

Three-month Interim Report 2001  
January – March



## Comments by the Chief Executive

### Market Development

During the first quarter of 2001, net sales increased by 27 per cent to SEK11.6 billion compared with the corresponding period of 2000. The improvement is due to a growth in volume as a result of acquisitions and, in particular, due to higher electricity spot prices. Operating profit rose by 21 per cent to just over SEK 3.3 billion. Higher electricity spot prices and a greater volume of sales to the NordPool Power Exchange were the main contributing factors to the increase in profit. Profit before tax and minority interests increased by 17 per cent to SEK 2.8 billion.

Nordic electricity spot prices have declined since the deregulation of the electricity market in 1996 due to a number of years of unusually high precipitation. The price level rose during the first quarter of 2001 as a result of low precipitation and greater demand due to the cold winter.

### Acquisitions in Germany under Completion

In April, Vattenfall and the other contractual parties signed an agreement concerning Bewag AG, where HEW and Mirant specify their intention to hold equal stakes in Bewag, about 43 per cent each.

In May, the earlier agreement with Sydkraft and E.ON Energie concerning Vattenfall's acquisition of 37.2 per cent of the shares in Hamburgische Electricitäts-Werke (HEW) will be completed. In this way, Vattenfall will achieve a majority ownership of 71.3 per cent in HEW.

Together with Mirant, Bewag, HEW and Veag/Laubag, we shall now continue our work to build, in three steps, a new major player, where the Vattenfall Group intends to have the leading role. Our aim is to achieve a rapid consolidation so that we can exploit the dynamics created by the agreement and continue to be an attractive energy provider for customers.

### Network Investments

After the disruptions to the electricity network that occurred in the south of Sweden at around new year, the Board of Directors decided on a comprehensive action plan to

reinforce the network and improve customer service.

### Other Agreements

In February, Vattenfall acquired a 32 per cent stake in the Polish distribution company, GZE and is thereby entering the end-customer market in Poland.

In March, Vattenfall made a public offer to the other shareholders in Arrowhead AB to acquire the remaining shares. Arrowhead will need considerable restructuring. A close co-operation between Connection and Arrowhead is being considered in order to provide a clear strategic future direction for the two companies.

In early April, a letter of intent was signed with Birka Energi to exchange certain fixed assets and to swap Vattenfall's 63 per cent shareholding in AB Ryssa Elverk with Birka Energi's wholly-owned AB Kallströmmen and its subsidiary, AB Avesta Elnät.

Market development for intelligent services has been considerably weaker than expected. Sensel AB is therefore adjusting its direction by drastically reducing its operating expenses and seeking new ownership and partnership solutions.

Birka Energi and Vattenfall have reached an agreement concerning co-operation on UMTS network services for third-generation mobile telephony and on infrastructure services for broadband.

Together with ten other European power companies, Vattenfall signed a shareholders' agreement to launch an independent B2B e-procurement exchange called Eutilia.

### Annual Meeting of Shareholders

At the General Meeting of Shareholders on April 26, Dag Klackenborg took over as Chairman of the Board and Annette Brodin Rampe, Peter Fallenius and Vattenfall's President were also elected to the Board.



Lars G Josefsson  
President and Chief Executive Officer

- Acquisitions and higher prices boost net sales
- 17 per cent improvement in profit before tax and minority interests
- Acquisitions in Germany under completion

## Key Figures and Ratios

SEK million	January – March		Change %
	2001	2000	
Net sales	11,559	9,106	27
Operating profit	3,340	2,766	21
Operating margin (%)	28.9	30.4	
Profit before tax and minority interests	2,814	2,410	17
Pre-tax profit margin (%)	24.3	26.5	
Profit for the period	1,984	1,721	15
Earnings per share for the period	15.07	13.07	

*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. This 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 27 per cent or SEK 2,453 million to SEK 11,559 million. The increase is primarily attributable to increased sales on the power exchange and to an increase in district-heating and transmission income, largely as a result of company acquisitions.

Operating expenses amounted to SEK 8,879 million, an increase of SEK 2,341 million which is largely due to acquired companies. The cost of products sold increased by SEK 2,062 million, while selling expenses, research and development costs and administrative expenses increased by SEK 279 million. Depreciation amounted to SEK 1,336 million.

