

**Vattenfall
Annual Report 2000**



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Photo Concept

A new millennium. A new bridge. New partners. These themes are reflected in Vattenfall's annual report 2000.

Architecture – like the energy supply system – is an expression of the culture, values and economic conditions of a society. In Sweden, the year 2001 has been designated the “Year of Architecture”.

To celebrate this event, the annual report depicts a number of primarily modern, public buildings from sites where Vattenfall has strong business interests. Let us take you on a tour of a variety of architectural sites. Join us in viewing the Øresund Bridge over the Sound between Sweden and Denmark. Then venture further afield with us and visit other countries in Europe, with a quick detour to our Nordic neighbours.

2000 in Brief

- Increased net sales
- Continued low electricity prices in the Nordic region
- Increase in profit, affected by significant non-recurring items
- Penetration of Poland and Germany
- Restructuring of Nordic assets



Financial Highlights

	2000	1999
Net sales (SEK m)	31,695	27,754
Profit before tax and minority interests (SEK m)	5,189	4,297
Return on equity after standard tax (%)	9.9	8.7
Return on equity after actual tax (%)	8.7	7.7
Return on capital employed (%)	9.7	9.3
Equity/assets ratio (%)	35.3	42.3
Cash flow from operating activities (internally generated funds) (SEK m)	5,830	6,224
Investments (SEK m)	23,840	7,916
Total electricity sales (TWh)	83.1	86.9
Total heat sales (TWh)	17.0	5.3
Total natural gas sales (TWh)	8.9	9.0
Average number of employees in the Group	13,123	7,991

About Vattenfall

Vattenfall sells energy – mainly electricity and heat – and energy-related products within each stage of the value chain. The Nordic countries, Germany and Poland are Vattenfall's domestic market. In 2000, about 2.2 million customers in the Nordic countries and northern Europe purchased the following products and services from the Vattenfall Group: electricity, heat, energy solutions, natural gas as well as network services, other services and consulting within the energy sector.

In 2000, Vattenfall took the first step towards expansion in northern Europe – outside the Nordic countries – with its acquisition of a majority stake in Elektrociepłownia Warszawskie (EW) which supplies electricity and heat in Warsaw and a minority stake connected to a partnership in the energy company, Hamburgische Electricitäts-Werke (HEW) in Hamburg. Vattenfall will become a majority owner of HEW in 2001. In August, HEW signed an agreement for further acquisitions in Bewag, which will give HEW a majority shareholding in the company. In December 2000, HEW signed an agreement to acquire a majority shareholding in VEAG Vereinigte Energiewerke AG (Veag) and Lausitzer Braunkohle AG (Laubag). In February 2001, Vattenfall acquired a minority stake in Gornoslaski Zakład Elektroenergetyczny (GZE) with an option to become a majority owner within two years. These acquisitions will make Vattenfall one of the largest power companies in Europe, with an electricity output of over 160 TWh and electricity sales of just over 180 TWh per year, compared with – in both cases – just over 80 TWh in 2000. The Vattenfall Group will have 6.5 million customers.

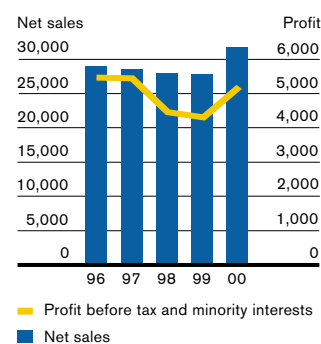
Vision

Vattenfall's vision is to be a leading European energy company.

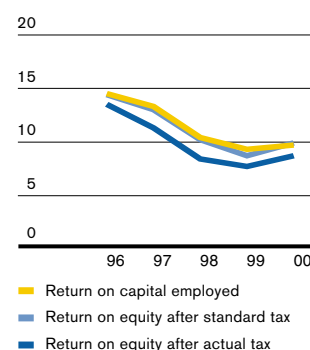
New Organization as of 2001

At year-end 2000, Vattenfall introduced a new organization and a new business control model. The new organization is decentralized with an executive group management team and thirteen business units. The new business units are independently responsible and report directly to the executive group management.

Sales and profit (SEK m)



Return on capital (%)



A Memorable Year in Vattenfall's History



Net sales for the Vattenfall Group increased by 14 per cent to SEK 31.7 billion. Profit before tax and minority interests increased by 21 per cent to SEK 5.2 billion. Lower margins in electricity generation, the investment in EW, HEW and Uppsala Energi and certain other items, had a negative impact on profit, altogether amounting to about SEK 600 million. A net amount of about SEK 1.5 billion in non-recurring items had a positive impact on profit, which meant that the profit for 2000, excluding the impact of non-recurring items, was somewhat less than that for 1999.

The year 2000 was a memorable year in the history of Vattenfall. The Group took decisive steps to implement the international strategy that the Board had established in 1997, whereby Vattenfall would evolve into a leading European energy company.

Deregulation, which is about to be introduced throughout Europe, is leading to rapid industry consolidation. In order for Vattenfall to sustain its competitive strength and participate in energy market development, it must be of an adequate size. For us as well as for our competitors, a substantial customer base is one prerequisite. Another is that we should be perceived by our customers as the best supplier on the market. We do not compromise on quality to our customers.

Ten years ago, there were about ten independent power companies in Sweden. Today, Vattenfall is the only independent Swedish power company with an adequate competence and sufficient size to participate in international competition. Our competitors are not primarily other Swedish companies but major international groups with a significantly larger sales volume and considerable financial weight. Previously, it was sufficient for us to first and foremost take into account conditions in Sweden and the Nordic countries. Today, we must not only think European, we must think globally.

Vattenfall is currently undergoing a major transformation. For the first time since Vattenfall was founded in 1909, its operations outside Sweden's borders will be larger than its domestic operations. In a short time, Vattenfall has devel-

oped into a northern European energy company, several times larger and considerably more complex than it used to be. Our vision is to be a leading European energy company. This means that we must become one of the five or six largest energy companies on the European market, that we must be perceived by customers as the best and that our financial ratios must be the best in the long run. This will benefit our customers in all of the countries where we operate in terms of securing reliable delivery, quality and attractive prices, while also creating, in the long term, an essential increase in value for our owner. It will also ensure Vattenfall's long-term survival as a competitive player and as the only major Swedish-controlled power company in Sweden.

Acquisitions in Germany and Poland

Through acquisitions in Germany and Poland, Vattenfall is penetrating the largest countries around the Baltic Sea.

The sizeable German electricity market, one of the most dynamic in Europe has, in a short time, undergone rapid and revolutionary transformation with mergers and restructuring. Vattenfall is one of the few foreign players that has managed to enter and penetrate this market.

Poland is in an expansive phase and the need for electricity is expected to increase. With its strategic location, Poland is an important platform for the development of co-operation with local customers and for Vattenfall's expansion in the rest of Europe.

Vattenfall's acquisitions are carefully thought out and make good business sense. Through these acquisitions, Vattenfall is transferring its strategic position from the regional market to the European arena and significantly reinforcing the basis for continued consolidation. We expect the acquisitions to be very profitable, after a transitional period.

Our priority over the next few years will be to create synergy and value in the new Group. The growth rate will decline. Vattenfall's aim is to manage its assets in an optimum way and to always be at the cutting edge of environmental management. Vattenfall can also offer a new perspective as well as new knowledge which will enhance the Group's competitive advantage.

High Environmental Ambitions

Almost 80 per cent of Europe's energy supply is dependent on fossil fuels. Nuclear power accounts for 15 per cent and the remainder mainly comprises hydro power and biofuels. The share of fossil fuels is expected to increase to 85 per cent by the year 2030.

Our investments in Germany and Poland include coal production, which is necessary for the energy supply in these countries. Most of the coal production meets high environmental standards. Vattenfall will strive to maintain a high level of ambition in its environmental work to develop new, innovative solutions.

An efficient means of reducing the total carbon dioxide emissions is to develop international systems for emissions trading and green certificates.

New Identity, New Organization

The new constellation of Vattenfall-owned companies will be considerably larger than the Group of the 1999 Annual Report. When the present transactions have been completed, net sales will almost quadruple from SEK 28 billion to about SEK 100 billion, the number of customers will triple from two to six million and the number of employees will increase fivefold from 8,000 to just over 40,000. Electricity sales will increase from 87 to about 180 TWh and heat sales will increase from 5 to 35 TWh.

The integration of the newly acquired companies requires the creation of a completely new constellation and the development of a European identity. The management of the company, the organization and the business control model must be adapted to the new conditions. We have created an integrated management process through a new organization and a new business control model. Our aim is to organize our operations to meet the needs of our customers and our business, with responsibilities and authority delegated to the business units. Our aim is to work for our customers, achieve transparency and reinforce our financial performance. Diminishing margins and intense competition mean that it is vital to increase efficiency and to cut costs.

Electricity Price Can Be Expected to Increase

Price trends are critical to profitability. The Vattenfall Group that is now emerging has a sales volume on the order of 170 billion kWh. Therefore, a consistent price increase or decrease of

1 öre* will be matched by an increase or decrease in revenue of SEK 1.7 billion. The deregulation of the electricity market revealed the overcapacity in the Nordic production system. This was heightened by a number of years of high precipitation and, consequently, an unusually abundant supply of hydro power. With the existing balance, the price can be expected to increase in a year with normal precipitation or in a year with low precipitation. We can see signs of a gradual increase in the electricity price on the Nordic and German markets.

