupon by reason of his having some connection with Sweden other than the mere holding of the Capital Security or Coupon; or
- (b) to, or to a third party on behalf of, a Holder or Couponholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the Holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days assuming that day to have been a Presentation Date; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a Holder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Capital Security or Coupon to a Paying Agent in another Member State of the European Union.

8.2 **Interpretation**

In these Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been duly received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money

having been so received, notice to that effect has been duly given to the Holders by the Issuer in accordance with Condition 14.

8.3 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Capital Securities shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. **PRESCRIPTION**

Claims against the Issuer in respect of principal and interest on the Capital Securities will become void unless the Capital Securities and Coupons (which for this purpose shall not include Talons) are presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor subject to the provisions of Condition 6. There shall not be included in any Coupon Sheet upon exchange of a Talon any Coupon which would become void under this Condition 9 or Condition 6.

10. **EVENTS OF DEFAULT**

10.1 **Events of Default**

An **Event of Default** shall have occurred if:

- (a) default is made in the payment of any interest due and payable in respect of the Capital Securities for a period of 30 calendar days; or
- (b) a court or agency or supervisory authority in Sweden (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver or liquidator in any bankruptcy (*konkurs*) or liquidation (*likvidation*) of either the Issuer or the Guarantor, and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 30 days (or such longer period as the Trustee may permit); or
- (c) proceedings shall be commenced for the dissolution of either the Issuer or the Guarantor, or the Issuer or the Guarantor shall file a petition to take advantage of any insolvency statute or voluntarily suspend payment of its obligations; or
- (d) the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

10.2 **Event of Default in respect of Interest**

Upon the occurrence of an Event of Default described in Condition 10.1(a), the Trustee at its discretion may, and if so requested by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to being indemnified and/or secured to its satisfaction) institute such steps as it thinks desirable to obtain a judgment against the Issuer for any amounts due. The Trustee will not be able to declare the principal amount of the Capital Securities due and repayable.

10.3 **Event of Default in respect of Insolvency Proceedings**

With respect to an Event of Default described in Condition 10.1(b), (c) or (d), the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to being indemnified and/or secured to its satisfaction), (i) give notice to the Issuer and the Guarantor that the Capital Securities are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with Accrued Interest as provided in the Trust Deed and (ii) institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Capital Securities if either the Issuer or the Guarantor is declared bankrupt (*konkurs*) or put into liquidation (*likvidation*) by a competent court.

10.4 **Enforcement**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth per cent. in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to being indemnified and/or secured to its satisfaction), institute such proceedings against the Issuer or, as the case may be, the Guarantor as

it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Capital Securities or the Guarantor under the Guarantee (subject to Condition 10.2) provided that the Issuer or, as the case may be, the Guarantor shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

10.5 No other Remedies

No remedy against the Issuer or the Guarantor, other than as provided in Conditions 10.2, 10.3, 10.4 or 11 or proving or claiming in the bankruptcy (*konkurs*), liquidation (*likvidation*) or company re-construction (*företagsrekonstruktion*) of the Issuer in Sweden or elsewhere, shall be available to the Trustee, the Holders or the Couponholders, whether for the recovery of amounts owing in respect of the Capital Securities or in respect of any breach by the Issuer or, as the case may be, the Guarantor of any of its obligations or undertakings with respect to the Capital Securities or the Guarantee.

10.6 Trustee not bound to take proceedings

The Trustee shall not be bound to take any proceedings mentioned in Conditions 10.2, 10.3, 10.4 or 11 or any other action in relation to the Trust Deed, the Capital Securities or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Holders or so requested in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction.

10.7 Holders not entitled to proceed directly

No Holder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

11. NON-PAYMENT

If the Issuer shall default in the payment of principal in respect of any Capital Security which has become due and payable in accordance with the terms hereof or the Guarantor shall default in the payment of any amount due under the Guarantee, the Trustee at its discretion may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Capital Securities then outstanding or by an Extraordinary Resolution of the Holders shall (subject in each case to being indemnified and/or secured to its satisfaction), institute such steps, including the obtaining of a judgment against the Issuer or, as the case may be, the Guarantor for any amount due in respect of the Capital Securities or the Guarantee, as it thinks desirable or as it may be requested to take with a view to obtaining payment of the amount due or having the Issuer or, as the case may be, the Guarantor declared bankrupt (*konkurs*), put into liquidation (*likvidation*) or subjected to a company re-construction (*företagsrekonstruktion*). For the avoidance of doubt, the provisions of this Condition 11 do not apply to a default in the payment of interest.

12. REPLACEMENT OF CAPITAL SECURITIES AND COUPONS

Should any Capital Security or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 14 upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Capital Securities or Coupons must be surrendered before replacements will be issued.

13. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) so long as the Capital Securities are listed on any stock exchange or admitted to listing by any other relevant authority, there will be at all times be a Paying Agent with a specified

office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);

- (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) with a specified office in a city approved by the Trustee in continental Europe outside Sweden; and
- (d) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that it is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Holders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances set out therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Holders or Couponholders.

14. NOTICES

All notices regarding the Capital Securities shall be published in the *Financial Times* or any other daily newspaper in London approved by the Trustee. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Capital Securities are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication in all the required newspapers.

15. MEETINGS OF HOLDERS, MODIFICATION AND WAIVER

15.1 Meetings of Holders

The Trust Deed contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Issuer upon the request of Holders holding not less than five per cent. in principal amount of the Capital Securities for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in principal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Capital Securities so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Conditions or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Capital Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting, and on all Couponholders.

15.2 Modification, Waiver, Authorisation and Determination

The Trust Deed provides that the Trustee may agree, without the consent of the Holders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an Event of Default or a Non-Payment Event (as defined in the Trust Deed), shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Holders or to any modification of any of these Conditions or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification, waiver, authorisation or determination shall be binding on the Holders and Couponholders and, unless the Trustee agrees otherwise shall be notified to the Holders as soon as practicable thereafter in accordance with Condition 14.

15.3 **Trustee to have Regard to Interests of Holders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities, or discretions (including, but without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Holders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Holders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Holder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

16. **FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Holders or Couponholders to create and issue further capital securities ranking *pari passu* in all respects and having terms and conditions the same as the Capital Securities save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Capital Securities. Any such further capital securities shall be constituted by a deed supplemental to the Trust Deed.

17. **SUBSTITUTION**

The Trustee may, without the consent of the Holders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Capital Securities, the Coupons and the Trust Deed of the Guarantor or of any of the Guarantor's other subsidiaries, subject to (a) except where the Guarantor becomes the principal debtor, the Capital Securities being unconditionally and irrevocably guaranteed by the Guarantor on the same terms (*mutatis mutandis*) as the Guarantee, (b) the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

18. **INDEMNIFICATION OF THE TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified and/or secured to its satisfaction.

19. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Capital Securities, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

20.1 **Governing Law**

The Trust Deed, the Capital Securities and the Coupons are governed by, and shall be construed in accordance with, English law, except that Conditions 2.1 and 3.2 are governed by, and shall be construed in accordance with, Swedish law.

20.2 **Jurisdiction of English courts**

The Issuer and the Guarantor have each irrevocably agreed in the Trust Deed for the exclusive benefit of the Trustee, the Holders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Capital Securities and the Coupons and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as **Proceedings**) may be brought in the courts of England.

The Issuer and the Guarantor have in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which they may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and have further irrevocably and unconditionally agreed that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding

upon the relevant Issuer or, as the case may be, the Guarantor and may be enforced in the courts of any other jurisdiction. Nothing in this provision shall limit any right to take Proceedings against the relevant Issuer or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

20.3 Appointment of Process Agent

The Issuer and the Guarantor have in the Trust Deed appointed Law Debenture Corporate Services Limited at its registered office for the time being (being at the Interest Commencement Date at Fifth Floor, 100 Wood Street, London EC2V 7EX, England) as their agent in England for service of process on their behalf and have agreed that in the event of Law Debenture Corporate Services Limited ceasing so to act they will appoint such other person as the Trustee may approve as their agent for service of process.

20.4 Immunity

The Issuer and the Guarantor have in the Trust Deed irrevocably and unconditionally waived and agreed not to raise with respect to the Trust Deed, the Capital Securities and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and have irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

21. DEFINITIONS

Accrued Interest means interest (including Deferred Interest) accrued from the immediately preceding Interest Payment Date on which interest (including Deferred Interest) was paid or, if none, the Interest Commencement Date, to the date of redemption;

Actual/360 means the actual number of days in the Interest Period divided by 360;

Business Day means a day which is both a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and a TARGET Settlement Day;

Compulsory Interest Payment Date means each Interest Payment Date in respect of which any of the following events has occurred during the period of one year from (and including) the first day of such year to (but excluding) such Interest Payment Date:

- (a) the Guarantor has declared or paid a dividend in any form, or made a payment of any nature, on any share capital or securities ranking junior to the Guarantee, if any;
- (b) the Issuer has made a payment on any New Capital Securities or the Guarantor has made a payment under any guarantee of any such New Capital Securities (unless such payment was a compulsory interest payment under the terms of any New Capital Securities) or on any other obligations ranking *pari passu* with the Capital Securities, if any, or any guarantee thereof or the Guarantor has made a payment on any capital securities issued by it ranking *pari passu* with the Guarantee (unless such payment was a compulsory interest payment under the terms of such capital securities) or any other obligations issued by it ranking *pari passu* with the Guarantee, if any;
- (c) the Guarantor has redeemed, repurchased or otherwise acquired any share capital or securities ranking junior to the Guarantee, if any, by any means; or
- (d) the Issuer has redeemed, repurchased or otherwise acquired any other obligations ranking *pari passu* with the Capital Securities, if any, in accordance with their terms or the Guarantor has redeemed, repurchased or otherwise acquired any other obligations issued by it and which ranks *pari passu* with the Guarantee, if any, in accordance with their terms,

provided, however, that the relevant Interest Payment Date will not constitute a Compulsory Interest Payment Date if a Mandatory Non-Payment Event has occurred prior to the relevant Interest Payment Date and is continuing on such Interest Payment Date;

Deferred Interest Payment Date means, in respect of an Optional Interest Payment Date on which the Issuer elects to defer any Interest Payment, the first date thereafter on which:

- (a) the Guarantor declares or pays a dividend in any form, or makes a payment of any nature, on any share capital or securities ranking junior to the Guarantee, if any; or
- (b) the Issuer makes a payment on any New Capital Securities or the Guarantor makes a payment under any guarantee of any such New Capital Securities (unless such payment is a compulsory interest payment under the terms of any New Capital Securities) or on any other obligations ranking *pari passu* with the Capital Securities, if any, or any guarantee thereof or the Guarantor makes a payment on any capital securities issued by it ranking *pari passu* with the Guarantee (unless such payment is a compulsory interest payment under the terms of such capital securities) or any other obligations issued by it ranking *pari passu* with the Guarantee, if any; or
- (c) the Guarantor redeems, repurchases or otherwise acquires any share capital or securities ranking junior to the Guarantee, if any, by any means; or
- (d) the Issuer redeems, repurchases or otherwise acquires any other obligations ranking *pari passu* with the Capital Securities, if any, in accordance with their terms or the Guarantor redeems, repurchases or otherwise acquires any other obligations issued by it and which rank *pari passu* with the Guarantee, if any, in accordance with their terms;

Fixed Day Count Fraction means (a) the actual number of days in the period from (and including) the date from which interest begin to accrue for the relevant period of calculation (the **Accrual Date**) to (but excluding) the date on which it fall due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date;

Guarantor Subordinated Indebtedness means any obligation of the Guarantor, whether or not having a fixed maturity, which by its terms is, or is expressed to be, subordinated in the event of liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Guarantor to the claims of all unsubordinated creditors of the Guarantor but senior to all capital securities but for the purposes of the Capital Securities shall not include the Guarantee or any guarantee of New Capital Securities;

Interest Commencement Date means 29th June, 2005;

Interest Coverage Trigger Ratio means the ratio of (a) the sum of Funds from Operations and Interest Paid to (b) Interest Expenses;

Funds From Operations mean, in respect of any Interest Payment Date, either (i) the line item “cash flow from operating activities” plus the absolute value of the line item “cash flow from changes in operating assets and operating liabilities”, if such line item is negative or (ii) the line item “cash flow from operating activities” less the absolute value of the line item “cash flow from changes in operating assets and operating liabilities,” if such line item is positive (or, in all cases, substantially equivalent line items in the opinion of the Board of Directors of the Issuer as certified by two Directors of the Issuer to the Trustee) as shown in the most recently published annual audited consolidated cash flow statement of the Guarantor prepared in accordance with International Financial Reporting Standards (**IFRS**) or any other accounting principles adopted by the Guarantor in preparing its consolidated accounts prior to the relevant Interest Payment Date;

Interest Paid, in respect of any Interest Payment Date, shall be derived from the most recently published audited consolidated cash flow statement of the Guarantor prepared in accordance with IFRS or any other accounting principles adopted by the Guarantor in preparing its consolidated accounts prior to the relevant Interest Payment Date and as certified by two Directors of the Issuer to the Trustee; and

Interest Expenses mean, in respect of any Interest Payment Date, “interest expenses”, net of discounting effects attributable to provisions (or similar items in the opinion of the Board of Directors of the Issuer as certified by two Directors of the Issuer to the Trustee) as shown in the most recently published annual audited consolidated financial statements of the Guarantor prepared in accordance with IFRS or any other accounting principles adopted by the Guarantor in preparing its consolidated accounts prior to the relevant Interest Payment Date plus any payments of interest on the Capital Securities during the fiscal year to which such financial statements relate (as certified by two Directors of the Issuer to the Trustee). For the avoidance of doubt, “interest expenses” shall not include

capital losses, foreign exchange losses or discounting effects attributable to provisions (or similar items in the opinion of the Board of Directors of the Issuer as certified by two Directors of the Issuer to the Trustee).