Operating profit amounted to SEK 3,340 million (2,766). The operating margin was 28.9 per cent (30.4). Financial income and expenses – net amounted to SEK –526 million (–356).

Interest cover was 4.6 times (5.9).

Profit before tax and minority interests amounted to SEK 2,814 million (2,410). The pre-tax profit margin was 24.3 per cent (26.5).

The stake in HEW has been accounted for in accordance with the equity method. If HEW had been a part of the Vattenfall Group under the agreements now being signed, net sales would have amounted to about SEK 17,700 million and operating profit would have amounted to about SEK 3,800 million.

### Financial Position

Liquid assets amounted to SEK 5,213 million (December 31, 2000: 7,543). SEK 1,413 million of liquid assets (December 31, 2000: 1,374) comprised investments concerning interest-arbitrage transactions.

The net indebtedness, namely, interest-bearing liabilities and provisions less liquid assets amounted to SEK 45,172 million (December 31, 2000: 43,311).

Equity amounted to SEK 38,091 million, which is an increase of SEK 2,971 million since year-end 2000. The dividend of SEK 990 million, proposed by the Board, was adopted by the General Meeting of Shareholders. The equity-assets ratio was 37.3 per cent (December 31, 2000: 35.3).

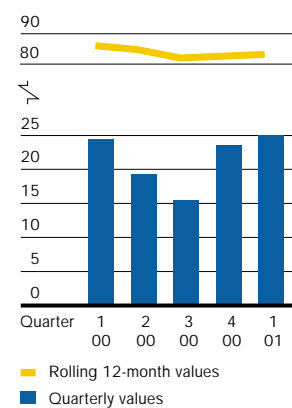
### Investments

The Group's investments amounted to SEK 5,093 million (4,352), of which acquisitions of group companies amounted to SEK 114 million (3,648), associated companies, SEK 3,758 million (156) and other long-term securities, SEK 270 million (26). SEK 951 million (522) was invested in tangible and intangible assets.

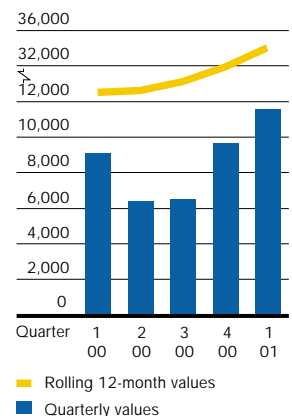
### Acquisitions

During the period, 32 per cent of the shares in Gornoslaski Zaklad Elektroenergetyczny (GZE) were acquired. A further 8 per cent of the shares in HEW as well as an additional stake in Arrowhead were acquired.

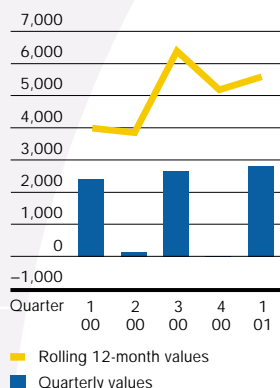
Electricity sales (TWh)



Net sales (SEK m)



Profit before tax and minority interests (SEK m)



### Personnel

At the end of March, the number of employees, expressed in terms of man years, amounted to 13,260 (December 31, 2000: 13,123).

### Generation Nordic Countries

Net sales increased by SEK 1,098 million to SEK 5,431 million. Operating profit increased by SEK 1,020 million to SEK 2,275 million. The improvement is due to increased electricity sales to power exchanges at higher prices and to reduced costs. A total of 10.7 TWh (8.9) of hydro power and 16.6 TWh (14.8) of nuclear power was produced.

### Sales Nordic Countries

Sales Nordic Countries comprises the following business units: Sales Sweden, Sales Norway, Sales Finland, Mega and Supply & Trading.

Net sales increased by SEK 192 million to SEK 4,887 million. Operating profit decreased by SEK 285 million to SEK -168 million, due to the higher price of purchased electricity. The volume sold amounted to 16.1 TWh.