Electricity companies must have efficient systems to ensure customer retention and at the same time earn a profit. Most of Vattenfall's operations are network-based and we intend to deliver network based superior services to our customers. The electricity network is a central element in the value chain which not only used to transmit electricity. Vattenfall is also participating in the development of a powerful broadband network with optical fiber cables along the power lines. The district-heating networks play a vital role in our heat sales. In particular, the virtual network is becoming increasingly important. Sales, procurement and other business relations are to a growing extent conducted via the Internet. We use these resources as a basis for providing effective energy solutions and first-class service in order to enhance the competitiveness, environment and quality of life of our customers.

Our aim is for Vattenfall to be perceived by customers as the best company in the industry. How we are actually perceived by customers will be reflected in our cash flow and this will determine our survival on a competitive market. Customer-orientation is one key to success. Committed and competent employees are another. The Vattenfall brand must be associated with these values.



Lars G Josefsson,
President and Chief Executive Officer
Stockholm, March 6, 2001

* 1 öre = SEK 0.01

Vision

“Vattenfall – a leading European energy company”

Vattenfall's vision is for the Group to continue to grow and become one of the five or six largest energy companies on the deregulated European market, with earnings that match the best. Vattenfall shall be perceived by its customers as the best company in the industry.

Mission

“Vattenfall's mission is to enhance its customers' competitiveness, environment and quality of life through a unique combination of efficient energy solutions and world-class service”

Vattenfall's mission expresses the conviction that customers demand intelligent solutions to their energy needs and that Vattenfall has the capacity and expertise to satisfy this demand.

Strategic Direction

Short-term

- to consolidate our position on our domestic markets: the Nordic countries, Poland and Germany
- to increase our customer base through acquisitions and alliances with other companies
- to focus on the differentiation of our core products for end-customers

Long-term

- the Group will focus on increasing shareholder value and customer value
- shareholder value and growth will be primarily secured through a larger customer base and through greater added value for customers as well as by continued investment in environmental improvements and in research and development

Our Present Challenge

- to ensure value creation in our newly acquired companies
- to increase synergies within the emerging Vattenfall Group in order to enhance value creation and improve our competitive advantage
 - to defend the Group's market position
 - to develop and improve customer relations throughout the value chain
 - to increase our earnings on our existing customer base
 - to optimize capital utilization
 - to develop as a learning organization

Objectives

A balanced scorecard was used during 2000 in the Vattenfall Group in order to quantify key success factors and to track performance in these areas. The balanced scorecard consists of five perspectives: Financial, Customer, Employee, Process and Development.

Financial Objectives

Since the Vattenfall Group was founded in 1992, financial objectives have been based on traditional accounting measures with the aim of combining competitive earnings with a healthy balance between capital strength and dividends. For 2001, these objectives have been changed in order to focus more clearly on value creation and growth.

Vattenfall's financial objective is to generate a return on equity after standard tax of around 15 per cent on average over each business cycle and to achieve an equity/assets ratio of at least 30 per cent. The Board of Directors intends that Vattenfall should pay stable dividends equivalent to one third of profit and around 5 per cent of adjusted equity.

Other financial objectives in 2000 related to company value and cost-efficiency.

Profit increased during 2000, but was affected by significant non-recurring items. The profitability objective was not attained.

The equity/assets ratio objective was met during 2000.

With the Board of Director's proposed dividend for 2000, the dividend objective of one third of profit has been reached while the dividend objective of 5 per cent of adjusted equity has not been met.

The objectives concerning company value and cost-efficiency were met.

In view of Vattenfall's strategic focus on growth, the financial objectives are under discussion. The focus is on maximum value creation and profitable growth. This means high growth in terms of the generated cash flow and sufficient profitability to create added value.

Other Overall Objectives for the Group

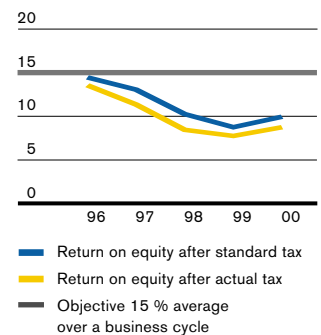
Vattenfall worked on improvements during 2000 concerning the other overall objectives for the Group. Considerable progress was noted.

Customer-related objectives focused on the Vattenfall brand in Sweden, Finland and Norway. In Sweden, objectives also focused on customer confidence and environmental responsibility. The objectives were attained and the Vattenfall brand has a good position in these countries.

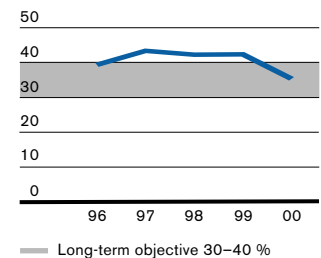
Within development, the environmental objective of implementing certifiable environmental management systems in all operations of importance to the customer was attained.

The other overall objectives for the Group were largely attained.

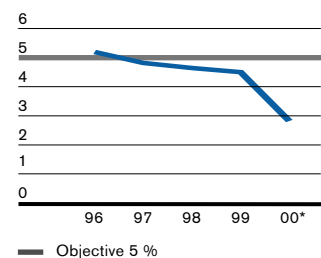
Return on equity, 1996–2000 (%)



Equity/assets ratio, 1996–2000 (%)



Dividend, 1996–2000 in relation to equity (%)



* Proposed dividend

Vattenfall – an Emerging European Group

The deregulation of the electricity market and new network connections are opening up opportunities to create a coherent northern European electricity market. In the long term, this will evolve into one European electricity market. For Vattenfall – one of the largest energy groups in the Nordic region and one of the largest electricity generators in Europe – the transformation, through partnerships and acquisitions, into a leading energy company in Europe, is a natural step.





berlin



Berlin is the headquarters of VEAG Vereinigte Energiewerke AG (Veag) which is responsible for the electricity supply in Germany's five eastern federal republics. Veag reports net sales of about SEK 20 billion and generates about 45 TWh of electricity and 3 TWh of heat in six large coal-fired power plants. As a result of plant retrofitting in the 1990's, these plants are now among the world's most efficient. Veag also owns the high-voltage transmission network and regional networks in eastern Germany. HEW has signed an agreement with E.ON and RWE to acquire 81.25 per cent of Veag. If the acquisition is approved by the Federal Cartel Office, Veag will be a part of the Group from 2001.

Berlin is also the headquarters of Bewag which generates and sells electricity, heat and services in the capital city. HEW has signed an agreement to acquire a majority stake in Bewag. The acquisition has been called into question by Bewag's shareholder, Mirant (formerly Southern Energy) and is being resolved by arbitration.

Building	Refurbishment of the houses of parliament
Address	Platz der Republik 1, Berlin, Germany
Architect	Foster and Partners (refurbishment)
Commissioned by	The Federal Republic of Germany
Built in	1995-99

Ongoing Internationalization of Vattenfall

Vattenfall has undergone considerable changes in recent years. In geographical terms, the scope of operations has grown so that the Nordic countries, Poland and Germany now together comprise a cross-border domestic market for the Group. In the early 1990's, Vattenfall operated more or less exclusively within Sweden's borders.

In 1997, Vattenfall's Board established a strategic direction whereby the company would grow and evolve into a European player. This strategy has been the basis for a number of business decisions that will transform Vattenfall into a northern European energy company with net sales that are several times greater and come from several sources – Germany, Poland, Finland and Sweden.

Northern European Focus for the New Vattenfall Group

To maintain a low electricity price on Vattenfall's domestic market and to create greater value for its owner, Vattenfall must increase its customer

base and create added value for its customers. A large customer base is a key factor in maintaining low costs and low prices.

Many of Vattenfall's competitors understand these demands and are now merging into larger companies. This consolidation is a consequence of the need to gain access to a large number of customers on the deregulated electricity market. In Sweden, this situation is evident since Vattenfall's larger competitors are now being acquired by major, foreign-owned companies.

During the nineties, Vattenfall achieved growth on the Scandinavian market. In Finland, Vattenfall is responsible for 14 per cent of the end-customer electricity market. In Norway and Denmark, where it has been more difficult to develop a business with a future potential, business volumes are more modest. Now, in the early 2000's, the entire Baltic region – and in particular Germany and Poland – is the focus of Vattenfall's growth strategy. Business in these countries is expanding considerably.

Vattenfall AB is now undergoing a major transformation. Mergers, asset exchanges and partnership agreements are creating a new con-

With its new acquisitions, Vattenfall is a significantly larger Group. The figures in the table are rounded-off and based on the most recent financial statements available (for the entire financial year of 1999 or for 1999/2000). In the case of the Vattenfall Group the figures apply for 2000.

	Net sales		Electricity	Heat	Electricity	Heat	Employees*	Vattenfall's	To be
	SEK m	EUR m	sales	sales	generation	generation		or HEW's	included in
			(TWh)	(TWh)	(TWh)	(TWh)		stake	Group (year)
Vattenfall Group 2000	31,700	3,740	83	17	84	17	13,100		
(of which, EW)	(2,500)	(290)	(3)	(12)	(3)	(12)	(4,100)	55	2000
HEW group	19,700	2,330	21	4	16	3	7,000	71 **	2001
Veag	19,100	2,250	49	3	45	3	6,300	88 **, ***	2001
Laubag	6,000	700	–	–	–	–	5,900	95 **, ***	2001
Bewag	14,900	1,750	15	8	11	9	6,400	60 **, ****	possibly 2001
GZE	4,200	490	11	–	–	–	3,200	32 **, *****	2003
Total	95,600	11,300	179	32	156	32	41,900		

* Number of employees, in some cases the average figure for the year, in other cases, the figure at balance sheet date

** Holding in accordance with a contract or as agreed

*** HEW will become a majority shareholder in accordance with a contract which is to be reviewed by the Federal Cartel Office in spring 2001

**** HEW will become a majority shareholder in accordance with a contract. The matter is to be resolved by arbitration in spring 2001

***** According to a contract, Vattenfall will become a majority shareholder within two years

The following exchange rate was used: 1 EUR = SEK 8.48.