The Issuer shall procure that copies of each such certificate provided to the Trustee by two Directors shall be available for inspection at the specified office of each Paying Agent;

Interest Determination Date means the second TARGET Settlement Day before the commencement of the Interest Period for which the rate will apply;

Issuer Subordinated Indebtedness means any obligation of the Issuer, whether or not having a fixed maturity, which by its terms is, or is expressed to be, subordinated in the event of liquidation (*likvidation*), bankruptcy (*konkurs*) or company re-construction (*företagsrekonstruktion*) of the Issuer to the claims of all unsubordinated creditors of the Issuer but senior to all capital securities but for the purposes of the Capital Securities shall not include the Capital Securities or any New Capital Securities;

Make Whole Amount means, in respect of each Capital Security and as determined by the Quotation Agent, an amount equal to the sum of:

- (a) the Present Value on the date of redemption of the principal amount, assuming such amount to be a payment due on the Reset Date; and
- (b) the Present Value on the date of redemption of the remaining scheduled payments of interest up to and including the Reset Date in respect of the Capital Securities (for which purpose (i) it shall be assumed that no optional deferral of interest in accordance with Condition 5.2 or Mandatory Non-Payment Event would occur and (ii) any amount in respect of the period from (and including) the Interest Payment Date immediately preceding the date fixed for redemption to (but excluding) the date fixed for redemption will deducted),

where:

Adjusted Yield means (a) the Bond Yield plus (b) 0.5 per cent.;

Bond Yield means the rate per annum equal to the annual yield to maturity of the Comparable Bond Issue, assuming a price equal to the Comparable Bond Price for the Calculation Date;

Calculation Date means the third TARGET Settlement Day prior to the date of redemption;

Comparable Bond Issue means, with respect to the date of redemption, the euro government benchmark bond selected by the Quotation Agent that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity with the remaining term of the Capital Securities from the redemption date to the Reset Date;

Comparable Bond Price means (a) the average of five Reference Bond Dealer Quotations, after excluding the highest and lowest of such Reference Bond Dealer Quotations; or (b) if the Quotation Agent obtains fewer than five such Reference Bond Dealer Quotations, the average of all such Reference Bond Dealer Quotations;

Present Value will be calculated by discounting the relevant amounts at the Adjusted Yield;

Reference Bond Dealer means (a) the Quotation Agent and (b) any other primary bond dealers selected in consultation with the Issuer by the Quotation Agent;

Reference Bond Dealer Quotations means the arithmetic average, as determined by the Quotation Agent, of the bid and offer prices for the Comparable Bond Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by any Reference Bond Dealer at 11.00 a.m. (London time) on the Calculation Date; and

Quotation Agent means Citigroup Global Markets Limited and its successors;

Mandatory Non-Payment Date means any Interest Payment Date on which a Mandatory Non-Payment Event occurs or is continuing;

A **Mandatory Non-Payment Event** shall occur, in respect of any Interest Payment Date, if the Interest Coverage Trigger Ratio is less than or equal to 2.5000 (to be calculated to the fourth

decimal place) to 1 in the most recently published annual audited consolidated financial statements of the Guarantor prior to that Interest Payment Date;

New Capital Securities mean any subordinated and undated capital securities of the Issuer expressed by their terms to rank junior to Issuer Subordinated Indebtedness and *pari passu* with or junior to the Capital Securities;

Optional Interest Payment Date means any Interest Payment Date which is neither a Compulsory Interest Payment Date nor a Mandatory Non-Payment Date;

Presentation Date means a day which (subject to Condition 9):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Capital Security or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account, is a TARGET Settlement Day;

Reset Date means 29th June, 2015;

TARGET Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

Tax Event means the receipt by the Issuer of an opinion of counsel in Sweden (experienced in such matters) to the effect that, as a result of (a) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of Sweden affecting taxation, (b) any governmental action or (c) any amendment to, clarification of, or change in the official position or the interpretation of such governmental action or any interpretation or pronouncement that provides for a position with respect to such governmental action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective or such pronouncement or decision is announced on or after the Interest Commencement Date, there is more than an insubstantial risk that (i) the Issuer is, or will be, subject to more than a *de minimis* amount of other taxes, duties or other governmental charges or civil liabilities with respect to the Capital Securities or (ii) the treatment of any of the Issuer's items of income or expense with respect to the Capital Securities as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Issuer will not be accepted by a taxing authority, which subjects the Issuer to more than a *de minimis* amount of additional taxes, duties or other governmental charges, which in either such case cannot be avoided by the Issuer taking measures reasonably available to it; and

Three Month EURIBOR means, in relation to each Interest Period from (and including) the Reset Date, the interbank offered rate for deposits in euro with a designated maturity of three months which appears on the Relevant Screen Page as of 11.00 a.m., Brussels time on the relevant Interest Determination Date.

If such rate does not appear on the Relevant Screen Page on the relevant Interest Determination Date, then Three Month EURIBOR will be determined on the basis of the rates at which deposits in euro are offered by the Reference Banks at approximately 11.00 a.m., Brussels time, on the relevant Interest Determination Date to prime banks in the Euro-zone interbank market for a period of three months commencing on the first day of such Interest Period and in a Representative Amount assuming an Actual/360 day count basis. The Principal Paying Agent shall request each of the Reference Banks to provide a quotation of its rate. If at least two quotations are provided, Three Month EURIBOR for such Interest Period shall be the arithmetic mean of such quotations. If fewer than two quotations are provided as requested, Three Month EURIBOR for such Interest Period shall be the arithmetic mean of the rates quoted by leading banks in the Euro-zone selected by the Principal Paying Agent, at approximately 11.00 a.m., Brussels time, on the relevant Interest Determination Date for loans in euros to leading European banks for a period of three months commencing on the first day of such Interest Period and in a Representative

Amount except that, if the banks so selected by the Principal Paying Agent are not quoting as mentioned above, the Floating Rate of Interest for such Interest Period shall be either (i) the Floating Rate of Interest in effect for the last preceding Interest Period to which one of the preceding paragraphs of this definition of Three Month EURIBOR shall have applied or (ii) if none, the Fixed Rate;

where:

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam;

Reference Banks means four major banks in the Euro-zone interbank market as selected by the Principal Paying Agent;

Relevant Screen Page means Telerate Screen page 248 or such replacement page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to Three Month EURIBOR; and

Representative Amount means an amount that is representative for a single transaction in the relevant market at the relevant time.

SUMMARY OF PROVISIONS RELATING TO THE CAPITAL SECURITIES WHILE REPRESENTED BY THE GLOBAL CAPITAL SECURITIES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Capital Securities and in the Global Capital Securities which will apply to, and in some cases modify, the Conditions of the Capital Securities while the Capital Securities are represented by the Global Capital Securities.

1. EXCHANGE

The Permanent Global Capital Security will be exchangeable in whole but not in part (free of charge to the holder) for Capital Securities in definitive form only:

- (a) upon the happening of any of the events under Condition 10.1 or 11;
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Capital Securities in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Capital Security (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Holders, of its intention to exchange the Permanent Global Capital Security for Capital Securities in definitive form on or after the Exchange Date.

On or after the Exchange Date the holder of the Permanent Capital Global Security may or, in the case of (c) above, shall surrender the Permanent Global Capital Security to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Capital Security the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of Capital Securities in definitive form (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Capital Security and a Talon), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Capital Security, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant Capital Securities in definitive form.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. PAYMENTS

On and after 9th August, 2005, no payment will be made on the Temporary Global Capital Security unless exchange for an interest in the Permanent Global Capital Security is improperly withheld or refused. Payments of principal and interest in respect of Capital Securities represented by a Global Capital Security will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Capital Securities, surrender of such Global Capital Security to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Holders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Capital Security by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Capital Securities. Payments of interest on the Temporary Global Capital Security (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. NOTICES

For so long as all of the Capital Securities are represented by one or both of the Global Capital Securities and such Global Capital Security(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Holders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14. Any such notice shall be deemed to have been given to the Holders on the fifth day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. ACCOUNTHOLDERS

For so long as all of the Capital Securities are represented by one or both of the Global Capital Securities and such Global Capital Security(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Capital Securities (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Capital Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Capital Securities for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Holders) other than with respect to the payment of principal and interest on such principal amount of such Capital Securities, the right to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in the bearer of the relevant Global Capital Security in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Capital Security.

5. PRESCRIPTION

Claims against the Issuer and the Guarantor in respect of principal and interest on the Capital Securities represented by a Global Capital Security will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

6. CANCELLATION

Cancellation of any Capital Security represented by a Global Capital Security and required by the Conditions of the Capital Securities to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Capital Security on the relevant part of the schedule thereto.

7. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

References in the Global Capital Securities and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds of the issue of the Capital Securities, amounting to approximately €981,880,000, will be applied by the Issuer for its general corporate purposes.

DESCRIPTION OF THE ISSUER

Incorporation and business

Vattenfall Treasury AB (the **Issuer**) was incorporated as a company with limited liability in Stockholm under registration number 556439-0606 in December 1991 and is a wholly owned subsidiary of Vattenfall AB (the **Guarantor**). The Issuer does not have any subsidiaries itself. It commenced operations on 1st January, 1992 and with effect from 1st January, 1995 the Issuer became a public limited company. The registered office of the Issuer is at Jämtlandsgatan 99, 162 87 Stockholm, Sweden and the telephone number is +46 8 739 50 00.

The Issuer has responsibility for co-ordinating borrowing, liquidity management and the management of associated risk exposure for the Group. The Issuer is also responsible for co-ordinating the Group's internal banking and cash-management activities. At present the Issuer serves as an internal bank for the group companies in the Nordic countries. The Guarantor Group cash pools, administered by the Issuer, are established in Sweden and Finland. The Issuer is a service company for the various units of the Guarantor Group and aims to provide the Guarantor Group with advantageous financing and a good return on liquid assets.

The Issuer is a finance company whose business is raising debt to be on-lent to the Guarantor and other members of the Guarantor Group servicing these loans.

The Guarantor Group's financial management operations are conducted in accordance with the rules and limits established by the Board and Executive Group Management (**EGM**) of the Guarantor as to interest and currency risk exposure, availability of funds, liquidity and credit risk. The Issuer is responsible for co-ordinating and reporting the financial risks of the Guarantor Group.

It is current Guarantor Group policy for all the Issuer's issues of debt securities to be guaranteed by the Guarantor.

For the Guarantor Group's activities in the market, the Issuer has established a Swedish Commercial Paper Programme for a maximum amount of SEK 15,000 million and an Euro-Commercial Paper Programme of U.S.\$1,000 million. Further a U.S. Commercial Paper Programme of U.S.\$2,000 million is established through a United States subsidiary of the Guarantor, Vattenfall Treasury Inc., incorporated in Delaware. However, the Issuer manages all activities under that programme. The Issuer has also a domestic MTN programme of SEK 10,000 million. Tranches under that programme may be listed on the Stockholm Stock Exchange at the discretion of investors. The Issuer also has in place a revolving credit facility of EUR 600 million (including a swing line facility). This facility matures in December 2009.

