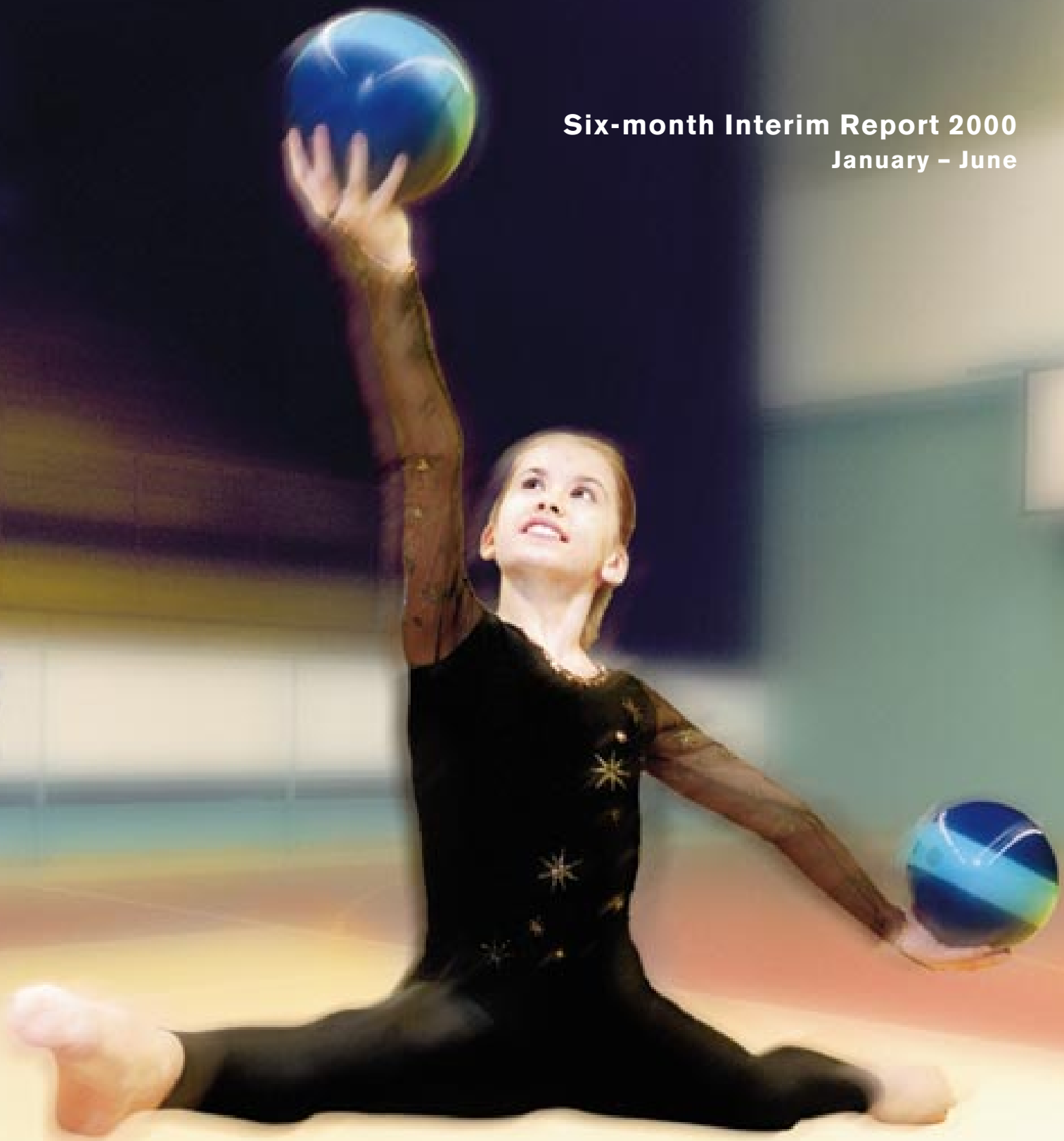


**Six-month Interim Report 2000**  
January - June



## Comments by the Chief Executive

Vattenfall enhances the competitiveness, environment and quality of life of its customers through a unique combination of efficient energy solutions and world-class service. Vattenfall's vision is to be a leading European energy company and a global energy partner.

### MARKET DEVELOPMENT

The first half of 2000 was characterized by continued low electricity spot market prices, primarily due to competition and the abundant supply of water. Hydro power was utilized to the maximum, which meant that nuclear power generation was reduced.