The Group is considerably expanding its operations during 2001, through acquisitions in Germany and Poland. Net sales, generation, sales volumes and Vattenfall's stake in the companies that Vattenfall has acquired or agreed to acquire are reported in the table. For the purpose of comparison, the corresponding figures are reported for the "old" Vattenfall, namely, Vattenfall prior to the acquisitions. The companies are Elektrociepownie Warszawskie S.A. (EW), Hamburgische Electricitäts-Werke AG (HEW), VEAG Vereinigte Energiewerke AG (Veag), Lausitzer Braunkohle AG (Laubag), Bewag AG and Gornoslaski Zaklad Elektroenergetyczny S.A. (GZE).



Warsaw



EW is located in Warsaw. EW is responsible for generating heat for district-heating and for generating a part of the electricity supplied to the capital city. Through Vattenfall's ownership of a 55 per cent stake in the company, EW has been a part of the Vattenfall Group since spring 2000. Vattenfall has also signed an agreement to acquire 32 per cent of GZE in Gliwice in southern Poland. This company is the largest of Poland's 33 electricity distribution companies and has 1.1 million customers, just over SEK 4 billion in net sales and sells about 11 TWh of electricity. Under Vattenfall's agreement with the Polish state, Vattenfall will become a majority shareholder within a couple of years.

Building	Supreme Court
Address	Plac Krasynskich 2/4/6, Warsaw, Poland
Architect	Marek Budzynski, Zbigniew Badowski Architects
Commissioned by	The Polish state
Built in	1996-99

stellation where Vattenfall is the dominant force. Operations are mainly based in four countries: Sweden, Finland, Germany and Poland. The new Vattenfall Group will be considerably larger than that described in the 1999 Annual Report. Once the current business transactions have been completed, net sales will more or less quadruple from SEK 28 billion to almost SEK 100 billion, the number of customers will triple from two to six million and the number of employees will increase fivefold from 8,000 to just over 40,000. The Group's electricity sales will increase from 87 to 180 TWh and heat sales will increase from 5 to 35 TWh.

This increase is being achieved through Vattenfall's acquisition, in 2000, of 55 per cent of Elektrociepłownie Warszawskie S.A (EW), with electricity and heat generation in Warsaw, as well as through an initial acquisition of 32 per cent of Gornoslaski Zaklad Elektroenergetyczny S.A. (GZE) early in 2001. GZE's headquarters are in Gliwice and the company distributes electricity to just over one million customers in southern Poland. According to the agreement concerning GZE, Vattenfall will, within two years, own the majority of shares in the company, through additional share acquisitions and directed share issues.

The second major step is that, Vattenfall, under an agreement reached in October 2000, will acquire the majority shareholding in Hamburgische Electricitäts-Werke (HEW) in 2001. In turn, HEW reached an agreement in December 2000, to acquire a majority stake in VEAG Vereinigte Energiewerke AG (Veag), with power generation and transmission operations in eastern Germany, and in Lausitzer Braunkohle AG (Laubag), which conducts lignite mining. More than 90 per cent of Laubag's coal production is being sold to Veag for power generation. The acquisitions will be reviewed by the German Federal Cartel Office in spring 2001.

In August 2000, HEW also signed an agreement to acquire 49 per cent of the Berlin-based energy company, Bewag AG, which would give HEW majority ownership of Bewag. The acquisition is being settled by arbitration in spring 2001 between the seller, E.ON, and Bewag's minority owner, Mirant Corporation (formerly Southern Energy).



Fewer and Larger Players

Many of Europe's major power generators have entered new markets. Major business deals are constantly being made, with a consolidation and reduction in the number of the traditional power companies. The diminishing margins resulting from the deregulated electricity market are driving the industry to seek increasing economies of scale. At the same time, resources must be channelled in order to effectively target prioritized markets.

New Products and Sector Convergence

As the margins in electricity sales have diminished, Vattenfall has successively broadened its product range. Vattenfall and other players in the previously well-defined electricity industry, are expanding into new businesses such as telecommunications and broadband. At the same time, a similar trend is occurring in other industries so that oil companies, for example, are now starting up electricity trading businesses. The traditional industry concepts are, therefore, losing their relevance with increasing sector convergence. Substantial resources are required to cope with the broadening of the industry. This means that only major players have the necessary resources to participate in industry restructuring. Vattenfall believes that, over the next few years, additional mergers will occur in the industry so that, in five to ten years, only a handful of players will remain and these will dominate the northern European markets. Vattenfall intends to be one of these.

Asset Management Plays an Increasingly Central Role

Since the generation and distribution of electricity and heat are capital-intensive operations, considerable financial strength is required to cope with the ongoing process of concentration. To reinforce its efforts, Vattenfall is focusing on expansion exclusively in northern Europe.

Historically, Vattenfall has expanded by building new generation facilities and by incorporating new, often municipality-owned, businesses into the Group. On the other hand, it has been less common for Vattenfall to dispose of plant and companies. Vattenfall's expansion strategy includes a more active management of group assets, where the acquisition and disposal



Hämeenlinna



The city of Hämeenlinna is the headquarters of Vattenfall Siirto Oy, the rural network company, formed by the first two electricity distribution companies acquired by Vattenfall, Hämeen Sähkö and Lapuan Sähkö. In 2000, Vattenfall also acquired Hämeenlinnan Energia, a company which sells electricity, heat and gas in the city of Hämeenlinna. The district-heating company, Vattenfall Kaukolämpö, is also located in Hämeenlinna.

- Building** Häme Castle
- Address** Hämeenlinna, Finland
- Architect** Original architect unknown.
Restored by N E Wickberg
- Commissioned by** Ministry of Education
- Built in** 1239 or 1249
- Restored in** 1956–79

of plant and other assets will be reviewed on a continuous basis in order to obtain maximum utilization from the Group's available resources.

The expansion into the German and Polish markets has increased the diversity of generation resources in Vattenfall's portfolio. Hydro and nuclear power plants are the dominant generation facilities in operations within the Nordic region. With the expansion into Poland, large-scale, fossil-based power and heat generation facilities have now been included and, when the transaction with HEW is completed, coal-fired and nuclear power plants in Germany will be added.

Vattenfall has high environmental ambitions and will operate these facilities to meet high demands on environmental performance.

Cross-border Harmonization

Developments on the northern European electricity markets are currently driven by inherent free-market dynamics. On the initiative of the European Union, the European market for electricity and gas has begun to open up to competition. Legislation has been amended and the competition and regulatory authorities are pursuing clearer lines of action. This has resulted in rapidly intensifying competition with considerable structural changes.

However, one area that has not adapted to the new conditions is the national legislation for taxes and charges on energy sector operations. In spite of cross-border trading in full competition, differences in taxes and charges are allowed to distort competition between companies. This is a result of the fact that the different countries have different views of reasonable tax and charge levels.

In the long run, these differences must be reduced. The governments of these countries must find common, harmonized solutions. If this cannot be done, it will be very difficult for companies to risk building new generation facilities, particularly in countries with high generation taxes and relatively high taxes and charges on emissions of

environmentally hazardous substances that can lead to climate change.

Furthermore, the European countries' implementation of their obligations under the Kyoto Protocol is of importance to the industry. Since there are very high emissions throughout the area, solutions should be found that provide the desired reduction in greenhouse gas emissions at the lowest possible cost. Therefore, in Vattenfall's view, solutions that are based on emissions trading with participation from the companies concerned should be sought. How the European Union deals with this issue will be an important factor.

New Control Models Introduced

A natural consequence of the acquisitions made and of the Group's focus on northern Europe is that significant changes in Vattenfall's organization must be implemented. The aim is to achieve efficient control in order to promote synergies between the "old" Vattenfall and the acquired businesses.

A new organization for the Group was introduced at the beginning of 2001. The former organization, which was based on business areas, has been replaced by thirteen business units. In the new organization, the executive group management plays a primarily strategic role, focusing on long-term financing and development issues.

Generation Nordic Countries has a production capacity corresponding to 20 per cent of the electricity consumed within the Nordic countries. The electricity generated is sold within Vattenfall and to the Nordic Power Exchange, Nordpool.

Electricity Networks Sweden and **Electricity Networks Finland** are responsible for the ownership, operation and maintenance of all electricity networks and for sales of electricity network services in each of these countries.

Sales Sweden, Sales Finland and **Sales Norway** are responsible primarily for energy sales as well as for products such as telecommunications, intelligent services and energy services.

Sales are directed to retail customers, energy companies, industries and other companies. Sales Sweden is also responsible for sales in Denmark. Each business unit not only focuses on developing a profitable and expanding business with a broad product range for the mass market but also on providing superior products and services for major customers.

Mega provides electricity, energy services, one-stop energy solutions, Färdig Värme (Ready Heat) and other products to selected, major corporate groups which have signed comprehensive agreements with Vattenfall. Vattenfall intends to work with these customers on a global basis.

Vattenfall is one of the main European players on the wholesale electricity market. **Supply & Trading** is responsible for the Group's physical and financial trading in electricity and other energy-related products, including electricity with eco-labels and environmental product declarations. Portfolio management for external customers and the Group's risk management operations for electricity belong to this business unit.