Management

Board of Directors

Matts P. Ekman	Chairman of the Board of Directors and Chief Financial Officer of Vattenfall AB
Bertil Dihn�	President, Vattenfall Br�nsle AB
Hans-J�rgen Meyer	Member of Management Board, Vattenfall Europe AG
Erik Hagland	Vice President, Vattenfall AB, Guarantor Group Function Finance

Deputy Member

Anders Lidelfelt	Deputy Member and President of Vattenfall Treasury AB
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There are no conflicts of interest between any duties to the Issuer of the above Board members and their private interests and/or duties.

The business address of the above Board members and Company Secretary is Jämtlandsgatan 99, S-162 87 Stockholm, Sweden.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the unaudited interest-bearing debt and equity of the Issuer as at 31st March, 2005 extracted from the Issuer's unaudited financial statements in respect of the three months ended 31st March, 2005.

	Sw GAAP 31st March, 2005 <i>(SEK thousand)</i>
Equity	
Issued share capital	500
Total issued share capital	500
Long-term interest-bearing debt	
Medium-term notes	37,166,763
Amounts owed to financial institutions	456,900
Amounts owed to group companies	28,441,275
Other long-term interest-bearing debt	0
Total long-term interest-bearing debt	66,064,939
Short-term interest-bearing debt	
Medium-term notes	2,605,186
Commercial paper	(21,215)
Amounts owed to financial institutions	1,344,077
Amounts owed to group companies	4,459,173
Total short-term interest-bearing debt	8,387,221
Total Capitalisation and Indebtedness	74,452,660

Notes

- (1) The Issuer has authorised share capital of SEK 500,000 which is fully subscribed and paid up.
- (2) All indebtedness of the Issuer is guaranteed by the Guarantor and unsecured.
- (3) As at 31st March, 2005, the Issuer has no material contingent liabilities and has given no material guarantees.

Save as disclosed above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Issuer since 31st March, 2005

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The following summary financial information of the Issuer has been extracted without material adjustment from the Issuer's audited financial statements in respect of the years ended 31st December, 2003 and 2004 and from the Issuer's unaudited financial statements in respect of the three months ended 31st March, 2005.

	Sw GAAP 31st March, 2005	Sw GAAP 31st December, 2004	Sw GAAP 31st December, 2003
		<i>(SEK thousand)</i>	
Total assets	76,192,446	73,902,720	67,275,251
Current liabilities	8,387,221	8,110,593	55,569,995
Long-term liabilities	66,064,939	64,255,207	10,016,601
Non-interest bearing liabilities	1,004,683	878,208	974,216
Untaxed reserves	96,539	96,539	152,574
Shareholders equity	639,064	562,173	561,865
Operating profit	106,793	231,222	188,599
Appropriations	0	56,035	440
Taxes	(29,902)	(80,345)	(52,796)
Net profit for the period/year	<u>76,891</u>	<u>206,912</u>	<u>136,243</u>

INCOME STATEMENT OF THE ISSUER

The following income statement of the Issuer has been extracted without material adjustment from the Issuer's audited financial statements in respect of the years ended 31st December, 2003 and 2004 and from the Issuer's unaudited financial statements in respect of the three months ended 31st March, 2005.

	Sw GAAP 1st January, 2005 to 31st March, 2005	Sw GAAP 1st January, 2004 to 31st December, 2004	Sw GAAP 1st January, 2003 to 31st December, 2003
		<i>(SEK thousand)</i>	
Interest income	702,504	2,847,185	3,173,990
Interest expense	(594,956)	(2,578,746)	(2,962,256)
Net currency income/expense	6,390	(1,143)	11,971
Gross profit/loss	113,938	267,296	223,705
Personnel costs	(4,671)	(23,331)	(24,325)
Other external costs	(2,410)	(12,443)	(10,014)
depreciation	(64)	(300)	(767)
Operating profit/loss	106,793	231,222	188,599
Appropriations	–	56,035	440
Profit/loss before tax	106,793	287,257	189,039
Tax	(29,902)	(80,345)	(52,796)
Net profit/loss for the period/year	76,891	206,912	136,243

BALANCE SHEET FOR THE ISSUER

The following balance sheet of the Issuer has been extracted without material adjustment from the Issuer's audited financial statements in respect of the years ended 31st December, 2003 and 2004 and from the Issuer's unaudited financial accounts in respect of the three months ended 31st March, 2005.

	Sw GAAP 31st March, 2005	Sw GAAP 31st December, 2004	Sw GAAP 31st December, 2003
	<i>(SEK thousand)</i>		
ASSETS			
Fixed assets			
<i>Tangible assets</i>			
Equipment	329	393	693
Financial assets			
Receivables from group companies	66,508,501	66,242,512	60,057,840
Receivables from associated companies	37,450	37,450	37,450
Total fixed assets	66,546,280	66,280,355	60,095,983
Current assets			
<i>Receivables</i>			
Accounts receivable	6	0	94
Receivables from group companies	510	105	649
Income tax receivables	0	870	28,576
Other receivables	11	2,138	740
Prepaid expenses and accrued income	194,215	114,556	102,231
	194,741	117,668	132,290
<i>Investments</i>	8,263,163	7,315,298	6,745,123
<i>Cash and bank balances</i>	1,188,261	189,399	301,855
Total current assets	9,646,166	7,622,365	7,179,268
Total Assets	76,192,446	73,902,720	67,275,251

	Sw GAAP 31st March, 2005	Sw GAAP 31st December, 2004	Sw GAAP 31st December, 2003
	(SEK thousand)		
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital (500 shares at SEK 1,000 each)	500	500	500
Statutory reserve	100	100	100
	<u>600</u>	<u>600</u>	<u>600</u>
<i>Non-restricted equity</i>			
Profit and loss brought forward	561,573	354,661	425,022
Net profit/loss for the year	76,891	206,912	136,243
	<u>638,464</u>	<u>561,573</u>	<u>561,265</u>
Total equity	639,064	562,173	561,865
Untaxed reserves	96,539	96,539	152,574
Liabilities			
<i>Interest-bearing liabilities</i>			
Commercial paper	-21,215	-112,150	1,565,327
Medium-term notes	39,771,949	40,378,684	44,119,038
Loans from credit institutions	1,800,977	2,902,837	3,586,831
Liabilities to group companies	32,900,448	29,196,429	15,834,126
Other interest-bearing liabilities	0	0	481,274
	<u>74,452,160</u>	<u>72,365,800</u>	<u>65,586,596</u>
<i>Total interest-bearing liabilities</i>			
<i>Non-interest-bearing liabilities</i>			
Accounts payable	579	1,723	921
Liabilities to group companies	303,710	303,710	205,800
Income tax liabilities	28,792		
Accrued expenses and deferred income	670,515	572,235	746,331
Other current liabilities	1,086	540	21,164
	<u>1,004,683</u>	<u>878,208</u>	<u>974,216</u>
<i>Total-non-interest-bearing liabilities</i>			
Total liabilities	<u>75,456,842</u>	<u>73,244,008</u>	<u>66,560,812</u>
Total Equity and Liabilities	<u>76,192,446</u>	<u>73,902,720</u>	<u>67,275,251</u>
Pledged assets (security balance for Swedish Options Market)	0	0	0
Contingent liabilities	0	0	0

DESCRIPTION OF THE GUARANTOR GROUP

GENERAL AND HISTORY

With effect from 1st January, 1992 the Swedish State Power Board (Statens Vattenfallsverk), was converted from a public utility into a limited liability company registered in Stockholm under registration number 556036-2138, having been established under the name Vattenfall Aktiebolag in November 1990 with the registered office at Jämtlandsgatan 99, 162 87 Stockholm, Sweden and telephone number +46 8 739 50 00. The national high-voltage grid, together with its international connections, which was part of Statens Vattenfallsverk's operations, was not transferred but was demerged and incorporated into a new public utility, Svenska Kraftnät. With effect from 1st January, 1995, the Guarantor became a public limited company.

The Guarantor is currently wholly owned by the Swedish State. The Guarantor's activities are conducted on a commercial basis with the State's involvement limited to the role of a shareholder.

The Guarantor and its subsidiaries, the Guarantor Group, produces, distributes and sells electricity, heat, energy-related services and, to a certain extent, telecom services. The majority of operations are located in Sweden, Finland, Germany and Poland, and the primary geographic market consists of the Nordic countries, Germany and Poland. The Guarantor is a vertically integrated company, organised in accordance with the electricity value chain.

The European energy market is undergoing a rapid and extensive change and by July 2007 all EU countries will form a single open and deregulated market. According to this regime all customers should have the right to choose their own supplier, which applies to non-household customers since July 2004 and will apply to households by July 2007. From July 2004 transmission and distribution operators in all Member States of EU should have separated interests not relating to transmission/distribution from other activities of the company at least in terms of legal form, organisation and decision making. However, individual member states may decide to postpone the legal unbundling requirement until 2007.

In Germany, Finland and Sweden, network-pricing models are currently being developed. In Sweden, a calculation model, the "Performance Assessment Model", has been developed. This model estimates the benefit to the consumer and, in accordance with the model, a reasonable cost for the network area in question. This cost is then used as the basis by the regulator when evaluating a company's network tariffs. In Finland, a new regulatory network-pricing model was introduced in January 2005.

In Germany, the Government has decided on the main matters of the network regulations within the scope of the new energy law (EnWG). Until now, the market players in the German electricity market have been self-regulating forming the rules themselves, which has made it difficult to achieve transparency in network tariffs. Regulation is expected to be implemented by the turn of the half-year 2005. A shift towards some form of incentive model is to take place within a two-year transition period which begins at the time of implementing the regulation.

In Poland, important steps towards a deregulated market have been taken with the establishment of an independent network operator, PSE Operator, which is a subsidiary of the Polish national grid operator PSE. The next step in the Polish deregulation process involves, among other things, regional distribution companies, which must separate distribution and sales activities by July 2007.

The EU's influence in shaping the new European electricity market has increased progressively during recent years. In order to reduce emissions that produce the so-called greenhouse effect, the EU is introducing a system for trading in greenhouse gas emissions. The system came into effect in January 2005, and initially covers only carbon dioxide. The basic mechanism of the system is that all incinerators over a certain size must have the number of emission allowances corresponding to their carbon dioxide emissions, and that these allowances can be traded within the entire EU. Each EU country has an emission budget in accordance with the so-called burden sharing agreement of the EU's undertakings in the Kyoto protocol. This requires EU member states to reduce their total greenhouse gas emissions by 8 per cent. before 2012 compared with emissions in 1990.

Each country has appointed an authority that allocates emission allowances to the operators participating in the system. The principles for allocation are decided within each member state in compliance with the EU rules on government subsidies and competition. In almost all EU countries there will be a shortage of emission allowances. Year by year, the allocation will be reduced in accordance with

the agreed emission reductions. As their scarcity increases, the market price of emission allowances will rise. Operators of plants will always have to weigh up the option of buying emission allowances or taking physical measures to reduce emissions. In this way, physical measures will be steered towards where they are most cost-effective. The price of emission allowances will be determined by their scarcity, that is, the collective reduction of emissions in accordance with the EU's emission budget, and the costs of achieving these reductions. Estimations of the future prices for emission allowances vary greatly. The price of emission allowances will affect the price of electricity. According to the Guarantor's calculations, an emission allowance price of EUR 5/ton will equate to an increase in the electricity price of EUR 2–3/MWh. If the price is EUR 10/ton, the increase will instead be EUR 4–7/MWh.

The national allocation plans of the Nordic countries have been approved by the EU. Since the Guarantor Group's generation mix in the Nordic countries primarily consists of carbon dioxide free hydropower and nuclear power, the Guarantor Group does not need any emission allowances for this generation. However, the Guarantor Group's heat operations generate certain levels of carbon dioxide emissions. In accordance with the Swedish allocation plan, the Guarantor Group has not been given emission allowances for these operations full out and must therefore purchase such allowances in the market.