### Heat Nordic Countries

Net sales amounted to SEK 912 million (670). Operating profit increased by SEK 69 million to SEK 153 million. The increase is mainly due to the acquisition of Uppsala Energi and part of the Finnish company, Hämeenlinnan Energia (Vattenfall Kaukolämpö). The weather, which was favourable for business during the first quarter, also had a positive impact on performance. The volume sold amounted to 2.4 TWh (1.7 TWh).

### Electricity Networks Nordic Countries

Electricity Networks Nordic Countries comprises the Electricity Networks Sweden and the Electricity Networks Finland business units.

Net sales amounted to SEK 2,580 million (2,307). Operating profit increased to SEK 1,075 million (1,016). The change is mainly due to the acquisition of Keski-Suomen Valo and Hämeenlinnan Energia. Transmission volumes amounted to 34.8 TWh (31.7).

### Services

Net sales improved by SEK 78 million to SEK 660 million. Operating profit increased by SEK 23 million to SEK 20 million.

### Poland and Germany

Net sales amounted to SEK 1,053 million (917). Operating profit improved by SEK 39 million to SEK 215 million. A total of 1.5 TWh of thermal power and 5.4 TWh of district-heating was produced. The volume sold amounted to 1.2 TWh and 5.4 TWh, respectively.

### Other Business

Other Business comprises the business units New Business and other businesses, including Vattenfall Naturgas, service companies and non-core business.

Net sales amounted to SEK 1,123 million (709). Operating profit decreased by SEK 352 million to SEK -222 million, mainly as a result of the operating losses in Arrowhead and Sensel.

### Parent Company

Net sales amounted to SEK 5,419 million (5,196). Profit after net financial items was SEK 1,185 million (911). Investments during the period amounted to SEK 8,491 million. Liquid assets amounted to SEK 1,259 million (December 31, 2000: 48). Funds in the group account managed by Vattenfall Treasury AB amounted to SEK 7,302 million (December 31, 2000: 123).

### Accounting Policies

The Swedish Financial Accounting Standards Council recommendation RR9 has not yet been applied in full. Otherwise, the same accounting policies have been applied as for the annual accounts 2000.

Stockholm, May 15, 2001

*Lars G Josefsson*

*President and Chief Executive Officer*

## Consolidated Income Statement

Amounts in SEK million	January – March		Full year
	2001	2000	2000
Net sales	11,559	9,106	31,695
Cost of products sold *	-7,704	-5,642	-23,484
<b>Gross profit</b>	<b>3,855</b>	<b>3,464</b>	<b>8,211</b>
Selling expenses, research and development costs and administrative expenses**	-1,175	-896	-4,732
Other operating income and operating expenses – net	412	165	2,551
Participations in the result of associated companies	248	33	658
<b>Operating profit</b>	<b>3,340</b>	<b>2,766</b>	<b>6,688</b>
Financial income	253	139	1,037
Financial expenses	-779	-495	-2,536
<b>Profit before tax and minority interests</b>	<b>2,814</b>	<b>2,410</b>	<b>5,189</b>
Tax	-844***	-675****	-1,757
Minority interests in the profit for the period	14	-14	-462
<b>Net profit for the period</b>	<b>1,984</b>	<b>1,721</b>	<b>2,970</b>

\* Of which, depreciation amounted to SEK 1,248 million (1,092 and 5,186, respectively)

\*\* Of which, depreciation amounted to SEK 52 million (SEK 34 million and SEK 291 million, respectively)

\*\*\* Calculated on the basis of a standard tax rate of 30 per cent.

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

## Profit Areas

Amounts in SEK million	Net sales			Operating profit		
	January – March		Full year	January – March		Full year
	2001	2000	2000	2001	2000	2000
Generation Nordic Countries	5,431	4,333	15,934	2,275	1,255	4,930
Sales Nordic Countries	4,887	4,695	16,503	-168	117	634
Heat Nordic Countries	912	670	1,951	153	84	-63
Electricity Networks Nordic Countries	2,580	2,307	7,551	1,075	1,016	1,619
Services	660	582	2,832	20	-3	72
Poland and Germany	1,053	917	2,495	215	176	418
Other Business	1,123	709	2,457	-222	130	-880
Other and Eliminations *	-5,087	-5,107	-18,028	-8	-9	-42
<b>Total</b>	<b>11,559</b>	<b>9,106</b>	<b>31,695</b>	<b>3,340</b>	<b>2,766</b>	<b>6,688</b>

\* Mainly concerns trade between Sales Nordic Countries, Electricity Networks Nordic Countries and Generation Nordic Countries.