Part of these operations will be conducted through the trading company, Nordic Powerhouse in Hamburg, which is jointly owned by Vattenfall and HEW. (See also pages 26 and 38).

Heat Nordic Countries is responsible for heat sales and owns and operates facilities for combined heat and power, district-heating and Färdig Värme in the Nordic and Baltic countries.

Services conducts consulting, contracting and R&D activities within the energy, infrastructure and industry sectors.

Business unit **Germany** has overall responsibility for all operations in Germany, apart from large industrial and business (Mega) customers from the Nordic countries.

Business unit **Poland** has overall responsibility for all operations in Poland, apart from trading and Mega customers from the Nordic countries.

New Business is responsible for establishing new activities in areas that complement the core business. Infocom is one such example, where the infrastructure and the range of services both complement existing operations.

Business Unit Vice Presidents and General Managers

Generation Nordic Countries

Alf Lindfors

Supply & Trading

Erik Hagland

Sales Sweden

Jan Åke Karlsson

Sales Finland

Maija-Liisa Friman

Sales Norway

Sigge Eriksson

Mega

Jörgen Josefsson

Electricity Networks Sweden

Per Hallberg

Electricity Networks Finland

Lauri Virkkunen

Heat Nordic Countries

Göran Hindemark

New Business

Lennart Åsander

Services

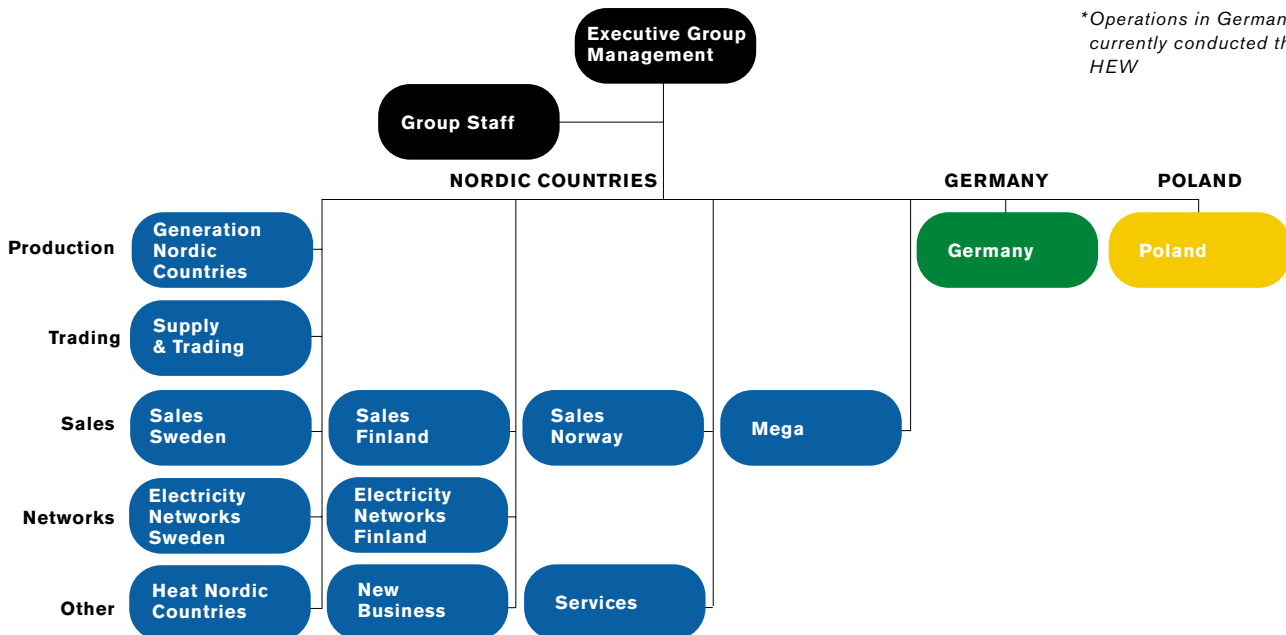
Gunnar Axheim

Germany*

Poland

Hannu Kostiainen

*Operations in Germany are currently conducted through HEW



Comparisons with Competitors – Market Position 1999

The operating margins of the European companies declined in 1999 as a result of lower electricity prices than in 1998. Vattenfall, like the rest of the industry, underwent major changes in 2000. The consolidation of players into fewer and larger companies continues. Increasing sector convergence makes it difficult to compare the performance of the different companies.

The comparison below was performed on the basis of the 1999 annual accounts, since more recent data was not available, and on the basis of Vattenfall's definitions of financial ratios, see page 72. The diagrams below show the result of the comparison with respect to the return on equity and return on capital employed, operating margin, equity/assets ratio, interest cover and debt cover.

In 1999, Vattenfall reported a return on capital employed which was on a par with the average of the companies analyzed. On the other hand, the return on equity, debt cover and interest cover were somewhat below average, while the equity/assets ratio was much higher than the average in the comparison. The operating margin was somewhat higher than the average.

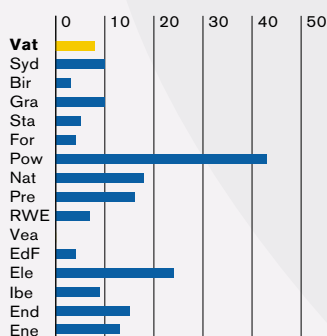
Full comparison is not possible. Certain companies (especially those in Germany) apply accounting policies and assumptions that are different from those used in Sweden. In some cases, this has a significant impact on the ratios. The main difference is the way funds are allocated for the future expenses of the management of nuclear waste. In Germany, the companies each make internal provisions and these are reported as non-interest-bearing liabilities. This considerably reduces the capital employed in the German companies and enhances the ratios calculated on this basis.

The Swedish power companies pay fees corresponding to the future expenses of the management of nuclear waste to the Nuclear Waste Fund.

The structure of the industry in Germany changed considerably in 2000 with several mergers among larger players. PreussenElektra merged with Bayernwerk to become E.ON Energie AG. RWE merged with VEW. A condition for the mergers was that the two new energy groups should dispose of certain holdings, including the those in Bewag, Veag and Laubag.

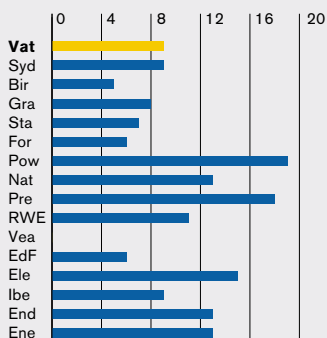
HEW, Bayernwerk and VEW are not included in the comparison below.

**Return on equity
after actual tax (%), 1999**



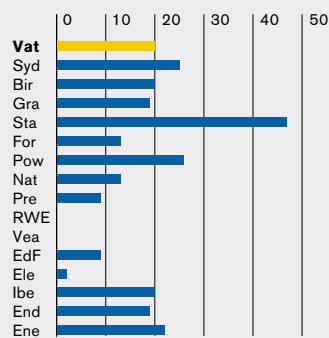
Vattenfall's return on equity is just over 8 per cent, which is below the average of almost 12 per cent. Profitability varied considerably between the companies, from negative values to just over 40 per cent. The high figure for PowerGen is due to a significant extraordinary income.

Return on capital employed (%), 1999



Vattenfall's return on capital employed was on a par with the average of about 9 per cent. PreussenElektra and RWE Energie had large reserves which were reported as non-interest-bearing liabilities and which resulted in relatively high return on capital employed values.

Operating margin (%), 1999



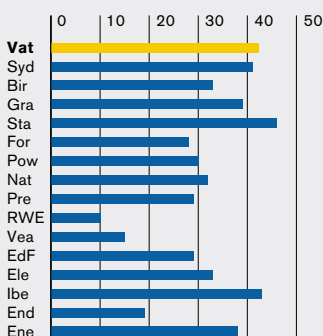
Vattenfall's operating margin was 20 per cent, compared with the average of 17 per cent. A sharp drop in the electricity price led to severely diminished margins, particularly for the German companies. Statkraft's high margin is due to the fact that generation is based on inexpensive hydro power while those companies with high fuel costs, such as the British and German companies, reported lower margins.