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

Green certificates were introduced in the Swedish market in May 2003. The purpose of these certificates is to stimulate generation of electricity from renewable energy sources. Previously, support for renewable generation has been provided via the government budget, but hereinafter it will be provided for by the market and financed by the end-customers. An operator that generates electricity from renewable energy sources (primarily wind power, bio fuel and small-scale hydro power) receives green certificates for such generation from the Government. The operator may sell the certificates, thus receiving revenue that supports renewable electricity production. Each electricity supplier is obligated to purchase a certain quantity of certificates connected to electricity consumption. Green certificates are purchased on the account of the customers by the electricity suppliers, which pass on the cost to their customers. The goal is to increase total generation from renewable energy sources in Sweden to 10 TWh by 2010.

The Guarantor Group's assessment is that this goal can be reached by the middle of the next decade. This new production can be expected to comprise equal parts wind power and biofuel-fired generation within industry and combined power and heating plants. The Guarantor Group, for example, has taken its first step towards this goal with the planning of the wind power park at Lillgrund, estimated to produce 300 GWh of electricity at a total cost of SEK 1.5 billion.

During recent years the Guarantor Group completed major acquisitions in Germany and Poland while consolidating its market positions in Sweden and Finland. The Guarantor Group has concentrated on completing the integration process and on taking advantage of the synergies created. The Guarantor Group is the fifth largest electricity generator in Europe (measured in generated TWh) and the largest group in district heating (measured by heat output, the Guarantor's own calculations). In Germany, the Guarantor Group is the third largest electricity generator (measured by generated TWh, the Guarantor's own calculations). The Guarantor Group provides energy – primarily electricity and district heat – and energy-related products and services to approximately 5.8 million customers in the Nordic countries, Germany and Poland. In 2004 the Guarantor Group had an electricity and heat output of about 167 (for 2003: 156) TWh and 35 (for 2003: 36) TWh respectively.

The Guarantor Group has customers in the following sectors: industrial and energy companies, the service sector, real-estate companies, agricultural companies and households. Business is also conducted through several European electricity exchanges and through bilateral contracts with other electricity producers and network companies. The Guarantor, through its unit Vattenfall Trading Services, and the German subsidiary, Vattenfall Europe Trading GmbH, are currently market makers on Nord Pool ASA and EEX respectively.

The Guarantor's subsidiary, Vattenfall Europe AG is the result of the Guarantor Group's acquisitions in Germany and the merger between the four energy companies: Hamburgische Electricitäts-Werke AG (**HEW**), the power generator and grid company Vereinigte Energiewerke AG (**VEAG**), the lignite mining company Lausitzer Braunkohle AG (**LAUBAG**) and the Berliner electricity utility Bewag AG (**BEWAG**). The merger was formally finalised in August 2003. The Guarantor owns, directly and

indirectly, some 94 per cent. of the shares in Vattenfall Europe AG. Vattenfall Europe AG is listed on the stock exchange in Frankfurt. Since 2003 the German operations have been divided according to the value chain in the same way as in the Nordic countries and are managed in accordance with the same principles as the Guarantor Group's Nordic business activities. Electricity generation amounted to 75.5 (for 2003: 74.6) TWh and district heating amounted to 15.5 (for 2003: 15.7) TWh. The Guarantor Group also owns the transmission network (high-voltage grid) in the former East Germany and the electricity networks in Germany's two largest cities – Berlin and Hamburg. At the end of 2004, net assets amounted to SEK 58.4 (for 2003: 62.2) billion and the number of employees was 20,864 (for 2003: 21,719).

In Poland the Guarantor Group produces electricity and heat through the company Elektrociepłownia Warszawskie S.A. ("EW"), in which it owns a 75 per cent. stake, after acquisition of an additional 4.9 per cent. of the shares during 2004. The company has five combined heat and power plants in Warsaw, making the Guarantor Group the seventh largest producer in the Polish market (measured by generated TWh, the Guarantor's own calculations). EW is a market leader in district heating in Poland with an annual output of about 11.4 TWh of heat, which means a market share of 27 per cent. In connection with heat production, 3.2 TWh of electricity is also produced per year. Distribution and sales are conducted through the company Gornoslaski Zaklad Elektroenergetyczny S.A. (GZE), of which the Guarantor Group, as from February 2004, owns a stake of 75 per cent. GZE has about 1.1 million network customers in southern Poland, which makes the Guarantor Group the sixth largest network operator in the Polish market (measure by number of customers, the Guarantor's own calculations). GZE also sells electricity to over 1.1 million customers. At the end of 2004 net assets in Poland amounted to SEK 7.187 (for 2003: 6.270) billion and the number of employees was 3,309 (for 2003: 4,935).

Pensions

The Guarantor Group's pension obligations in the Guarantor Group's Swedish and German companies are predominantly defined benefit pension commitments. The concerned pension plans are primarily retirement pensions, disability pensions and family pensions. The assets in these funds, the investment assets, are reported at fair value. There are also pension plans in these and other countries that are defined contribution plans. The Swedish pension plans supplement the Swedish social insurance system and are the result of agreements between employer organisations and labour organisations. Almost all employees in Sweden are covered by a pension plan that is primarily a defined benefit plan, known as ITP-Vattenfall. This pension plan guarantees employees a pension based on a percentage of their salary. These benefits are secured in a Pension Foundation, through provisions in the balance sheet or insurance premiums.

The Guarantor Group's commitments for retirement pensions and family pensions for office employees in Sweden, secured through an insurance policy from Alecta, are not reported in accordance with the Swedish Financial Accounting Standards Council's recommendation RR29. According to a statement issued by the Swedish Financial Accounting Standards Council's emerging issues task force, URA 42, this plan is a defined benefit plan encompassing several employers. For the 2004 financial year, the Guarantor has not had access to such information as to make it possible to report this plan as a defined benefit plan. The ITP pension plan, which is secured through an insurance policy from Alecta, is therefore reported as a defined contribution plan. Fees for the year for pension insurance policies from Alecta amount to SEK 127 (for 2003: 123) million. Alecta's profit can be distributed between the policyholders and/or the insured parties. At the end of 2004, Alecta's profit in the form of the so-called collective consolidation level amounted to 128 (for 2003: 120) per cent. The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's insurance calculation principles and assumptions, which are not in compliance with RR 29.

The pension plans in Germany are based on collective agreements in line with market terms and conditions. Substantial defined benefit plans exist in Germany for employees of the companies Bewag and HEW. Bewag's pension plan is financed through Pensionskasse der Bewag, a mutual insurance company. This plan is financed through funds from Bewag and its employees. In the accounts, these commitments are treated as defined contribution plans. For employees who began their employment before 1st January, 1984, there is a transitional agreement providing employees working until retirement age with a pension equal to up to 80 per cent. of the salary on which the pension is based. Half of the statutory pension and the entire benefit from Pensionskasse der Bewag, including profits, are credited to the guaranteed amount. Bewag's obligations encompass the entire pension commitment. The investment

assets attributable to personnel employed since before 1st January, 1984 are reported as investment assets at market value. Pension commitments for HEW employees are mainly comprised of the company's commitments to personnel employed before 1st April, 1991 and who have been employed for at least 10 years. The sum of the retirement pension, statutory pension and pensions from third parties normally amounts to a maximum of 65 per cent. of the salary on which the pension is based.

As of 2004, the Guarantor Group applies the Swedish Financial Accounting Standards Council's recommendation RR29 on employee benefits, which for all intents and purposes complies with IAS 19 – Employee Benefits. Through the application of RR29, the defined benefit pension plans of all Guarantor Group companies are reported according to the same principles. To this end, the pension plans are calculated on an actuarial basis in accordance with the Projected Unit Credit Method. The total effect of the transition is SEK 1,265 million and this has been reported as an increase in pension provisions. The change in accounting principle has entailed a reduction in non-restricted consolidated equity of SEK 670 million after taking into account deferred tax and minority interests. Actuarial gains and losses are taken up as income and expenses respectively and evenly distributed over the employees' remaining employment periods to the extent that the total gain or loss for a particular pension plan falls outside a corridor equal to 10 per cent. of the greater of the pension commitment and the fair value of the investment assets for each individual plan.

The total pension provision was SEK 16,450 (for 2003 SEK 14,946) million at year-end 2004. The total pension costs in 2004 were SEK 1,644 million.

RECENT ACTIVITIES

Nordic Countries

- In April 2005, the Guarantor acquired an approximately 35.3 per cent. stake in the Danish electricity utility Elsam A/S for DKK 8.5 billion. After discussions with the other major shareholder of Elsam A/S Danish Olie & Naturgas A/S (**Dong**), the Guarantor and Dong entered into an agreement on 1st June, 2005 under which the Guarantor Group will establish a significant presence in the combined heat and power and wind power sectors in Denmark. According to the agreement, the Guarantor will take over approximately 24 per cent. of the generation capacity of Elsam A/S and Energi E2 A/S (the Avedøre II power station, in which the Guarantor holds 40 per cent., will be transferred to Energi E2 A/S). In exchange for these assets, Dong will take over the Guarantor's 35.3 per cent. holding in Elsam. The Guarantor Group will take over the Nordjyllandsværket power plant in Ålborg, the Fynsverket plant in Odense and the Amagerverket plant in Amager, as well as plants in Helsingör and Hilleröd. These power plants are both coal- and gas-fired. The Guarantor Group will also take over Elsam A/S's on-shore wind power assets and 60 per cent. of the Horns rev wind farm as well as some wind power assets in Germany and U.K. The agreement is subject to the approval of all the transactions involved by the competition authorities and requires the approval at the Annual General Meetings of the companies concerned.
- In May 2005, the Guarantor acquired Sweden Offshore AM and Österjöns Vindkraft AB, enabling the Guarantor to build northern Europe's potentially largest wind farm. Total investment required is estimated by the Guarantor to be approximately SEK 8 billion. Completion of the wind farm is expected in 2010.
- The business units in the Nordic countries were reorganised under Business Group Nordic Countries and the Guarantor Group is now organised into two Business Guarantor Groups; one for the Nordic countries and one for Continental Europe. Poland remains a separate business unit.
- In October 2004, the Swedish government decided to suspend negotiations with the Swedish nuclear power operators regarding the phasing out of nuclear power in Sweden. On 16th December, 2004, the Swedish government decided, supported by Swedish legislation on the phasing out of nuclear power, to revoke the right to operate Barsebäck 2 for the purpose of extracting nuclear power as of the end of May 2005. On 31st May, 2005, Barsebäck 2 was closed down. A general agreement entered into to by the Guarantor, the Swedish State and Sydkraft AB in November 1999 regulates how the Guarantor is to be compensated. The settlement of the agreement regarding the closure of Barsebäck 2 is still pending. The compensation for the closure of Barsebäck 2 is expected to exceed the Guarantor's share of the cost for the write down of the assets associated with Barsebäck Kraft AB.

- Availability in the Guarantor's Swedish nuclear power plants reached record levels in 2004. Nuclear power generation in Sweden increased by 11.6 per cent. compared to 2003.
- The Guarantor acquired Örestads Vindkraftpark AB and plans to build a large off-shore wind power park in Öresund, off the coast of Skåne in the south of Sweden, with an investment of SEK 1.5 billion.
- A decision was made to integrate the three Nordic business units Sales Sweden, Sales Finland and MEGA into a single new unit, Sales Nordic Countries.
- A severe storm struck parts of Sweden in the beginning of January 2005. The damage caused by the storm will incur costs by the Guarantor around SEK 0.5 billion according to preliminary cost estimates. More than half of this sum consists of the compensation that will be paid to customers. The rules for compensation under the Guarantor's power outage guarantee are very comprehensive. The remainder of the sum refers to costs for repair and reinstatement work.
- The Guarantor was the first Swedish electricity company to discontinue invoicing household customers in arrears for electricity consumed more than one year ago. The Guarantor Group has continued to invest in remote readable meters in Sweden and Finland. All of the Guarantor Group's 1.3 million Nordic network customers will have such meters installed. In this way, advance charges can be replaced with invoicing of actual metered electricity consumption. By the end of 2004, 105,000 remote readable meters had been installed.
- The Guarantor Group runs several comprehensive investment programmes in the Nordic countries, comprising a total of SEK 42 billion over 10 years. The programmes include the following areas.
 - SEK 10 billion in the distribution of electricity in a five-year investment and maintenance programme to strengthen security of supply. This programme was expanded in 2004 from SEK 8 to 10 billion, primarily to increase disruption prevention measures.
 - Investments within renewable energy, including the planning of a large offshore wind power facility in Öresund for SEK 1.5 billion. These facilities are estimated to be in operation in 2007.
 - SEK 18 billion in maintenance investments in nuclear power, planned for a lifetime of at least 40 years, and SEK 6 billion in measures to increase efficiency.
 - SEK 6 billion in reinvestments for the maintenance of hydro power and improved dam safety over the next 10 years and an additional SEK 0.5 billion to increase generation in hydro power plants in conjunction with the maintenance investments being made.