- Increase in net sales, lower profit.
- Focus on broadband and infocom.
- Germany and Poland important markets.

At times during the summer, the electricity spot market price level was below 10 öre/kWh\* and futures market prices were around 13–14 öre/kWh.

Net sales amounted to SEK 15,521 million, which is a 7 per cent increase compared with the previous year. The increase is largely due to the increase in income from district-heating after the acquisition of Electrocieplownie Warszawskie SA. Sales of the Electricity product decreased by 3 per cent.

Operating profit amounted to SEK 3,339 million, which is a decrease of SEK 285 million or 8 per cent. Results were positively affected by surplus funds from the SPP pension insurance company of almost SEK 400 million. Operating profit for Electricity decreased by SEK 557 million. The ongoing internal cost-efficiency programme has had a positive impact on financial performance. The full impact of the programme, which aims at achieving a reduction in costs of over SEK 1 billion, will be seen next year.

Further cost efficiencies will be required with the low margins that can be expected from electricity sales in the future.

### FOCUS ON GERMANY AND POLAND

The strategic focus of the Group outside the Nordic region is on expansion in Germany and Poland. Vattenfall is one of the few foreign companies that have succeeded in becoming established on the German electricity market. As of April, Vattenfall has a 25.1 per cent stake in HEW, which is Vattenfall's partner as well as a platform for business growth. We are developing a long-term and multifaceted business partnership. The merger of the Veba and Viag groups and the merger of RWE and VEW will open up new opportunities for Vattenfall since these companies must sell off parts of their businesses.

In January, Vattenfall acquired 55 per cent of the shares in Electrocieplownie Warszawskie SA from the Polish state. This was one of the largest transactions in the Polish privatization process. The acquisition provides Vattenfall with a good base to develop its business in

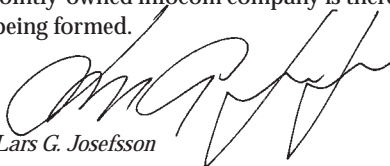
Poland. The Polish cable, SwePol Link, is ready and trial operation has started. SwePol Link links the Swedish electricity system with the Polish system and has a capacity of 600 MW. Vattenfall has a 48 per cent stake in SwePol Link, and the cable is worth a total investment of about SEK 2.5 billion.

### OTHER INVESTMENTS AND DEVELOPMENT

In March, Vattenfall acquired all of the shares in the Finnish distribution company, Keski-Suomen Valo Oy, with 75,000 customers, from its former municipal shareholders. Vattenfall has also entered into an agreement to acquire Uppsala Energi, one of Sweden's major energy companies, with 88,000 customers. The company's business, particularly in district-heating, is successful and its environmental performance good. The expertise within this area may also be useful in Vattenfall's international operations. In July, an agreement was signed to acquire the Finnish energy company, Hämeenlinnan Energia Oy. The company has about 25,000 customers. The transaction represents a twofold increase in the volume of Vattenfall's district-heating production in Finland.

Vattenfall has joined the independent international Internet-based trade exchange jointly being established by twelve leading European energy companies. The consortium intends to launch e-commerce during the year to reduce the prices of the products and services that the members purchase through large-volume procurement and price transparency.

Customer communications, including intelligent homes, is one of the areas that Vattenfall is focusing on developing. The concept is being launched through Sensel AB. At least SEK 1 billion will be invested in order to develop broadband technology. Vattenfall is participating in the development of a national "trunkline" for digital communication. We are also building broadband networks on the regional level and are providing broadband services to both urban network owners and end-customers. Vattenfall has invested in Arrowhead and its ownership stake in the company is just over 50 per cent. A new, jointly-owned infocom company is thereby being formed.



Lars G. Josefsson

\* 1 öre = SEK 0.01

## Key Figures and Ratios

SEK million	January - June		Change %
	2000	1999	
Net sales	15,521	14,558	7
Operating profit	3,339	3,624	-8
Operating margin (%)	21.5	24.9	
Profit before tax and minority interests	2,553	2,996	-15
Pre-tax profit margin (%)	16.4	20.6	

*Vattenfall's financial performance varies considerably during the year. A substantial portion of income for the year is normally generated during the first months of the year, when electricity demand is greatest, which means that the margins for the period are high, compared with the margins for the year as a whole.*

## Group

## SALES AND PERFORMANCE

*Net sales* increased by 7 per cent or SEK 963 million to SEK 15,521 million (14,558). The main reason for the improvement is the acquisition of the Polish energy company, Elektrociepłowni Warszawskie SA, which primarily led to an increase in income from district-heating.