The following 16 companies are included in the comparison for 1999:

Company	Country	Electricity sales (TWh)	Net sales (SEK billion)	Electricity and network's share of net sales (%)	Significant other business	Listed on the stock exchange
Vattenfall	SE	87 ****	28	85	Heat, natural gas, IT and contracting services	-
Sydkraft	SE	29	15	70	Natural gas, heat, IT and consulting	X
Birka Energi*	SE	24	13	68	Heat, cooling, gas, telecom	-
Graninge	SE	6	3	55	Forestry**, heat	X
Statkraft	NO	35	6	81	Service	-
Fortum Power and Heat	FIN	44	19	59	Heat	X (parent company) Fortum)
PowerGen	UK	47	53	95	Gas, Internet	X
National Power (now split into Innogy and International Power)	UK	48	51	95	Gas, real estate management	X
PreussenElektra (merged with Bayernwerk to become E.ON Energie in 2000)	DE	110 (191)	67	78	Gas, water	X (parent company) E.ON)
RWE Energie (merged with VEW to become RWE Energie in 2000)	DE	141 (209)	58	89	Gas, heat, water	X (parent company)
Veag	DE	50	20	96	Heat	-
EdF	FR	469	282	100		-
Electrabel	BE	72	52	75	Natural gas, heat	X
Iberdrola	ES	66	56	98	Telecom, IT	X
Endesa	ES	146 ***	117	99	Mobile telecom	X
Enel	IT	231	193	92	Mobile telecom, gas	X

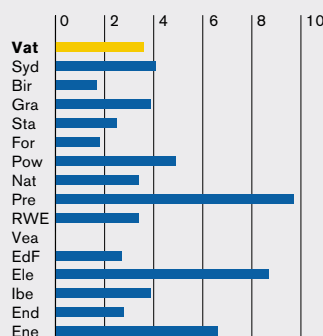
* 50%-owned by Fortum ** Forestry business disposed of in 2000 *** Of which, about 50 % in Spain **** Of which, 63 % in Sweden

Equity/assets ratio (%), 1999



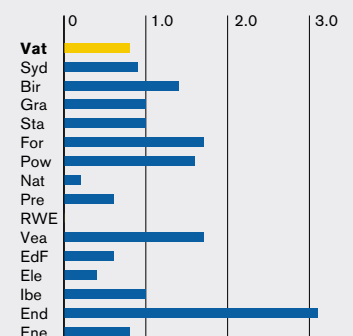
Vattenfall's equity/assets ratio is above average (32 per cent). Due to acquisitions, certain companies have a reduced equity/assets ratio. German companies have low ratios because the reserves for the future management of nuclear waste are booked as liabilities and are primarily shown as liquid assets on the balance sheet.

Interest cover (times), 1999



Interest cover varies considerably between the companies. The average is 4. Vattenfall's interest cover of just over 3 times is comparatively low. Some of the companies report much higher values due to a very low interest expense.

Debt cover (times), 1999



The average debt cover was 1.1 times, compared with Vattenfall which has a debt cover of 0.8 times. There is a considerable spread between the companies. Some companies report very low figures due to a relatively low proportion of interest-bearing liabilities in relation to equity.

Shared Responsibility

Vattenfall's ongoing penetration of the European energy market is a major challenge for the company.

Vattenfall's attitude to its customers, its owner, sponsors and employees and its approach to research and development, environmental work and to brand management are not only key factors for success on the market. These factors are also vital for Vattenfall if it is to continue to be an attractive employer. Transparency with shared responsibility and a strong sense of commitment throughout the Group are essential to meet the challenge. Vattenfall is now developing a new identity.

Corporate Culture

The corporate culture is the "glue", or the core values that hold the company together.

A new corporate culture is now emerging in Vattenfall. A power generation culture has traditionally dominated the electricity industry all over the world. Deregulation and the creation of new products and services have made customer and market-orientation increasingly important. The emergence of a common European energy market and Vattenfall's penetration of Germany, Poland and other countries clearly require new ways of working and a new corporate culture.

The degree of market-orientation varies in the Vattenfall business units since the deregulation of the electricity markets has occurred at different times in different countries. However, the diverse corporate cultures in the current and emerging Vattenfall Group will eventually blend into a coherent culture. The identity of the Group must change, merging from a broad cultural base into a distinct European group identity. Over the next few years, Vattenfall will prioritize efforts to develop a corporate culture characterized by a respect for differences in traditions and ways of working.

Competence Development

Vattenfall's vision places demands both on Vattenfall as an employer and on its employees. Vattenfall's work culture is changing in order to adapt to the new and emerging market conditions. While this creates opportunities for personal development, it is up to each employee to take the initiative to use these opportunities for their own development. Opportunities for development abound in times of rapid expansion, such as these, with continued European deregulation, greater customer focus and the introduction of innovative products and services. As new markets evolve, so does the chance to work in an international, multicultural environment.

In order for Vattenfall to attain its overall objectives, it is important for the company to unlock the combined competence and potential of all of its human resources. Consequently, managers have a major responsibility for creating the motivation and commitment to fuel the ongoing process of change.

A clear and deliberate process for transforming the way of working will create added value for Vattenfall's customers, its owner and its employees, while strengthening the Vattenfall brand and paving the way for a positive business development.

An Attractive Employer

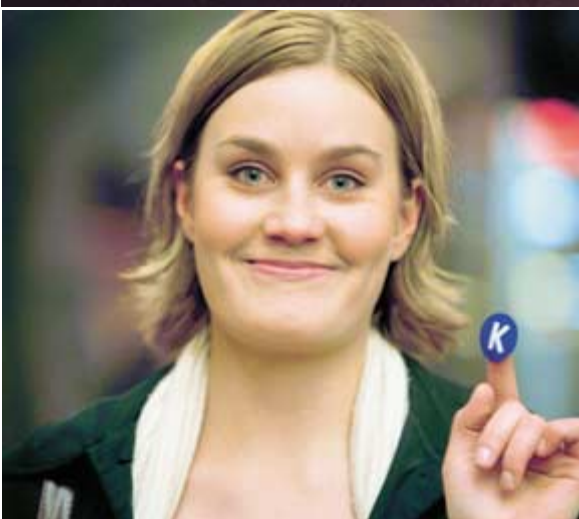
Vattenfall's aim is to continue to be an attractive employer. This is reflected in how the company works with employer and employee-related issues.

In times of rapid change, the organization must be able to deal with the anxiety that groups or individuals may experience when many of the traditional ways are questioned and changed. Therefore, Vattenfall's human resource management policy must be guided and characterized, in the long term and on a day to day basis, by con-





helsinki



Through its penetration of Finland, Vattenfall has actively contributed to an effective competitive situation on the electricity market. Vattenfall now has a market share in Finland of 14 per cent, through acquisitions conducted by Vattenfall Oy, the parent company of the Finnish group. The most recent acquisitions are Keski-Suomen Valo Oy and Hämeenlinnan Energia Oy.

Vattenfall Oy, which is located in Helsinki, is responsible for the shared functions of the Finnish group such as business development, acquisitions, business administration and financing as well as legal affairs and IT. The headquarters of the sales company, Vattenfall Sähkömyynti Oy and the generation company, Vattenfall Sähköntuotanto Oy, are also located in Helsinki.

From 2001, Vattenfall is one of Kiasma's main partners.

- Building** Kiasma, Museum of Contemporary Art
- Address** Mannerheiminaukio 2, Helsinki, Finland
- Architect** Stephen Holl Architects
- Commissioned by** Ministry of Education
- Built in** 1996–98

cepts such as openness, security, competence and caring.

The Vattenfall Management Institute conducts comprehensive development programmes for managers at various levels and, in 2000, the number of course participants from newly acquired, non-Swedish parts of the organization increased.

Vattenfall's recognition of the link between mental well-being, physical health and the work situation is the basis for a comprehensive keep-fit programme for employees of the Group. The programme, called "Active Team", includes various health-related activities including workouts, diet and nutrition.

The personnel turnover within Vattenfall has increased somewhat in recent years, to 5.9 per cent during 2000 (4.8). These figures do not include EW in Poland. The increased mobility is in stark contrast to the historical trend in the industry, where lifetime employment with a single company was not uncommon. This resulted in, and still results in loyal, professional employees who provide a solid basis for business operations. Nevertheless, we live in a world of constant change. Greater labour market mobility is now perceived as a positive factor – for Vattenfall and for its employees – in that it increases recruitment opportunities for the Group while revitalizing the organization, adding new impulses and knowledge.

Processes and Routines

The Group must continue to improve the efficiency of its operations and maintenance processes. Procurement, customer relationship management, marketing and sales can also be made more efficient through well-designed processes and routines where economies of scale and new opportunities created by e-business are utilized.

One example is Eutilia, a portal started by Vattenfall in January 2001, together with ten other European power companies. This is a neutral electronic marketplace for suppliers and

buyers within the power industry and other infrastructural sectors. Initially, the focus of business is on the procurement of power supply equipment.

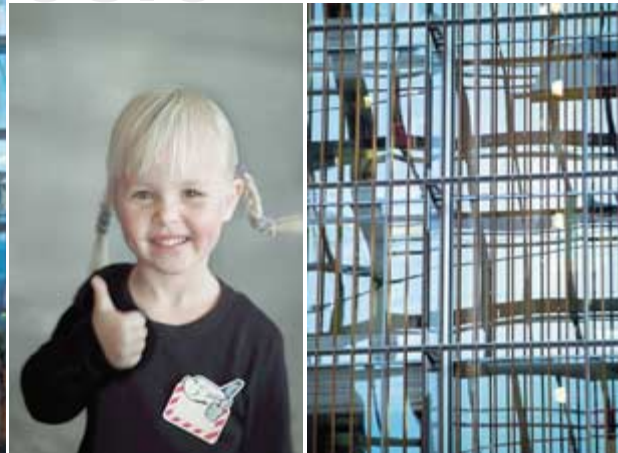
A central feature of Vattenfall's efficiency improvement strategy is to separate two functions: ownership and operations. This is achieved by creating individual companies for operation and maintenance that compete on the open market while the ownership function concentrates on efficient asset management and development. These changes have been implemented in the organizations in the Nordic countries. Vattenfall is also working on improving the efficiency of its existing processes and, in 2000, started to implement shared processes for human resources, business administration, procurement and plant. A Shared Service Center is planned for these areas.

The Group's Finnish company, Hämeen Sähkö, is a prime example of the exceptional progress made in efficiency improvement. Since 1996, quality-related work has developed and become integrated into operational control and this has resulted in a substantial increase in efficiency in the company. Hämeen Sähkö's performance trend is very positive, regardless of the efficiency measure applied, and the success of the company in this area has been communicated to other parts of the Group.