Germany

- In Germany, additional electricity generation capacity in the amount of 40,000 MW will be required by 2020. The Guarantor is therefore examining possible power plant investments. Among more feasible projects the Guarantor Group is considering a combined heat and power plant (CHP) in Hamburg and a lignite fired power plant in eastern Germany, together providing 1,410 MW.
- The considerable expansion of wind power in Germany has led to the need for extensive development in the German electricity networks. The Guarantor Group has decided to expand the capacity of its high-voltage network by 3,000 MW with an investment of approximately EUR 260 million (approximately SEK 2.3 billion).
- Three district heating plants in Berlin, with a combined capacity of 320 MW, were acquired for about SEK 440 million.
- As of 1st January, 2006, Vattenfall Europe AG intends to transfer the local brands of Bewag and HEW into "Vattenfall". Also, it plans to rename the respective companies: Berlin-based BEWAG is to be named "Vattenfall Europe Berlin" and HEW will be named "Vattenfall Europe Hamburg". Vattenfall Europe AG is third largest energy company in Germany (measured by generated TWh, the Guarantor's own calculations). By facing the

market under a unified German brand Vattenfall Europe AG also helps building a European “One Vattenfall” brand.

Poland

- Ownership in the Polish sales and distribution company GZE was increased from 54 per cent. to 75 per cent.
- In Poland an extensive brand campaign was conducted in order to introduce the Vattenfall name to the Polish market and this received much media focus.

Other

- National allocation plans for CO₂ emissions have been submitted to the EU in all of the Guarantor Group’s core markets, with all but Poland’s plan being approved by the European Commission. The main concern of the Guarantor Group are the generation plants in Germany and Poland and the Guarantor Group has obtained the necessary allowances in both countries for the initial trading period 2005–2007.
- The Guarantor Group has continued to streamline operations and sold its holdings in A-Train AB, Russian Mosenergo, and the Chinese company Hebei Hanfeng Power Generation, and transferred the peat producing company Härjedalens Miljöbränsle AB to another owner.
- In Sweden, Finland and Germany, the authorities have introduced or are expected to introduce new models for regulating network tariffs.
- The Guarantor Group has continued consolidation of completed German and Polish acquisitions and the streamlining of operations to the core areas of electricity and heat within the main markets of the Nordic Countries, Germany and Poland. Certain non-core assets have been divested. Growth investments amounted to SEK 4,312 (for 2003: SEK 4,771) million.

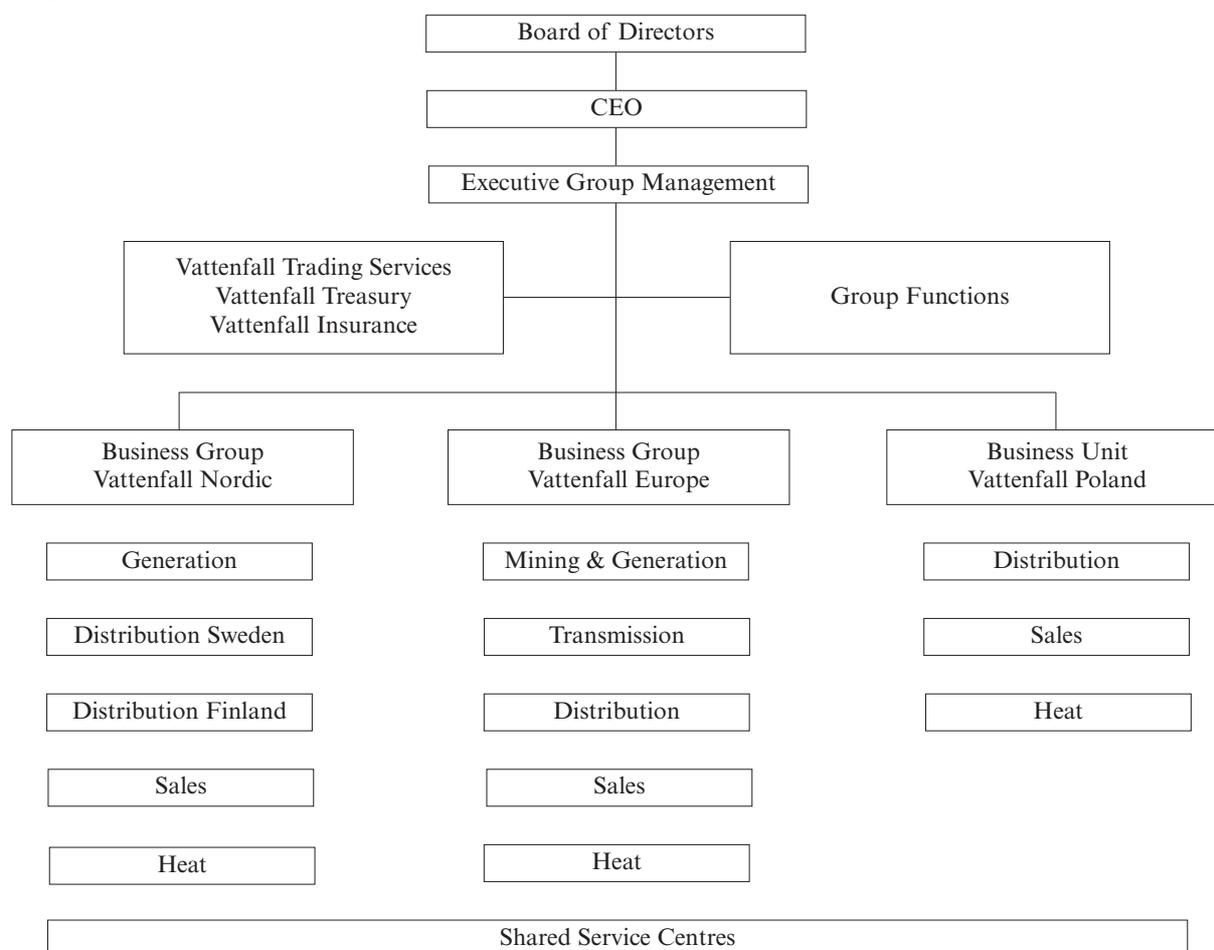
GROUP ORGANISATION AND BUSINESS STRUCTURE

Management and control of the Guarantor Group is divided between the shareholders, primarily at the Annual General Meeting, the Board of Directors and the CEO, in accordance with the Swedish Companies Act, the Articles of Association and the Board of Directors’ instructions. The Board establishes rules of procedure annually, based on the Rules of Procedure, which the Division for State Enterprises of the Ministry for Industry, Employment and Communications Ownership Unit have issued. The Guarantor Group’s management model is based on a value chain divided into production, electricity trade, distribution, sales, heat and services. The CEO has the task of managing the Guarantor Group’s business operations and administration, in accordance with the Swedish Companies Act and the instructions of the Board. The CEO is supported by the Executive Group Management (**EGM**).

The Guarantor Group’s organisation consists of three categories:

- *Business Groups and Business Units* with overall business responsibility for operations within their respective area. The Guarantor Group is organised into two Business Groups, one for the Nordic Countries and one for Germany. Poland remains a separate Business Unit. Business activities are mainly organised in accordance with the electricity value chain. The structure in force allows the Business Units considerable independence in developing their own activities within the framework of the Guarantor Group’s long-term goals.
- *Group functions*, including the Business Group functions, which support the Executive Management. These are staff functions and cost centres.
- *Shared service Centres* which focus on internal services. These are run in accordance with the full costing method.

Organisation



Group operations are divided into Primary and Secondary Segments. Primary Segments are the geographical areas Nordic Countries, Germany and Poland. Secondary segments are the business areas Electricity, Electricity Networks, Heat and Other Operations. Other activities include the Guarantor Group's treasury activities, research activities, service companies and Guarantor Group administration staff.

Facts about the Primary Segments (2004)	Nordic Countries	Germany	Poland
Electricity produced (TWh)	88.4	75.5	3.2
Electricity production capacity (MW)	16,878	15,112	928
Electricity customers	934,235	3,006,271	1,100,127
Electricity networks (km)	188,000	85,000	27,500
Electricity transmitted through networks (TWh)	113.1	28.5	10.6
Network customers	1,278,310	3,393,000	1,101,477
Heat produced (TWh)	7.6	15.5	11.4
Heat production capacity (MW)	3,523	8,380	4,824
Total employees (man-years)	8,735	20,864	3,309

Description of the Business Units within the Business Groups

Business Group Vattenfall Nordic Countries

Generation is responsible for the generation business in the Nordic electricity market. The Guarantor Group generated in the Nordic market a total of 88 TWh in 2004, which corresponds to almost 20 per cent. of the total electricity consumption in the Nordic countries. The electricity generated is sold within the Guarantor Group – mainly to the sales business units – and to the Nordic Power Exchange for spot deliveries of electricity, Nord Pool Spot AS.

Business units **Distribution Sweden** and **Distribution Finland** are responsible for the ownership, operation and maintenance of all electricity networks and for sales of electricity network services in each

of the countries, and have a total of about 1.3 million network customers. During 2004, distribution launched a new network disruption guarantee and also continued installation of remote readable meters, reaching an installation base of 105,000 such meters in total. Distribution sales in Business Group Nordic increased to SEK 8,231 (for 2003: 7,809) million for 2004.

Sales are primarily responsible for the sale of electricity and energy-related services as well as telecommunications. Sales activities target retail customers, energy companies, industries and other companies.

Heat is responsible for owning, operating and developing District and Contract Supply Heating plants as well as sales and marketing of heat in the Nordic region and the Baltic countries. Total sales in 2004 were 5.8 (for 2003: 6.6) TWh.

Services have responsibility for the sales and marketing of consultancy and contracting services as well as research and development activities within the energy, the infrastructure and the industry sectors. Some 70 per cent. of revenues arise from sales within the Guarantor Group.

Business Group Vattenfall Germany

Operations are formally conducted through the holding company Vattenfall Europe AG located in Berlin and a number of subsidiaries. However, operational and financial control is carried out through the five business units: Mining & Generation, Transmission, Distribution, Sales and Heat. Since 2003 operations have been structured according to the value chain and follow the same principles that apply to the Guarantor Group's operations in the Nordic countries with respect to performance measurement and profitability requirements.

Mining and Generation is responsible for owning, operating and developing the Guarantor Group's mining operations and electricity generation in Germany and comprises the generation facilities in the former VEAG, HEW and BEWAG, as well as lignite mining conducted by LAUBAG in Eastern Germany. The Guarantor Group is the third largest electricity generator in Germany (measured by TWh, Vattenfall's own calculation).

Transmission owns, operates and develops the Guarantor Group's electricity transmission network business in Germany. The transmission grid in Eastern Germany interfaces with the transmission grids in Eastern and Central Europe. Total length of the grid amounts to 10,000 km. The Guarantor Group's market position is number two in transmission in Germany (measured by grid length, Vattenfall's own calculations).

Distribution distributes electricity to about 3.4 million customers in Berlin, Hamburg, West-Mecklenburg and to a lesser extent in Brandenburg and Niedersachsen. Operations comprise owning, operating and developing the Guarantor Group's electricity distribution network business in Germany. The total length of the grid is 75,000 kilometres. The Guarantor Group's market position is number four in electricity distribution in Germany (measured by number of customers, the Guarantor's own calculations).

Sales is responsible for sales and marketing of electricity and energy services, excluding heat, to households, commercial, industrial and reselling commercial customers and is the third largest player on the German market with a sales volume in 2004 of 82.3 (for 2003: 87) TWh (the Guarantor's own calculations).

Heat is responsible for owning, operating and developing District Heating plants in Germany, as well as sales and marketing of heat on the German market and comprises district-heating operations in Berlin and Hamburg with generation, distribution and sales of heat and, to a lesser extent, cooling. During 2004 the production totalled 15.5 (for 2003: 15.7) TWh, which ranks the Guarantor Group as number one in Germany (measured by heat output, the Guarantor's own calculations).