Sales in Sweden accounted for 74 per cent (75) of net sales, sales in the rest of the Nordic countries and to NordPool for 16 per cent (21) and sales to Poland for 9 per cent (0).

*Operating expenses* amounted to SEK 12,787 million, which is an increase of SEK 1,614 million. Of the increase in costs, company acquisitions accounted for just over SEK 1,700 million. The cost of products sold increased by SEK 1,365 million while selling expenses, research and development costs and administrative expenses increased by SEK 249 million. The net amount of other operating income and operating expenses has been affected by the surplus funds from SPP, amounting to almost SEK 400 million. Depreciation amounted to SEK 2,316 million (2,031).

*Operating profit* amounted to SEK 3,339 million, including the surplus funds from SPP (3,624). The operating margin was 21.5 per cent (24.9).

*Financial income and expenses – net* amounted to SEK -786 million (-628). The interest cover was 3.4 times (4.4).

*Profit before tax and minority interests* was SEK 2,553 million (2,996). The pre-tax profit margin was 16.4 per cent (20.6).

## FINANCIAL POSITION

*Liquid assets* amounted to SEK 3,558 million (December 31, 1999: 4,860). SEK 1,478 million (December 31, 1999: 1,960) of liquid

assets comprised investments concerning interest-arbitrage transactions.

*The net indebtedness*, that is, interest-bearing liabilities and provisions less liquid assets amounted to SEK 37,417 million (December 31, 1999: 27,415).

*Equity* amounted to SEK 33,540 million, which is an increase of SEK 193 million since year-end 1999. The equity-assets ratio was 38.4 per cent (December 31, 1999: 42.3).

## INVESTMENTS

The Group's *investments* amounted to SEK 13,014 million (1,967), of which acquisitions of group companies (primarily in Poland) comprised SEK 3,793 million (253), associated companies (mainly HEW) SEK 7,729 million (507) and other long-term securities SEK 112 million (106). SEK 1,363 million (1,090) and SEK 17 million (11) were invested in tangible and intangible fixed assets, respectively.

## PERSONNEL

At the end of June, the number of employees, expressed in terms of man years, amounted to 12,262 (December 31, 1999: 7,991). The increase is due to company acquisitions, of which the Polish company represents 4,096 employee years.

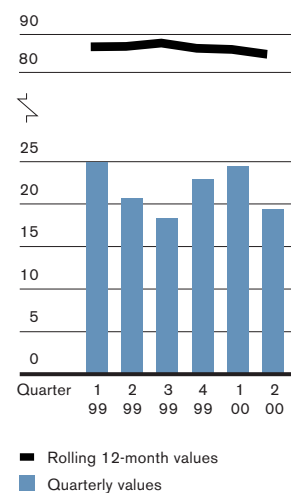
## Product Areas

## ELECTRICITY

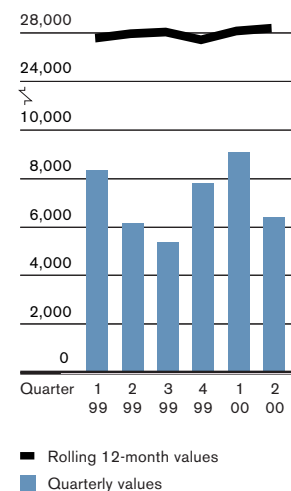
*Net sales* amounted to SEK 9,125 million (9,401). The decrease can be explained by the lower prices and the mild winter. Sales to customers and power exchanges amounted to 43.9 TWh (45.5), representing 37.3 TWh (33.9) and 6.6 TWh (11.6), respectively.

In addition, 3.9 TWh (4.5) was delivered to minority shareholders in power plants etc. Electricity purchases amounted to 49.5

Electricity sales (TWh)



Net sales (SEK m)



TWh (51.6), of which in-house generation comprised 41.7 TWh (44.6) and purchases 7.8 TWh (7.0). A total of 18.1 TWh (18.8) of hydro power, 21.7 TWh (25.3) of nuclear power and 1.9 TWh (0.5) of fossil-based power was generated. Of the electricity purchases, 1.7 TWh (1.6) was utilized internally, mainly to cover network losses.