R&D and Product Development

Research and development is vital for Vattenfall's success on the highly competitive electricity market. Previously, the focus was on technology development for production and maintenance. Today, the focus is increasingly on developing solutions to meet market needs. Vattenfall's product portfolio now includes products with environmental declarations. In Sweden, Vattenfall sells electricity generated by hydro power and wind power plants, with environmental product declarations. Together with Shell, HEW has more than 2,000 customers who have signed agreements for certified green electricity in Hamburg. Vattenfall has also prepared the ground for fur-





Vattenfall owns 49 per cent of the shares in Oslo Energi AS, a company that sells electricity in Norway and which is based in Oslo. In 2001, Oslo Energi Holding, which owns the remaining shares, will sell its shares to Vattenfall, in accordance with an agreement. The parent company for operations in Norway, Vattenfall Norge AS, is also located in Oslo. The parent company targets major industrial companies. Vattenfall Norge AS is a minority shareholder in Hafslund ASA, Fredrikstad Energi and Fredrikstad Energinett. These holdings will be sold in 2001 as part of the acquisition of a majority stake in HEW. Subsequently, Vattenfall will only conduct sales operations in Norway.

Building Oslo Airport
Address Gardemoen, Norway
Architect Niels Torp
Commissioned by The Civil Aviation Administration, Norway
Built in 1993-98

ther developing this type of product to meet demand.

The development of products and services that create added value for the customer and increase customer loyalty is a central aim for all R&D within the Group. In its market-oriented R&D, Vattenfall is concentrating on developing intelligent services, infocom and other services in order to strengthen its customer relationships.

Even if the focus of R&D is on developing immediate, market-related solutions, Vattenfall also works with long-term issues in its Sustainable Solutions project. Sustainable Solutions comprises a number of projects carried out together with customers to find effective solutions for the future throughout the entire chain, from generation to distribution and finally energy use.

Vattenfall owns and operates energy facilities located at industrial customer sites and provides these customers with various energy solutions. R&D to develop efficient energy solutions for major industrial customers is a priority area. One example is the use of industrial biofuels with cost and environmental benefits. Work is underway to increase the efficiency of parts of major industrial processes, based on the development and adaptation of methods and expertise created for different applications. The focus is currently on processes within the pulp and paper industry.

Vattenfall has ordered a new wind power plant, Näsudden III, which is an enhancement of previous development work, and which is being prepared for future offshore use. The supplier is a consortium comprising Scanwind and ABB. The

Vattenfall's environmental policy, adopted in 1999, expresses the Group's approach to environmental issues as follows:

"Vattenfall's actions on environmental issues will create the necessary conditions for ensuring a positive business development and for reinforcing Vattenfall's competitive strength. By implementing continuous improvements and by adopting a comprehensive approach, we aim to set an example on the markets where we operate.

Innovation We strive to achieve sustainable development through innovative system solutions and the efficient use of resources.

Openness We create trust by maintaining an open dialogue concerning our environmental work and the environmental impact of our products.

Security We comply with the relevant legislation, regulations, stipulations and our own environmental requirements. We take preventive action to reduce our environmental impact and we assess, in advance, the impact of new activities. We also demand that our suppliers, contractors and business partners comply with the requirements.

Knowledge We are competent and committed to environmental issues and this helps us to make sound business decisions.

Caring We protect nature and focus on human health and safety. In accordance with our core values, our actions are characterized by respect for the cultures, customs and values of the countries where we operate."

technology is based on ABB's development of the Powerformer generator and the High Voltage Direct Current light cable (HVDC-Light). The wind power plant has a capacity of 3 MW and will be constructed at Näsudden, Gotland at the end of 2001.

Vattenfall has also started a project for offshore wind power in the southern part of the Kalmar Sound (the "Karlskrona Vindkraft Off-shore" project). The proposal is that the first stage should comprise five wind power plants with a total capacity of 17.5 MW and an output of about 54 GWh/year, equivalent to the electricity consumption of 12,000 households. The strategy behind the project is to prepare Vattenfall for a future expansion of offshore wind power.

Further development work focuses on the use of biofuels and other renewable fuels, solar energy systems and mini CHP plants. Vattenfall is at the cutting edge of the development and testing of new types of energy and new energy technology.

In 2000, Vattenfall invested SEK 481 million in R&D and SEK 93 million in product development. This total of SEK 574 million corresponds to 1.8 per cent of net sales. The Swedish Nuclear Fuel and Waste Management Co (SKB) accounted for SEK 273 million of the R&D spend.

Environmental Policy for Sustainable Development

Vattenfall's environmental policy expresses the Group's approach to environmental issues. The aim is to direct the transformation of operations towards sustainable development, integrating cost-efficiency, low environmental impact and social responsibility.

Through environmental management and continuous improvement, the flow of substances in the processes is controlled and operations are developed to minimize their environmental impact. Vattenfall provides its customers with complete solutions that are material and energy-efficient, reliable and economically viable.

Environmental Considerations in Daily Work

Vattenfall considers the environment to be a natural part of business operations.

Through an open and unbiased attitude to new findings on the state of the environment, signals about future market demands and restrictions are picked up at an early stage. Vattenfall always aims to make timely strategic decisions instead of being forced to make corrective re-investments and other short-term changes in its operations.

The executive group management is responsible for strategic and long-term environmental issues.

Vattenfall does not have a separate environmental organization. Environmental work is conducted as part of daily work at all levels within the Group. Responsibilities for operational environmental work and for environmental protection are linked to the operational responsibilities in the organization.

Most of Vattenfall's activities are conducted in accordance with an environmental management system. Several of these activities are certified under ISO 14001 and some of the facilities are also registered in accordance with EMAS. See the list of environmental certificates in the adjacent table.

Acquisitions Create New Challenges for Environmental Work

Through the company acquisitions agreed upon in 2000, the Vattenfall Group, described on page 10, can grow and become one of Europe's largest energy groups with extensive operations in Poland and Germany. Vattenfall has been the dominant player on the Swedish energy market, with significant operations in the rest of the Nordic countries. Through the acquisition of Uppsala Energi, Vattenfall has added refuse combustion and peat harvesting to its business activities.

The German and Polish energy markets differ

List of Environmental Certificates

ISO 14001

Gotlands Energi-försäljning AB, Sweden	2000
Gotlands Energi-entreprenad AB, Sweden	2000
Gotlands Energiverk AB, GEAB, Sweden	2000
Lapuan Sähkö Oy, Finland	2000 *
Heinola Energia Oy, Finland	2001
Vattenfall Sähkömyynti Oy, Finland	2000
Vattenfall Kaukolämpö Oy, Finland	2000
Vattenfall Sveanät AB, Sweden	2000
Vattenfall VätterEI AB, Sweden	2000
Vattenfall Bråviken AB, Sweden	2000
Vattenfall Energy Market, Sweden	1999 *
SwedPower AB, Sweden	2001 **
Vattenfall Naturgas AB, Sweden	1999
Hämeen Sähkö Oy, Finland	1999 *
Ringhals AB, Sverige	1999
Forsmarks Kraftgrupp AB, Sweden	1999
Uppsala Energi AB, Sweden	2000

EMAS Registrations

Vattenfall Drevviken Värme AB, Jordbro Thermal plant, Sweden	2000
Älvkarleby Power plant, Sweden	1999
Bodens Power plant, Sweden	1999
Bergeforsen Power plant, Sweden	1999
Ringhals AB, Sweden	1999
Forsmarks Kraftgrupp AB, Sweden	1999
Uppsala Energi AB, Sweden	2000

Other Environmental Certificates

EPD, Hydro power from the Lule River, Sweden	1999
EPD, Nuclear power from Forsmarks Kraftgrupp AB, Sweden	2001

* As of January 1, 2001, re-organized under another name
 ** Several will be replaced by new certificates due to company mergers

from the Nordic market in several ways. From the environmental standpoint, the main difference is the large share of fossil fuels used for electricity and heat generation.

Vattenfall places great emphasis on identifying the nature and size of the environmental risks in connection with new acquisitions. Therefore, Vattenfall has acquired knowledge and developed methods to carry out environmental business risk assessments in connection with acquisitions. Environmentally-related business risks and opportunities are analyzed as an integrated part of the overall risk. Vattenfall also continuously analyzes changes in the risk situation.

Vattenfall's aim is to conduct its operations in accordance with the principle of sustainable development. The climate issue is central to this approach. In 1999, carbon dioxide emissions from Vattenfall's facilities totalled about 150 kilotonnes. When facilities in Warsaw were taken over, this figure increased to about 7,000 kilotonnes in 2000. Through possible additional acquisitions in Germany, the total carbon dioxide emission from Vattenfall's facilities will increase further during 2001. Efficiency improvement work to reduce carbon dioxide emissions and to attain climate-related targets will continue.

Climate Issue Important

The impact of man on the global climate is perceived as a serious threat to our environment and to the western way of life. In Sweden, restrictions and charges have been introduced in order to steer society towards reduced carbon dioxide emissions. In Vattenfall's view, this issue will remain on the political agenda and will continue to be strategically important for a long time to come. Additional measures, such as higher charges for climate gas emissions, can be expected at the same time as more stringent market demands will be made. Vattenfall assumes that tax

regulations and restrictions will be harmonized in the long run throughout the European Union. Until this has been achieved, there is a risk that emissions of carbon dioxide will be transferred between the European countries instead of being reduced. In Vattenfall's opinion, a system of emissions trading where companies can participate, is an important instrument for steering work in the right direction, for achieving cost-efficiency and for ensuring equality between different countries and companies.