Business Unit Poland

Business unit Poland has overall responsibility for all of the Guarantor Group's business activities in Poland and produces energy through the subsidiary, Elektrociepłownia Warszawskie S.A. ("EW") in Warsaw. The Guarantor owns 75 per cent. of EW. Electricity distribution and sales are conducted through the subsidiary, Gornoslaski Zaklad Elektroenergetyczny S.A. ("GZE") in Upper Silesia in South western Poland. The Guarantor owns 75 per cent. of GZE.

Distribution of electricity is conducted through the subsidiary GZE. Operations comprise owning, operating and developing the Guarantor Group's electricity distribution network business.

Sales of electricity are also conducted through GZE to continue with over 1.1 million industrial, commercial, and residential customers. Net sales in Poland were SEK 7,427 (for 2003: SEK 7,845) million in 2004.

Heat is produced through EW in Warsaw of which Vattenfall now owns 75 per cent. EW is the largest heating producer in Poland, with a market share of 27 per cent. (measured by TWh, Vattenfall's own calculation). The Guarantor Group's heat generation in Poland decreased to 11.4 (for 2003: 12.0) TWh in 2004.

Shared Service Centres

The Guarantor Group's Shared Service Centres provide the Guarantor Group with, IT, personnel, administrative, real estate and other services, allowing each business area to concentrate on its core operation.

Vattenfall Trading Services

In February 2004 the Executive Group Management decided the Business Units Supply & Trading in Stockholm and Vattenfall Europe Trading GmbH in Hamburg were excluded from Business Group Nordic Countries and Business Group Germany respectively and integrated into Vattenfall Trading Services, a new organisational unit, with headquarters in Hamburg. The activities on the Nordic market and management of the Nordic production portfolio and trade on the Nordic electricity derivative exchange Nord Pool ASA and related OTC derivative market are carried out from the regional office in Stockholm. Being the nexus for commodities trading within the Guarantor Group, Vattenfall Trading Services is responsible for the single access to wholesale markets. Vattenfall Trading Services is responsible for the short-term and online optimisation of the Guarantor Group's power plants in Germany and undertakes logistic tasks such as balance area management and scheduling. Apart from Germany and the Nordic countries, Vattenfall Trading Services' core markets are Poland, the Netherlands and France. In 2004 the trading unit had a turnover of approximately 1,000 TWh in physical and financial power trading. Vattenfall Trading Services is currently also setting up a new trading unit in Poland. The new trading unit in Gliwice (southern Poland) acts according to the business strategy of Vattenfall Trading Services, with a focus on trading, portfolio- and risk management. The operation in Poland will start during early summer 2005. Vattenfall Trading Services has more than 150 employees of which two thirds work in Hamburg.

INSURANCE COVER

Nuclear Risks Sweden

Third party liability insurance will meet claims, in respect of the first SDR 300 million ("Special Drawing Rights"), relating to the Guarantor Group's nuclear plants and is provided by NNI (Nordic Nuclear Insurers) in co-insurance with ELIMI (European Liability Insurance for the Nuclear Industry). Claims in excess of this amount will be met by the Kingdom of Sweden which in certain circumstances can obtain contributions from other signatories to the Paris Treaty of 1960 and the Brussels Treaty of 1963. Insurance cover for decontamination and for property losses is provided by EMANI (European Mutual Association of Nuclear Insurance) and NNI, but only with regard to the reactor.

Nuclear Risks Germany

In Germany, operators of nuclear power plants have an unlimited liability. The combined mandatory insurance coverage for all these businesses is EUR 2,500 million. Claims of up to EUR 256 million are covered by the German Nuclear Insurance Pool. Claims in excess of EUR 256 million up to a maximum of EUR 2,500 million are covered by a joint liability insurance agreement ("Solidarvereinbarung") between the German nuclear power plant operators. This agreement entails undertakings for two full claims during one and the same year. The Guarantor Group's share of this joint liability insurance agreement is EUR 194.75 million per claim, or EUR 389.50 million, in total. Insurance cover for decontamination and for property losses is provided by EMANI.

Non-nuclear risks Sweden

General and product liability insurance cover for the Guarantor Group is provided by the insurance company IF in a global policy. Property insurance including business interruption insurance cover is provided by Försäkrings AB Vattenfall Insurance, an insurance company wholly owned by the Guarantor Group and reinsured in the international reinsurance market. According to Swedish law, dam owners have unlimited and strict liability for damages to third parties caused by dam accidents. Currently the Guarantor Group has dam liability insurance cover of SEK 6,000 million.

Non-nuclear risks Finland, Germany and Poland

The liability cover is comprised of local primary layers with a global excess layer, including the legally mandatory German Environmental Liability Insurance.

Property insurance in Finland and Poland is provided by a large number of local insurers. In Germany, property insurance is provided by Försäkrings AB Vattenfall Insurance in the same way and in the same book of business as the Swedish assets.

FINANCIAL ANALYSIS FOR THE YEAR ENDED 2004

The following table sets out the audited figures for net sales and operating profit/loss for the years ended 31st December, 2004 and 2003 broken down by profit areas:

<i>(SEK million)</i>	Net Sales		Operating Profit/loss	
	Sw GAAP 2004	Sw GAAP 2003	Sw GAAP 2004	Sw GAAP 2003
Nordic Generation	25,174	29,531	8,888	6,266
Market Nordic	20,286	24,994	222	369
Nordic Heat	2,963	2,868	353	348
Nordic Distribution	8,231	7,809	2,317	2,131
Services Nordic	3,103	3,042	166	100
Other Business Nordic	1,592	1,855	(403)	(690)
Eliminations Nordic	(20,555)	(27,585)	–	11
Germany	66,761	63,974	7,487	6,318
Poland	7,427	7,845	589	443
Eliminations	(1,616)	(2,398)	(12)	–
Total	113,366	111,935	19,607	15,296
			Sw GAAP 2004	Sw GAAP 2003
Financial income and expenses – net (SEK million)			(2,248)	(2,936)
Profit before tax and minority interests (SEK million) ⁽¹⁾			17,359	12,360
Taxes (SEK million)			(5,011)	(2,831)
Net Profit (SEK million)			11,776	9,123
Pre-tax interest cover (times) ⁽²⁾			5.3	3.4
Pre-tax profit margin (per cent.) ⁽³⁾			15.3	11.0
Operating profit expressed as a percentage of net sales (operating margin), per cent.			17.3	13.7

(1) Profit before tax and minority interests amounted to SEK 16,542 (for 2003: SEK 12,082) million after items affecting comparability.

(2) Return on equity was 22.4 (for 2003: 20.2) per cent. Net profit for the year excluding items affecting comparability amounted to SEK 11,230 (for 2003: 8,944) million.

(3) The pre-tax profit margin, excluding items affecting comparability was 14.6 (for 2003: 10.8) per cent.

Net sales increased by 1.3 per cent. to SEK 113,366 (for 2003: SEK 111,935) million. The sales figure does not include financial electricity trading. Operating costs decreased by 3.2 per cent. to SEK 94,131 (for 2003: SEK 97,293) million. The lower costs are explained by lower costs for the purchase of electricity resulting from lower market prices and rationalisation measures. Depreciation increased by 3.8 per cent. to SEK 14,880 (for 2003: SEK 14,336) million. Negative goodwill has been dissolved in the gross profit in the amount of SEK 3,034 (for 2003: SEK 4,754) million, attributed to losses and restructuring costs in acquired German companies. Participations in the results of associated companies amounted to SEK –754 million compared with SEK 580 million in 2003, primarily as a result of write-downs of holdings in GASAG and Städtische Werke Kassel and the negative participation in the German Krümmel nuclear power plant. Operating profit increased by 28.2 per cent. to SEK 19,607 (for 2003: SEK 15,296) million. Excluding items affecting comparability, that is, excluding capital gains/losses from shareholdings and other fixed assets, operating profit increased by 25.0 per cent. to SEK 18,788 (for 2003: SEK 15,033) million. The improvement is explained by larger volumes in Nordic electricity generation, successful consolidation and integration programmes in Germany and Poland and advantageous hedging

outcomes (electricity generation hedges). During the year, a detailed review was made of provisions and asset valuations in the German Group companies. On the whole, the review has not entailed any significant effect on net profit. Net financial items amounted to SEK 2,248 (for 2003: SEK 2,936) million, an improvement of 23.4 per cent. compared with 2003. The improvement is primarily due to lower interest rates on loans and reduced debt volumes. Approximately SEK 300 million is explained by a reduction in the interest rate on loans from the minority owned German nuclear power companies, which was, however, offset by a corresponding negative impact on operating profit for Business Group Germany. Net interest items amounted to an average of SEK 200 (for 2003: SEK 275) million a month. Interest income totalled SEK 1,030 (for 2003: SEK 1,162) million and interest expense totalled SEK 3,431 (for 2003: SEK 4,460) million. Taxes increased by SEK 2,180 million to SEK 5,011 (for 2003: SEK 2,831) million. The tax rate, according to the income statement, amounted to 28.9 (for 2003: 22.9) per cent. The increase is due to an exceptionally low tax burden in 2003 due to the utilisation of tax loss carry-forwards in Germany. Net profit increased by 29.1 per cent. to SEK 11,776 (for 2003: SEK 9,123) million. Excluding items affecting comparability, net profit increased by 25.6 to SEK 11,230 (for 2003: SEK 8,944) million. Return on net assets amounted to 15.9 (for 2003: 12.3) per cent. Excluding items affecting comparability, return on net assets amounted to 15.2 (for 2003: 12.1) per cent. Return on equity amounted to 22.4 (for 2003: 20.2) per cent. Excluding items affecting comparability, return on equity amounted to 21.4 (for 2003: 19.8) per cent. Viewed over a four-year period, the return, excluding items affecting comparability, amounts to 17.2 (for 2003: 13.8) per cent., which exceeds the 15 per cent. requirement set by the Guarantor's owner, the Swedish State.

FINANCIAL ANALYSIS FOR THE THREE MONTHS ENDED 31ST MARCH, 2005, IFRS (UNAUDITED)

The following financial analysis is extracted without material adjustment from the Guarantor Group's unaudited Interim Report for the first quarter of 2005 which was prepared in accordance with IFRS.

For the period 1st January, 2005 to 31st March, 2005, net sales amounted to SEK 35,036 million (SEK 31,810 million for the period 1st January, 2004 to 31st March, 2004). Operating profit (EBIT) increased to SEK 9,219 (for 2003: SEK 7,641) million during the same period. The increase in net sales SEK 3,226 million and profit SEK 1,578 million is primarily a result of higher market prices in Germany.

Poland also reports improved operating profit, an improvement, however, that is mostly due to exchange rate effects. Operating profit for the Nordic Countries remained unaltered on a satisfactory level.

Net sales and operating profit/loss for the period 1st January to 31st March, 2005 and 2004, broken down by Primary and Secondary Segments in figures below are extracted from the Guarantor Group's unaudited Interim Reports:

Primary Segments

	Net Sales		Operating Profit (EBIT)	
	1st January to 31st March		1st January to 31st March	
<i>(SEK million)</i>	2005 (IFRS)	2004 (IFRS)	2005 (IFRS)	2004 (IFRS)
Nordic Countries	11,919	11,731	4,677	4,679
Germany	31,099	25,168	4,327	2,704
Poland	2,524	2,198	375	319
Other	12,534	9,689	(160)	(61)
Eliminations	(23,040)	(16,976)	–	–
Total	35,036	31,810	9,219	7,641

Secondary Segments

<i>(SEK million)</i>	Net Sales 1st January to 31st March		Operating Profit (EBIT) 1st January to 31st March	
	2005 (IFRS)	2004 (IFRS)	2005 (IFRS)	2004 (IFRS)
Electricity Generation	14,145	13,616	5,257	4,363
Electricity markets	17,478	16,877	392	(82)
Electricity Networks	15,309	12,835	2,099	2,307
Heat	6,509	5,894	1,807	1,510
Other	1,360	1,249	(336)	(457)
Eliminations	(19,765)	(18,661)	–	–
Total	35,036	31,810	9,219	7,641

Operating expenses amounted to SEK 27,630 million, which is an increase of SEK 3,171 million compared with the same period of the previous year. The increase is mainly due to increased market prices from electricity purchased in Germany. The cost of products sold increased by SEK 3,378 million and the selling expenses, research and development costs and administrative expenses decreased by SEK 207 million.