Operating profit amounted to SEK 2,060 million (2,617).

DISTRICT-HEATING

Net sales amounted to SEK 1,416 million (557). The volume sold amounted to 8.0 TWh (1.7). The increase is largely due to the acquisition of Electrocieplownie Warszawskie SA. Operating profit amounted to SEK 61 million (93).

ENERGY SERVICES

Energy Services comprises Energy Solutions, Energy and Consulting Services as well as Contracting and FärdigVärme (Ready Heat).

Net sales amounted to SEK 1,537 million (1,311). Sales of FärdigVärme amounted to 1.2 TWh (1.1). Operating profit amounted to SEK -33 million (-44).

NETWORK SERVICES

Net sales amounted to SEK 3,889 million (3,565). Transmission volumes amounted to 45.4 TWh (42.9). Operating profit amounted to 1,126 million (1,074).

NATURAL GAS

Net sales amounted to SEK 667 million (397), which corresponds to a sold volume of 5.0 TWh (5.2). Of this volume, 0.1 TWh (0.1) was sold within the Group. Operating profit was SEK 50 million (35).

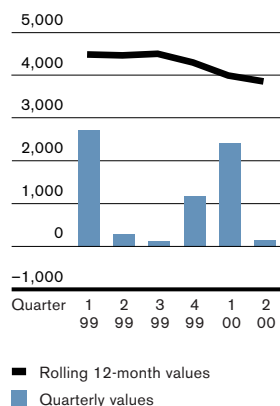
Parent Company

Net sales amounted to SEK 9,024 million (9,736). Profit after net financial items was SEK 1,016 million (1,708). Investments during the period amounted to SEK 3,553 million (1,670). Liquid assets amounted to SEK 53 million (December 31, 1999: 48). Funds in the group account managed by Vattenfall Treasury AB amounted to SEK 16,654 million (December 31, 1999: 14,824).

Stockholm, August 28, 2000

Lars G. Josefsson  
President and Chief Executive Officer

Profit before tax and minority interests (SEK m)



AUDITORS' REVIEW REPORT

We have reviewed this six-month interim report in accordance with the recommendation issued by the Swedish Institute of Authorized Public Accountants (FAR).

A review is substantially less comprehensive in scope than an audit.

During our review, nothing has come to our attention to indicate that the six-month interim report does not satisfy the requirements of the Swedish Annual Accounts Act.

Stockholm, August 28, 2000

Ernst & Young AB  
Lars Träff  
Authorized Public Accountant

Filip Cassel  
Authorized Public Accountant  
National Audit Bureau

## Consolidated Income Statement

Amounts in SEK million	January - June		Full year
	2000	1999	1999
Net sales	<b>15,521</b>	14,558	27,754
Cost of products sold	<b>-10,758</b>	-9,393	-19,402
<b>Gross profit</b>	<b>4,763</b>	5,165	8,352
Selling expenses, research and development costs and administrative expenses	<b>-2,029</b>	-1,780	-3,704
Other operating income and expenses - net	<b>498</b>	135	725
Participations in the result of associated companies	<b>107</b>	104	142
<b>Operating profit</b>	<b>3,339</b>	3,624	5,515
Financial income	<b>282</b>	261	542
Financial expenses	<b>-1,068</b>	-889	-1,760
<b>Profit before tax and minority interests</b>	<b>2,553</b>	2,996	4,297
Tax	<b>-715*</b>	-839*	-1,400
Minority interests in the profit for the period	<b>-8</b>	-57	-359
<b>Net profit for the period</b>	<b>1,830</b>	2,100	2,538

\* Calculated on the basis of a standard tax rate of 28 per cent.

## Product Areas

Amounts in SEK million	Net sales			Operating profit		
	January - June		Full year	January - June		Full year
	2000	1999	1999	2000	1999	1999
Electricity	<b>9,125</b>	9,401	17,857	<b>2,060</b>	2,617	4,198
District-heating	<b>1,416</b>	557	1,028	<b>61</b>	93	121
Energy Services	<b>1,537</b>	1,311	2,633	<b>-33</b>	-44	-52
Network Services	<b>3,889</b>	3,565	7,097	<b>1,126</b>	1,074	1,657
Natural Gas	<b>667</b>	397	863	<b>50</b>	35	69
Other, eliminations *	<b>-1,113</b>	-673	-1,724	<b>75</b>	-151	-478
<b>Total</b>	<b>15,521</b>	14,558	27,754	<b>3,339</b>	3,624	5,515

\* "Other, eliminations" includes Customer Communications and Consumer Products.