In the long term, carbon dioxide separation and storage has considerable potential. From this perspective, coal could be considered to be a sustainable fuel. Vattenfall intends to follow and actively participate in developments to separate and store carbon dioxide on a commercial basis in order to minimize the impact of fossil fuels on the climate.

In the short term, Vattenfall has, in recent years, converted several small oil-fired heat facilities so that they can be fired by biofuels. Vattenfall is one of Sweden's largest users of biofuel for heat generation. Several large and small wind power plants have also been recently built. In 2000, Vattenfall was Sweden's largest wind power producer, generating 33 GWh.

Reduced Emissions

Through new acquisitions, Vattenfall has taken over a number of facilities which release pollutants to the air, including sulphur and nitrogen oxides which form acidic compounds. During 2001, there will be additional facilities of this type since HEW and thus possibly also Veag and Bewag, will be included in Vattenfall. Through the measures that are planned or that have already been implemented, Vattenfall will have Europe's most efficient and most environmentally-adapted coal-fired facilities. Since the early 1990's, Veag, which operates in eastern Germany,

has carried out an extensive modernization of its power plants. This has resulted in a drastic reduction in carbon dioxide (51 per cent), sulphur dioxide (92 per cent), nitrogen oxides (57 per cent) and dust (99 per cent). Through the lower carbon dioxide emissions, Veag is actively contributing to the fulfillment of Germany's obligations under the Kyoto Protocol. Veag currently has Europe's most modern and environmentally-adapted coal-based electricity generation facilities, all of which are equipped with efficient cleaning systems.

In connection with the acquisition of EW in Warsaw, Vattenfall undertook to implement a number of environmental improvements, primarily the reduction of emissions to the air. The undertaking comprises investments for about SEK 4 billion over the next ten years. By the year 2006, sulphur dioxide emissions from the six coal-fired plants will be cut by 60 per cent. Nitrogen oxide emissions will be reduced by 30 per cent and dust emissions by 20 per cent during the same period. In addition to this, further possibilities of enhancing the environmental performance of these facilities, including efficiency, are being studied.

Building Relationships with Customers and Employees through Sponsorship

Vattenfall's work within marketing is visible in many ways. Close contact with customers and the development of innovative, customized services and products are one example. Sponsorship is another.

Vattenfall's sponsorship programme comprises four main areas: culture, sports, people and the environment. The purpose of the sponsorship programme is to reinforce the brand through exposure in a positive context and to arrange unique and enjoyable events in order to develop customer relationships and to motivate Vattenfall's employees.

The Academy of Opera in co-operation with other sponsors and the Royal Swedish Opera in Stockholm as well as the Göteborg Opera are Vattenfall's cultural partners. Vattenfall Oy in Finland co-operates with Kiasma, the new Museum of Contemporary Art in Helsinki. Within the area of sport, Vattenfall is the main sponsor of the Swedish national alpine and cross-country skiing teams and one of the leading sponsors of the national ski-jumping and biathlon teams. In Finland, Vattenfall sponsors the athletics association's work with sports for young people. Together with Deutsche Telekom, HEW is the largest sponsor of German cycling sports.

The "Livslust" Foundation was started in 1994 in order to provide young people who have grown up in orphanages and other institutions or who come from difficult family situations with a home and an education. There are currently thirty young people, ranging from 15 to 18 years of age, living in Livslust House in Aizupe, Latvia. Livslust is Vattenfall's project for the sponsorship of people, based on employee participation and on activities that provide financial contributions. Employees act as mentors, receiving young people as guests in their homes during the summer, and provide winter clothing.

To promote environmental awareness, Vattenfall works in partnership with the Nordic Ark animal sanctuary on the West Coast of Sweden. Vattenfall has provided financial support for a test facility for solar energy and, since 1996, has made contributions to the animal sanctuary on a continuous basis. In 1994, HEW established an environmental foundation for the purpose of financing environmental protection projects in northern Germany.

Business Activities 2000

The year was characterized by major changes. Entry into the Polish market was achieved through the acquisition of the main power and heat provider in Warsaw. Later during the year, Vattenfall contributed to the formation of “the fourth force” on the German electricity market. Electricity sales volumes declined, with reduced sales to the power exchange. Rationalization and efficiency measures continued to be implemented in power generation and electricity network operations. Vattenfall is developing a broad spectrum of products based on the core products of electricity and heat and is focusing on new product areas with future potential. Vattenfall now operates on three main markets: the Nordic countries, Poland and Germany.





Luleå



Luleå in Norrbotten in the north of Sweden, with about 71,000 inhabitants, is Vattenfall's headquarters for hydro power in the Nordic countries and for Vattenfall Norrnät AB, which is responsible for network operations north of the Dala River. Contracting operations, north of the Dala River, are also based in Luleå. Vattenfall's presence in Luleå has traditionally been extensive, ever since the harnessing of the Lule River, which began in Porjus in 1911–1915. Vattenfall owns the entire production system on the river. Production amounts to about 15 TWh of electricity per year and the system has a large power regulation capacity.

Building Aula Aurora
Address Laboratoriegången, Luleå University of Technology, Luleå, Sweden
Architect Tirsén & Aili Arkitekter/FFNS
Commissioned by Akademiska Hus
Built in 1998–99

Electricity is a Variety of Different Products

Vattenfall's business spans the entire value chain: from generation to the wholesale market through to the end-customer market. Today, electricity is a variety of different products and services, such as contracts with different price structures and terms of delivery.

Customer-orientation

Vattenfall's strategy is to work closely with its customers in order to understand how they use products and services and to continuously adapt its offerings to its customers' needs and values.

Major corporate groups with extensive contracts account for a significant portion of sales. Vattenfall aims to work in partnership with these customers on a global basis.

Customers are increasingly purchasing other products besides electricity. The focus is not only on energy but also on telecommunications, energy services, different types of contracts and on environmental products. Vattenfall provides energy services and energy solutions for the manufacturing industry, the service sector and the public sector, while offering its retail customers a selection of products.

Physical and Financial Electricity Trading

Vattenfall is an active participant on the spot market for physical trading in electricity and on the financial market for electricity trading. Future electricity generation and sales prices can be hedged on the financial electricity market. This type of trading also allows Vattenfall to offer its customers services linked to the power exchange price. Vattenfall provides major customers with analyses, portfolio management services and different types of financial contracts. Financial

electricity sales amounted to 49.1 TWh (16.1).

Financial trading on the Nordic market has increased substantially. This is a sign that the market players are increasingly using financial derivatives for hedging in order to minimize the financial risk in their main business. In 2000 the Nordic Power Exchange, Nordpool, increased its net sales (spot and financial derivatives) by 56 per cent. Nordpool's clearing of bilateral agreements (financial derivatives) increased by 73 per cent.

A similar development has now also begun in the rest of Europe where Germany and the Netherlands are the markets with the strongest growth. In March 2000, HEW and Vattenfall initiated a project which has led to the formation of a jointly owned company, Nordic Powerhouse. Nordic Powerhouse will be HEW's and Vattenfall's company for trading on the financial and physical markets in Germany and the Netherlands. The German market is expected to grow substantially in 2001, due to the fact that the new power exchanges in Frankfurt (EEX) and Leipzig (LPX) are establishing a greater liquidity, transparency and confidence in the electricity pricing market. Since the European electricity market is strongly dependent upon the pricing of fuel, Nordic Powerhouse will function as an energy trading company and will be active on all of the markets that affect local gas and oil prices. (See page 38 for further information on Nordic Powerhouse).

In 2000, Vattenfall founded Vattenfall Power Management (VPM) to provide portfolio management to external companies. This service gives external counterparties the opportunity to hedge the price of the future consumption, delivery or generation of electricity. In 2000, VPM was licensed by Finansinspektionen (the Swedish

Electricity Supply Value Chain



Financial Supervisory Authority) and is thereby obliged to provide information to the authority under the Swedish Securities Operations Act.

New Power Exchanges

During 2000, Vattenfall took part, as a participant and, in some cases as an owner, in the following power exchanges in Europe: EEX and LPX (Germany), APX (Holland), UKPX (Great Britain) and Gielda Energii (Poland). As a participant on these exchanges, Vattenfall enhanced its possibilities of supplying future industrial customers with electricity in the countries concerned, efficiently and independently of other suppliers.

Nordic Countries

Competition on the Nordic electricity market continued to be intense in 2000. The year was one of abundant precipitation, and hydro power generation in the Nordic countries reached a record high. This resulted in low electricity prices and led to reduced revenue from wholesale electricity sales, in spite of a higher sales volume. However, Vattenfall managed relatively well, compared with other companies.

A total of 76.8 TWh of electricity (84.3) and 5.5 TWh of heat (4.4) was sold in the Nordic countries. In 2000, electricity generation in the Nordic

countries amounted to 81.0 TWh (85.7). Hydro power accounted for 39.6 TWh (36.7) and nuclear power for 40.5 TWh (49.0) with the remainder comprising electricity generated by thermal, CHP and wind power plants.

Denmark

In 2000, Denmark took a first step in the liberalization of the electricity market. Any business purchasing one GWh or more per year may choose its supplier. In 2000, Vattenfall's sales company, Ström A/S, formed an alliance with Denmark's largest oil and petrol company, OK. Together, Ström and OK accounted for ten per cent of the free market. Ström also has an agreement with Denmark's largest technical installation company, Semco A/S, concerning one-stop energy solutions.

Vattenfall is a 40 per cent shareholder in the gas and biofuel-fired CHP plant, Avedøre 2, which will be taken into operation in 2001.

Vattenfall owns 12 per cent of the distribution company, NES A/S.