Depreciation amounted to SEK 3,427 million (compared to SEK 3,537 million for the same period in 2004).

	1st January to 31st March	
	2005 (IFRS)	2004 (IFRS)
Financial income and expenses – net (SEK million) ⁽¹⁾	(402)	(863)
Profit before tax and minority interests (SEK million)	8,817	6,778
Taxes (SEK million)	(3,112)	(1,885)
Net Profit (SEK million)	5,279	4,525
Interest cover (times) excl. items affecting comparability	12.1	7.4
Pre-tax profit margin (per cent.) excl. items affecting comparability	25.1	22.3
Operating margin, EBIT in relation to net sales, per cent. ⁽²⁾	26.3	24.0

(1) Including discounting effects attributable to provisions and return on the Swedish Nuclear Waste Fund.

(2) Operating margin exclusive of items affecting comparability 26.2 per cent. (25.0 per cent. in 2003).

Investments

During 2004, the Guarantor Group was in a phase of consolidation, which entailed low levels of growth investment. Total investments increased by 11.0 per cent. to SEK 12,601 (for 2003: 11,356) million.

Maintenance investments increased by 25.9 per cent. to SEK 8,289 (for 2003: 6,585) million while growth investments increased by 9.6 per cent. to SEK 4,312 (for 2003: 4,771) million. Maintenance investments break down as follows: 50 per cent. Nordic Countries, 44 per cent. Germany and 6 per cent. Poland. The normal level for maintenance investments is estimated at SEK 7-9 billion per annum.

Growth investments are comprised to 56 per cent. of share acquisitions, of which about SEK 1.5 billion for an increased shareholding in GZE, SEK 440 million for two smaller district heating companies in Berlin and almost SEK 130 million for the purchase of additional shares in Vattenfall Europe AG.

Other growth investments are divided between various objects and installations in the Guarantor Group. Sales amounted to SEK 2,120 (for SEK 2,057) million, including SEK 1,216 (for 2003: SEK 789) million in shares.

Divested shares mainly comprised shareholdings in A-Train AB, Russian Mosenergo and Chinese Hebei Hanfeng Power Generation Ltd.

The Guarantor has as of January 2005 successfully completed the divestment of its 16 per cent. equity position in the Hebei Hanfeng Power Generation Company Ltd in China. The stake was sold to a consortium of Chinese investors. Following the Guarantor Group's strategic focus on the European power and heat market, the Guarantor Group has consequently withdrawn from overseas investments. The Guarantor Group's participation in the Hanfeng plant, based in the province Hebei in northern China, was initially acquired by HEW in 1998 and has been an economically viable investment. HEW became part of the Guarantor Group in 2001.

The Guarantor has, as of February 2005, acquired 35.3 per cent. of the shares in the Danish utility Elsam A/S after a purchase offer to a shareholder consortium that represents 67 per cent. of the capital in the company. The purchase sum will amount to approximately DKK 8.5 billion. Subsequent to this acquisition, the Guarantor has entered into an agreement with Denmark's Dong, owner of the remainder of shares in Elsam A/S, regarding an exchange of electricity assets for the Guarantor's shareholding in Elsam. Under the agreement, the Guarantor will receive five coal and gas-fired combined heat and power plants in Denmark, Elsam's on-shore wind power assets and Elsam's 60 per cent. stake in the Horns Rev off-shore wind park. In exchange, Dong will receive the Guarantor's 35.3 per cent. stake in Elsam as well as the Guarantor's stake in the Avedøre II power station in Denmark. The agreement enables the Guarantor to establish a significant presence in the CHP and wind power sectors in Denmark.

	As at 31st December	
	2004 (Sw GAAP)	2003 (Sw GAAP)
<i>(SEK million)</i>		
Acquisition of Guarantor Group companies	2,433	2,254
Associated companies and other long term holdings of securities	2	414
Tangible fixed assets	9,861	8,554
Intangible fixed assets	305	134
Total	12,601	11,356

	As at 31st March	
	2005 (IFRS)	2004 (IFRS)
	<i>(Extracted from the Guarantor Group's unaudited Interim Report for the first quarter of 2005)</i>	
Maintenance investments	1,491	1,161
Growth investments	330	2,102
– of which shares	1	1,731
Total investments	1,821	3,263

Liquidity and Financing

Extract from the Guarantor Group's Consolidated Cash Flow Statements.

	As at 31st December*	
	2004	2003
<i>(SEK million)</i>		
Cash flow from operating activities	23,973	18,191
Cash flow from investment activities	(10,501)	(8,350)
Cash flow from financing activities	(14,845)	(10,329)
Liquid assets	13,616	14,647
Net borrowing	55,411	66,890

* Extracted from the Guarantor Group's audited accounts prepared in accordance with Sw. GAAP.

	As at 31st March*	
	2005	2004
Cash flow from operating activities	7,475	7,666
Cash flow from investment activities	(1,711)	(3,086)
Cash flow from financing activities	(3,259)	(4,482)
Liquid assets	15,950	13,028
Net borrowing	51,395	62,916

* Extracted from the Guarantor Group's unaudited Interim Report prepared in accordance IFRS

The Guarantor Group's financial position continues to improve. Continued strong cash flow and low growth investments have enabled further reductions in borrowings. Net debt was reduced by SEK 4 billion to SEK 51.4 billion compared with 31st December, 2004 (year end figures restated under IFRS). Compared with the first quarter of 2004, net debt was reduced by SEK 11.5 billion.

Accounting Principles

As of 2005, the Guarantor Group applies international accounting standards. The Guarantor 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 were applied by the Guarantor Group until the end of 2004, are largely based on IFRS and the consolidated accounts have, therefore, to a large extent, already been adapted to the new rules.

The Guarantor Group's financial reporting from 1st January, 2005 complies with IFRS. As the Guarantor Group's interim and annual reports include comparative consolidated information for the corresponding period in the preceding year, the financial reports for the year ended 31st December, 2004, previously consolidated according to the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations (Swedish GAAP), have been restated in order to comply with IFRS (with the exception of financial instruments defined in accordance with IAS-39 – Financial Instruments). For further information regarding IFRS, reference is made to the Guarantor's annual report for 2004 (Note 3 to the Consolidated Accounts).

RISK MANAGEMENT

General

The Guarantor Group's operations are exposed to a number of risks and therefore the Guarantor Group has established an organisation and a risk management process which comprise of the following components:

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

Organisation

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

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

BOARD OF DIRECTORS OF THE GUARANTOR

Name	Details of Directors
Board of Directors	
Dag Klackenber	Chairman of the Board
Lars G Josefsson	President and Chief Executive Officer
Peter Lindell	Board member, Senior Investment Manager (<i>Kansliråd</i>)
Christer Bådholm	Board member
Lone Fønss Schröder	Board member
Anders Sundström	Board member
Maarit Aarni	Board member
Hans-Olov Olsson	Board member
Johnny Bernhardsson	Employee representative
Ronny Ekwall	Employee representative
Carl Gustaf Angelin	Employee representative

Deputy Members

Lars Carlsson	Employee representative
Per-Ove Lööv	Employee representative
Stig Lindberg	Employee representative

There are no conflicts of interest between any duties to the Guarantor of the above Board members and their private interests and/or duties.

The business address of the above Board members is Jämtlandsgatan 99, SE-162 87 Stockholm, Sweden.

SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

The following summary financial information of the Guarantor as at and for the years ended 31st December, 2003 and 2004 is extracted without material adjustment and based on the audited financial statements for the 31st December, 2003 and 31st December, 2004:

	Sw GAAP 31st December, 2004	Sw GAAP 31st December, 2003
	<i>(SEK million)</i>	
Total assets	99,215	82,914
Shareholders' equity	24,949	19,888
Untaxed reserves	14,269	11,734
Provisions	86	67
Long-term liabilities	43,216	36,941
Current liabilities	16,695	14,284
Net sales	26,046	26,741
Operating profit	7,838	4,047
Profit before appropriations and tax	11,502	6,172
Profit before tax	9,375	5,801
Net profit for the period/year	7,035	4,577

CONSOLIDATED CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR GROUP

The following table sets out the unaudited consolidated interest-bearing debt (excluding pension provisions and liabilities to associated companies) and equity of the Guarantor Group as of 31st March, 2005 extracted from the Guarantor Group's unaudited financial statements in respect of the three months ended 31st March, 2005.

	As of 31st March, 2005 IFRS <hr style="border: none; border-top: 1px solid black; margin: 0;"/> <i>(SEK million)</i>
Equity	
<i>Restricted equity</i>	
Issued share capital (Authorised share capital: 131,700,000 ordinary shares at SEK 50 par) ⁽¹⁾	6,585
Total issued share capital	<hr style="border: none; border-top: 1px solid black; margin: 0;"/> 6,585
Long-term interest-bearing debt	
Medium-term notes	38,736
Amounts owed to other financial institutions	8,180
Amounts owed to minority owners	3,605
Other long-term borrowing	424
Total long-term interest-bearing debt	<hr style="border: none; border-top: 1px solid black; margin: 0;"/> 50,945
Short-term interest-bearing debt	
Commercial paper and Medium-term notes	2,530
Amounts owed to other financial institutions	2,659
Amounts owed to minority owners	337
Other current borrowing	130
Total short-term interest-bearing debt	<hr style="border: none; border-top: 1px solid black; margin: 0;"/> 5,656
Total Consolidated Capitalisation and Indebtedness	<hr style="border: none; border-top: 1px solid black; margin: 0;"/> 63,186

- (1) The Guarantor Group has an authorised share capital of SEK 6,585 million which is fully subscribed and paid up.
- (2) As at 31st March, 2005, the Guarantor Group has contingent liabilities (including guarantees) of SEK 12,079 million, as disclosed in the consolidated balance sheet of the Guarantor Group on page 57. As at 31st March, 2005, all indebtedness of the Guarantor Group is unsecured apart from SEK 281 million. As at 31st March, 2005, all indebtedness of the Guarantor Group is unguaranteed.

Save as disclosed in the notes to the capitalisation table above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Guarantor Group since 31st March, 2005.

CONSOLIDATED FINANCIAL STATEMENTS OF THE GUARANTOR GROUP

The financial information set out on pages 55 to 59 has been extracted without material adjustment from the audited financial statements of the Guarantor Group in respect of the years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and from the unaudited financial statements of the Guarantor Group in respect of the three months ended 31st March, 2005.

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE GUARANTOR GROUP

	For the year ended 31st December,		
	2004	2003	2002
	Sw GAAP	Sw GAAP	Sw GAAP
		<i>(SEK million)</i>	
Net sales	113,366	111,935	101,025
Cost of products sold ⁽¹⁾	(81,992)	(84,792)	(77,339)
Gross profit	31,374	27,143	23,686
Selling expenses ⁽²⁾	(4,740)	(4,124)	(4,386)
Administrative expenses ⁽³⁾	(6,870)	(7,899)	(7,179)
Research and development costs ⁽⁴⁾	(529)	(478)	(486)
Other operating income	2,088	2,460	4,254
Other operating expenses	(962)	(2,386)	(1,869)
Participations in the result of associated companies	(754)	580	(657)
Operating profit	19,607	15,296	13,363
Result from other long-term securities held	142	145	229
Other interest income and similar profit/loss items	1,630	2,122	2,781
Interest expenses and similar profit/loss items	(4,020)	(5,203)	(6,386)
Profit before tax and minority interests	17,359	12,360	9,987
Taxes	(5,011)	(2,831)	(1,763)
Minority interests in the profit for the year	(572)	(406)	(658)
Net profit for the year	11,776	9,123	7,566

- (1) Of which, depreciation, SEK 14,505 million and SEK 14,095 million, and SEK 14,662 million (full year 2004, 2003 and 2002) respectively.
- (2) Of which, depreciation, SEK 120 million and SEK 28 million, and SEK 86 million (full year 2004, 2003 and 2002) respectively.
- (3) Of which, depreciation, SEK 254 million and SEK 212 million, and SEK 366 million (full year 2004, 2003 and 2002) respectively.
- (4) Of which, depreciation, SEK 1 million and SEK 1 million, and SEK 4 million (full year 2004, 2003 and 2002) respectively.