## Consolidated Balance Sheet

Amounts in SEK million	June 30	June 30	December 31
	2000	1999	1999
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	2,060	1,798	1,553
Tangible assets	61,015	56,906	57,254
Financial assets	17,559	7,646	9,731
<b>Total fixed assets</b>	<b>80,634</b>	<b>66,350</b>	<b>68,538</b>
<b>Current assets</b>			
Inventories	4,805	4,933	4,901
Current receivables	8,282	7,764	8,364
Liquid assets *	3,558	7,752	4,860
<b>Total current assets</b>	<b>16,645</b>	<b>20,449</b>	<b>18,125</b>
<b>Total assets</b>	<b>97,279</b>	<b>86,99</b>	<b>86,663</b>
<b>Equity, provisions and liabilities</b>			
Equity	33,540	32,919	33,347
Minority interests in equity	3,290	2,186	2,472
Interest-bearing provisions	407	996	1,210
Other provisions	11,699	10,834	11,192
Long-term interest-bearing liabilities	30,159	19,477	19,714
Other long-term liabilities	1,029	1,222	1,222
Current interest-bearing liabilities *	10,409	11,759	11,351
Other current liabilities	6,746	7,406	6,155
<b>Total equity and liabilities</b>	<b>97,279</b>	<b>86,799</b>	<b>86,663</b>

\* Includes interest-arbitrage transactions of SEK 1,478 million (3,872 and 1,960, respectively).

## Consolidated Cash Flow Statement

Amounts in SEK million	January - June	
	2000	1999
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Internally generated funds	4,013	3,494
Cash flow from changes in operating assets and liabilities	537	-1,056
<b>Cash flow from operating activities</b>	<b>4,550</b>	<b>2,438</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments	-13,014	-1,967
Sales	245	64
Liquid assets in acquired/sold companies, net	97	35
<b>Cash flow after investments</b>	<b>-8,122</b>	<b>570</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividends	-1,580	-1,598
Financing	8,458	4,441
Contributions from minority shareholders		14
<b>Cash flow for the period</b>	<b>-1,244</b>	<b>3,427</b>
<b>LIQUID ASSETS</b>		
Liquid assets at the beginning of the period	4,860	4,439
Translation differences	-58	-114
Cash flow for the period	-1,244	3,427
<b>Liquid assets at the end of the period</b>	<b>3,558</b>	<b>7,752</b>

## Key Ratios

(In per cent unless otherwise specified)

	July 1999 – June 2000	Jan 1999 – Dec 1999
Return on capital employed	8.0	9.3
Return on equity after standard tax	7.7	8.7
Return on assets	6.3	7.1
	January – June 2000	January – June 1999
Operating margin	21.5	24.9
Pre-tax profit margin	16.4	20.6
Equity-assets ratio	38.4	42.3
Debt cover, times	1.0	0.7
Interest cover, times	3.4	4.4

Vattenfall's financial performance varies considerably during the year. A substantial portion of income for the year is normally generated during the first months of the year, when electricity demand is greatest, which means that certain key ratios for the period are high.

## Definitions

**Return on capital employed:** Operating profit including financial income in relation to average total assets less non-interest-bearing liabilities and provisions.

**Return on equity after standard tax:** Profit before tax and minority interests less minority interests and tax at a standard rate of 28 per cent in relation to the average of equity at the start and the end of the period.

**Return on assets:** Operating profit including financial income in relation to average total assets at the start and end of the period.

**Operating margin:** Operating profit in relation to net sales.

**Pre-tax profit margin:** Profit before tax and minority interests in relation to net sales.

**Equity-assets ratio:** Shareholders' equity (including minority interests) in relation to total assets at the end of the period less interest-arbitrage transactions.

**Debt cover, times:** Interest-bearing liabilities and interest-bearing provisions less liquid assets in relation to equity (including minority interests) at the end of the period.

**Interest cover, times:** Operating profit including financial income in relation to financial expenses.

Vattenfall will publish its nine-month interim report on November 21, 2000.

**This report has been translated from the Swedish original.**