**Consolidated Balance Sheet**

Amounts in SEK million	March 31 2001	March 31 2000	Dec. 31 2000
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	2,714	1,941	2,993
Tangible assets	68,286	59,579	68,089
Financial assets	23,135	11,293	18,859
<b>Total fixed assets</b>	<b>94,135</b>	<b>72,813</b>	<b>89,941</b>
<b>Current assets</b>			
Inventories	5,091	4,883	5,558
Current receivables	11,825	9,142	11,963
Liquid assets *	5,213	9,600	7,543
<b>Total current assets</b>	<b>22,129</b>	<b>23,625</b>	<b>25,064</b>
<b>Total assets</b>	<b>116,264</b>	<b>96,438</b>	<b>115,005</b>
<b>Equity, provisions and liabilities</b>			
Equity **	38,091	34,980	35,120
Minority interests in equity	4,761	3,424	4,985
Interest-bearing provisions	272	1,203	187
Other provisions	13,639	11,362	13,792
Long-term interest-bearing liabilities	42,118	23,219	41,116
Other long-term liabilities	713	1,034	878
Current interest-bearing liabilities *	7,995	14,819	9,551
Other current liabilities	8,675	6,397	9,376
<b>Total equity and liabilities</b>	<b>116,264</b>	<b>96,438</b>	<b>115,005</b>
Pledged assets	755		709
Contingent liabilities	7,203		7,162

\* Includes interest-arbitrage transactions of SEK 1,413 million (1,696 and 1,374 respectively).

\*\* Includes a proposed, as yet unpaid dividend for the previous year.

**Consolidated Cash Flow Statement**

Amounts in SEK million	January – March	
	2001	2000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Internally generated funds	3,541	3,196
Cash flow from changes in operating assets and liabilities	-519	-1,143
<b>Cash flow from operating activities</b>	<b>3,022</b>	<b>2,053</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments	-5,093	-4,352
Sales	936	152
Liquid assets in acquired/sold companies, net	2	61
<b>Cash flow after investments</b>	<b>-1,133</b>	<b>-2,086</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividends	—	—
Financing	-1,273	6,919
<b>Cash flow for the period</b>	<b>-2,406</b>	<b>4,833</b>
<b>LIQUID ASSETS</b>		
Liquid assets at the beginning of the period	7,543	4,860
Translation differences	77	-93
Cash flow for the period	-2,406	4,833
<b>Liquid assets at the end of the period</b>	<b>5,213</b>	<b>9,600</b>

## Changes in Equity

	Jan. – March 2001	Jan – March 2000
Opening balance	35,120	33,347
Change in accounting policies	98	42
Change in tax rate	—	-10
Change in translation difference	889	-120
Net profit for the period	1,984	1,721
<b>Closing balance</b>	<b>38,091</b>	<b>34,980</b>

## Earnings per Share

	January – March		Full year
	2001	2000	2000
Number of shares ('000)	131,700	131,700	131,700
Earnings per share	15.07	13.07	22.5

## Key Ratios

(in per cent unless otherwise specified)

	April 2000 – March 2001	Jan. 2000 – Dec. 2000
Return on capital employed	9.1	8,9
Return on equity after standard tax	10.6	9,9

	Jan. – March 2001	Jan. – March 2000
Operating margin	28.9	30.4
Pre-tax profit margin	24.3	26.5
Equity-assets ratio	37.3	40.6
Debt cover, times	1.2	0.9
Interest cover, times	4.6	5.9

## Definitions

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

**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.

**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:** Equity (including minority interests) in relation to the balance sheet total at the end of the period less interest-arbitrage transactions.

**Debt cover, times:** Interest-bearing liabilities and provisions plus minority interests in equity 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.

(This report has not been audited by Vattenfall's auditors.)

Vattenfall's semi-annual report for 2001 will be published on August 29, 2001.

This report has been translated from the Swedish original.