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE GUARANTOR GROUP

	For the period ended 31st March, 2005 IFRS
	<i>(SEK million)</i>
Net sales	35,036
Cost of products sold ⁽¹⁾	(24,915)
Gross profit	10,121
Selling expenses, Administrative expenses and Research and development costs ⁽²⁾	(2,715)
Other operating income and expenses net	1,560
Participations in the result of associated companies	253
Operating profit (EBIT)	9,219
Financial income	728
Financial expenses	(1,130)
Profit before income tax	8,817
Income tax expenses	(3,122)
Net profit for the year⁽³⁾	5,705
Attributable to:	
Equity holders of the Guarantor	5,279
Minority interests	426
Total	5,705

(1) Of which, depreciation, SEK 3,318 million.

(2) Of which, depreciation, SEK 109 million.

(3) The Guarantor Group's financial performance varies considerably during the year. A substantial portion of income for the year is normally generated during the first and the last quarter of the year, when electricity demand is greatest, which means that the margins for the first and last quarter are higher compared with the margins for the year as a whole.

CONSOLIDATED BALANCE SHEET OF THE GUARANTOR GROUP

	31st December,		
	2004 Sw GAAP	2003 Sw GAAP	2002 Sw GAAP
	<i>(SEK million)</i>		
ASSETS			
Fixed assets			
Intangible fixed assets			
Concessions, patents, licenses, trademarks and similar rights	1,193	3,341	3,568
Renting and similar rights	3,481	1,644	1,856
Goodwill	109	573	826
Advance payments for intangible fixed assets	282	0	0
Total intangible fixed assets	5,065	5,558	6,250
Tangible fixed assets			
Land and buildings	30,816	33,297	35,107
Plant and machinery	137,942	140,065	141,826
Equipment, tools, fixtures and fittings	1,459	1,711	1,925
Construction in progress	7,072	6,493	5,869
Advance payments for tangible fixed assets	460	374	245
Investment property	1,280	0	0
Total tangible fixed assets	179,029	181,940	184,972
Financial fixed assets			
Participations in associated companies	14,319	15,676	18,042
Receivables from associated companies	1,860	1,961	1,978
Other securities held as fixed asset	568	1,022	1,354
Other long-term receivables	9,934	10,046	5,054
Total financial fixed assets	26,681	28,705	26,428
Total fixed assets	210,775	216,203	217,650
CURRENT ASSETS			
Inventories etc	7,470	7,283	7,112
Current receivables	25,054	26,832	36,041
Investments	11,063	11,974	8,958
Cash and bank balances	2,553	2,673	6,515
Total liquid assets	13,616	14,647	15,473
Total current assets	46,140	48,762	58,626
Total assets	256,915	264,965	276,276

	For the year ended 31st December,		
	2004	2003	2002
	Sw GAAP	Sw GAAP	Sw GAAP
	<i>(SEK million)</i>		
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital	6,585	6,585	6,585
Equity method reserve	937	951	1,077
Other restricted reserves	20,232	16,993	15,218
Non-restricted equity			
Non-restricted reserves	22,786	18,854	14,683
Net profit for the year	11,776	9,123	7,566
Total equity	<u>62,316</u>	<u>52,506</u>	<u>45,129</u>
Minority interests in equity	9,188	9,379	9,960
Total provisions for pensions	16,450	14,946	16,643
Provisions for future expenses of nuclear waste management mining operations and other environmental measures	6,709	6,592	6,517
Provisions for deferred tax liability	8,224	10,219	10,898
Negative goodwill	34,688	34,854	34,410
Other provisions	6,928	10,123	15,479
Provisions	<u>13,902</u>	<u>15,150</u>	<u>13,631</u>
Long-term interest-bearing liabilities	86,901	91,884	97,578
Long-term non-interest-bearing liabilities	64,119	69,845	67,158
Total long-term liabilities	<u>2,135</u>	<u>2,236</u>	<u>1,588</u>
Current interest-bearing liabilities	66,254	72,081	68,746
Current non-interest-bearing liabilities	8,894	15,702	27,582
Total current liabilities	<u>23,362</u>	<u>23,413</u>	<u>27,281</u>
Total equity, provisions and liabilities	<u>256,915</u>	<u>264,965</u>	<u>276,276</u>
Pledged assets ⁽¹⁾	247	112	3,453
Contingent liabilities ⁽²⁾	<u>10,441</u>	<u>12,357</u>	<u>11,354</u>
Commitments under consortium agreements ⁽³⁾			

(1) The Guarantor has pledged assets of SEK 20 million as of 31st December, 2004.

(2) As a natural part of the Guarantor Group's business and in addition to those specified above, guarantees are put up for the fulfilment of various contractual commitments. Within its German operations, the Guarantor Group has conducted a number of leasing transactions for power plants. The basis for the transactions is the right of use of power plants leased to US counterparties as part of so-called main leases lasting a maximum of 99 years and thereafter leased back for 24 years as part of a so-called subordinated lease. Rent from the US counterparties has been received in advance and has been deposited in financial institutions with high credit ratings for the payment of sums due in accordance with the subordinated leases. The net difference between rental payments received and deposits made has been reported as a net figure and the transaction gain was reported at the time that the lease contracts were concluded. Should the lessees or other parties/stakeholders fail to meet their obligations under the leasing contracts, this will result in costs incurred by the Guarantor Group. On the balance sheet date, these obligations amounted to a maximum of SEK 1226 million 31st December, 2004, SEK 1177 million 31st December, 2003 and SEK 933 million 31st December, 2002, which is included in the reported contingent liabilities.

(3) Power plants are often built on a joint venture basis. The consortium agreements entitle each owner to a proportion of the plant's subsequent output and make each owner liable (irrespective of output) for an equivalent proportion of the joint venture company's costs. The Guarantor Group's investments in heating and other companies often entail a liability for costs in proportion to its ownership interests.

(4) The Guarantor bears the full responsibility for Swe-Pol Link until July 2020.

As of
31st March, 2005
IFRS

(SEK million)

ASSETS

Non current assets

Intangible fixed assets	5,706
Tangible fixed assets	182,962
Financial fixed assets	52,613

Total non-current assets	241,281
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Current assets

Inventories	12,808
Trade and other receivables	32,437
Current tax assets	1,248
Short-term investments	7,465
Cash and cash equivalents	8,485

Total current assets	62,443
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TOTAL ASSETS	303,724
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EQUITY AND LIABILITIES

Equity

Attributable to equity holders of the Guarantor	76,445
Attributable to minority interests	10,725

Total equity	87,170
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Non current liabilities

Interest-bearing liabilities	64,820
Interest-bearing provisions	39,801
Pension provisions	16,720
Deferred tax liabilities	42,499
Other non-interest bearing liabilities	2,083

Total non-current assets	165,923
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Current liabilities

Trade and other payables	36,704
Current tax liabilities	2,657
Interest bearing liabilities	6,569
Interest bearing provisions	4,701

Total current liabilities	50,631
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TOTAL EQUITY AND LIABILITIES	303,724
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Pledged assets	281
Contingent liabilities	12,079

TAXATION

Sweden

The following summary outlines certain Swedish tax consequences relating to the Capital Securities for prospective purchasers that are not considered to be Swedish residents for Swedish tax purposes, if not otherwise stated. The summary is based on the laws of Sweden as currently in effect. These laws are subject to change. Prospective purchasers are urged to consult their professional tax advisers regarding the Swedish tax and other tax consequences (including the applicability and effect of double taxation treaties) of acquiring, owning and disposing of Capital Securities in their particular circumstances.

Payments of any principal amount or interest to the Holder of any Capital Security will not be subject to Swedish income tax, provided that such Holder is not resident in Sweden for Swedish tax purposes and provided that such Holder does not have a permanent establishment in Sweden to which the Capital Securities are effectively connected.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or interest to the Holder, except on certain payments of interest to a private individual (or an estate of a deceased individual) with residence in Sweden for tax purposes.

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) with residence in Sweden for tax purposes, all capital income (e.g. interest and capital gain on a Capital Security) will be taxable. Specific tax consequences, however, may be applicable to certain categories of corporations, e.g. life insurance companies.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, J.P. Morgan Securities Ltd., Merrill Lynch International, ABN AMRO Bank N.V., BNP Paribas, Deutsche Bank AG, London Branch, Skandinaviska Enskilda Banken AB (publ) and Svenska Handelsbanken AB (publ) (the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 27th June, 2005, jointly and severally agreed to subscribe or procure subscribers for the Capital Securities at the issue price of 99.188 per cent. of the principal amount of Capital Securities, less a combined management, selling and underwriting commission of 1.0 per cent. of the principal amount of the Capital Securities. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Capital Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

United States

The Capital Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Capital Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Capital Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and 29th June, 2005 (the **Closing Date**) within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Capital Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Capital Securities within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (a) it has not offered or sold and will not offer or sell any Capital Securities to persons in the United Kingdom prior to admission of such Capital Securities to listing in accordance with Part VI of the FSMA, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSMA;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Capital Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Capital Securities in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Capital Securities has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Capital Securities may be offered, sold or delivered, nor may copies of this Offering Circular (in preliminary or final form) or of any other document relating to the Capital Securities be distributed in the Republic of Italy, except:

- (i) to professional investors (“*operatori qualificati*”), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Capital Securities or distribution of copies of this Offering Circular (in preliminary or final form) or any other document relating to the Capital Securities in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the **Banking Act**), as amended; and
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in accordance with any other applicable laws and regulations.

Sweden

Each Manager agrees that it will not market or offer the Capital Securities in Sweden other than in circumstances that are deemed not to be an offer to the public in Sweden under the Financial Instruments Trading Act (1991:980).

General

No action has been taken by the Issuer, the Guarantor or any of the Managers that would, or is intended to, permit a public offer of the Capital Securities in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Capital Securities or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable securities laws and regulations and all offers and sales of Capital Securities by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Capital Securities was duly authorised by a resolution of the Board of Directors of the Issuer dated 22nd June, 2005. The giving of the Guarantee was duly authorised by a resolution of the Board of Directors of the Guarantor dated 25th April, 2005.

Listing

The admission of the Capital Securities to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that official listing will be granted on or about 29th June, 2005 subject only to the issue of the Temporary Global Capital Security. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

Clearing Systems

The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0223129445 and the Common Code is 022312944.

No significant change

There has been no significant change in the financial or trading position of the Issuer or the Guarantor Group and there has been no material adverse change in the financial position or prospects of the Issuer or the Guarantor Group since 31st December, 2004.

Litigation

Neither the Issuer nor any members of the Guarantor Group is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Guarantor Group.

Accounts

The auditors of Vattenfall Treasury AB, Ernst & Young AB (individual auditors in charge being Certified Public Accountants Lars Träff and Ebba Hammarström), have audited Vattenfall Treasury AB's accounts, without qualification, in accordance with generally accepted auditing standards in Sweden for the financial periods ended 31st December, 2002, 2003 and 2004. From 22nd April, 2004 the auditors of the Guarantor are Ernst & Young AB (individual auditor in charge being Certified Public Accountant Lars Träff) and Per Redemo, who is a Certified Public Accountant of The Swedish National Audit Office. The previous auditors to the Guarantor, Ernst & Young AB (individual auditor in charge being Certified Public Accountant Lars Träff) and Filip Cassel, who is a Certified Public Accountant of The Swedish National Audit Office, have audited the Guarantor Group's accounts, without qualification, in accordance with generally accepted auditing standards in Sweden for the financial periods ended 31st December, 2002, 2003 and 2004.

The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors and/or any other expert (whether or not addressed to the Trustee) as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee and the auditors or such other expert in connection therewith containing a monetary or other limit on the liability of the auditors or such other expert in respect thereof.

U.S. tax

The Capital Securities and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents

Copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent in London:

- (a) the constitutional documents (with an English translation thereof) of Vattenfall Treasury AB and the Guarantor;
- (b) the audited financial statements of Vattenfall Treasury AB in respect of the financial years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 and the audited

consolidated financial statements of the Guarantor in respect of the financial years ended 31st December, 2002, 31st December, 2003 and 31st December, 2004 (in each case in English);

- (c) the most recently available audited annual financial statements of Vattenfall Treasury AB and the Guarantor and the most recently available published interim financial statements (if any) of Vattenfall Treasury AB and the Guarantor (in each case in English);
- (d) the Subscription Agreement, the Trust Deed (which contains the forms of the Temporary and Permanent Global Capital Securities, the Capital Securities in definitive form, the Coupons and the Talons) and the Agency Agreement; and
- (e) a copy of this Offering Circular.

THE ISSUER AND THE GUARANTOR

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