Finland

Vattenfall's share of electricity and network customers in Finland is about 14 per cent. The focus is on maintaining profitable operations with enhanced efficiency and on improved service.

Electricity Balance – Physical Deliveries, TWh

Output	2000	1999
Bilateral trade		
Sweden	53.1	54.7
Norway	0.8	1.7
Finland	9.3	8.5
Denmark	0.6	0.0
Poland	3.7	0.0
Europe, other	2.6	2.6
Total bilateral trade	70.1	67.5
"Public market"	13.0	19.4
Total electricity sales	83.1	86.9
Delivery to minority shareholders	12.1	7.6
Consortium and compensatory power	1.2	0.9
Total	96.4	95.4

Input	2000	1999
Hydro power	39.6	36.7
Thermal		
Nuclear power	40.6	49.0
Fossil-based power	3.5	0.9
Total thermal power	44.1	49.9
Total internal generation	83.7	86.6
External bilateral purchases	9.5	8.9
"Public market"	6.7	3.2
Total electricity input	99.9	98.7
Less internal electricity consumption	-3.5	-3.3
Total	96.4	95.4

The electricity balance shows Vattenfall's electricity sales for 2000 and 1999 on different markets and the composition of the electricity input, which mainly comprises electricity generated internally. The "public market" concerns physical trade on a power exchange or other marketplace. Minority shareholders in power plants have been entitled to a portion of generation.

During the year, Vattenfall's business in Finland continued to show growth. Two major acquisitions were made: Keski-Suomen Valo Oy, which has 75,000 customers and Hämeenlinnan Energia, with 25,000 customers. Vattenfall's network areas in Finland extend from southern Finland up to northern Österbotten. Vattenfall is responsible for network operations in almost one third of Finland's municipalities. With the acquisition of Hämeenlinnan Energia, Vattenfall doubled its district-heating sales in Finland while gas sales tripled.

Electricity sales in the acquired companies have been transferred to Vattenfall Sähkömyynti, electricity generation to Vattenfall Sähkötuotanto and district-heating to Vattenfall Kaukolämpö. The materials functions have been outsourced. A decision was made in autumn to concentrate all business administration and invoicing to a Shared Service Center and to introduce a shared telephone exchange and toll-free numbers for all of the Group's activities in Finland.

Vattenfall had a total of 350,000 customers in Finland and electricity sales of 4.8 TWh. Net sales amounted to FIM 1.8 billion and the number of employees was about 900. In-house electricity generation consisted of 0.3 TWh of hydro power. In addition, Vattenfall obtained a share of the output from nuclear power and fossil-fired plants through its stake in associated companies.

As part of the energy partnership agreement with Myllykoski Paper Oy, construction work was started on a new biofuel power plant in Anjalankoski in southeastern Finland. The plant will start operation in 2001. The electricity generation portfolio was changed so that Vattenfall acquired all of the shares in the hydro power company, Pamilo Oy. Vattenfall also sold its shares in Teollisuuden Voima to the City of Helsinki with the result that it no longer has any holdings in nuclear power plants in Finland.

At year-end 2000, Hämeen Sähkö Oy and Lapuan Sähkö Oy merged into a single company, Vattenfall Siirto Oy. In summer 2001, Heinola

Energia Oy will also be included in the company. The new network company will have a customer base of about 200,000. The price level for network services remained unchanged in 2000.

Vattenfall continued its brand-building activities in Finland. According to consumer surveys, Vattenfall is the best known electricity company in the country. As of January 2001, the Vattenfall trademark will be used by all of the group companies in Finland.

Norway

In 2000, business focused on increasing value through greater ownership of Norwegian electricity network operations and through the sale of electricity and other products on the market. Vattenfall Norge AS acquired shares in Hafslund, which resulted in an ownership stake of 21 per cent and Vattenfall increased its ownership stake in Fredrikstad Energiverk from 40 to 49 per cent.

Electricity sales in Norway are conducted through Oslo Energi AS, which is the largest company in Norway providing sales to end-customers, and through Vattenfall Norge Mega AS, which continued to focus on products and services for electricity-intensive industries. In August, a Mega agreement was signed with Sør Norge Aluminium concerning the delivery of 3.5 TWh of electricity over a ten-year period. Oslo Energi, which is a sales partnership between Vattenfall and Oslo Energi Holding (OEH), continued to concentrate on new products, including the launching of Abonnera.com during the year.

Vattenfall's value growth objective for Norway was reached. However, as a step in the acquisition of the majority ownership of HEW, Vattenfall agreed with E.ON and Sydkraft to sell its interests in Hafslund ASA, Fredrikstad Energiverk AS and Fredrikstad Energinett AS. In the short term, Vattenfall is now focusing on electricity sales through Oslo Energi AS. In 2000, discussions started with OEH concerning OEH's option to sell the remaining 51 per cent in Oslo Energi. The intention is for Vattenfall to take over these shares in 2001.



Uppsala, which is Sweden's oldest university town with 187,000 inhabitants, is located in Uppland, 70 km north of Stockholm. When Vattenfall acquired Uppsala Energi AB in 2000, this was Vattenfall's largest acquisition in Sweden for many years. Net sales amounted to almost SEK 1 billion for 2.3 TWh of electricity and 1.4 TWh of heat. With Uppsala Energi, the Group gained considerable expertise in district-heating. Uppsala Energi generates and sells electricity and heat, including advanced peat and refuse incineration and also has systems for district-cooling and an urban network for infocom and telecom. In 2001, Uppsala Energi's organization was integrated into the rest of Vattenfall's business to achieve synergies. Network operations, involving 88,000 network customers, are now included in Vattenfall Sveanät.

Building The new "Historiskt Centrum" museum
Address Disavägen, Gamla Uppsala, Sweden
Architect Nyréns Arkitektkontor AB
Commissioned by Swedish National Heritage Board
Built in 1998–99

Changes in Vattenfall's Electricity Generation Portfolio in Sweden

Barsebäck Kraft AB was acquired by Ringhals AB and has been included in Vattenfall's consolidated accounts as of 2000. Unit 1 was shut down on November 30, 1999. In connection with the acquisition, Sydkraft took over 25.8 per cent of the shares in Ringhals AB (see page 31, "Barsebäck Agreement").

As part of the agreement with E.ON and Sydkraft concerning the acquisition of shares in HEW, Sydkraft will take over 8.5 per cent of the shares in Forsmarks Kraft AB from Vattenfall in spring 2001, bringing Vattenfall's stake in Forsmark to 66 per cent.

In 2000, Vattenfall reduced its hydro power generation capacity by 0.7 TWh per year through the disposal and exchange of hydro power facilities.

During the year, Vattenfall continued to reduce its holding of reserve power facilities in Sweden. The reason is the low earning capacity of reserve power facilities. Vattenfall's standby reserve capacity is now just over 300 MW. In autumn 2000, half of the capacity was leased for three years as a power reserve to Svenska Kraftnät, which owns and operates the national electricity grid. The remaining power reserve is located in Gotland.

Record Year for Hydro Power

Vattenfall owns 104 hydro power plants in Sweden and 52 of these have a capacity exceeding 10 MW.

In 2000, the unusually abundant supply of water to the reservoirs in Sweden established a new annual record for Vattenfall's hydro power generation – 39.6 TWh.

The high level of precipitation in summer and autumn 2000 resulted in flooding which, in turn, stimulated considerable debate concerning any liability that the water control and electricity generation companies could incur. Vattenfall complied with the water control requirements.

While it may seem as though more floods have occurred in recent years, long-term time

series analyses do not prove a long-term increase in annual precipitation quantities. On the other hand, diminished summer and autumn stream flows have occurred from the end of the 1960's up to the mid 1980's. The increase in recent years can be regarded as a return to the normal flows of the past.

In rivers with dams, variations in the stream-flow can usually be regulated. Spring flows are usually easier to mitigate while heavy summer and autumn flows are more difficult to control.

Nuclear Power Generation Reduced

The Vattenfall Group's Swedish nuclear power plants generated less electricity than in 1999, a total of 40.5 TW (49.0), in spite of the additional capacity from Barsebäck 2. This was due to the abundant supply of hydro power which led to a reduction in nuclear power generation, and was also due to more extensive maintenance of the nuclear power plants than in previous years.

In 2000, electricity generation by Forsmark nuclear power plant declined to 19.0 TWh (23.7), mainly as a consequence of the high availability of hydro power. In addition, both Forsmark units 1 and 2 had lengthy refuelling and maintenance outages which included the replacement of the core shroud head and core grid at both units. The lengthy outages also led to a reduction in the unit capability factor – from 93 per cent in 1999 to 87 per cent in 2000.

Cracking was detected in the core spray system of Ringhals 1 during surveillance testing of the emergency core cooling system. The reactor was restarted in January 2001. Ringhals 4 was shut down for an extended period during autumn-winter 2000 as a result of cracks detected in reactor pipe connections. Ringhals 4 has been granted a limited operating licence and, in spring 2001, will be shut down for investigations.

Barsebäck 2 was shut down during the May-July period due to the high availability of hydro power. Consequently, only 2.9 TWh of a possible 4.5 TWh was generated during the year. Barsebäck's unit capability factor was 87 per cent. On account of its location in the south of Sweden,

Barsebäck is an important resource for the power balance in southern Sweden.

Barsebäck Agreement

Vattenfall, the Swedish state and Sydkraft AB signed an agreement on November 30, 1999 concerning the merger of Barsebäck Kraft AB and Ringhals AB. Barsebäck was included in Vattenfall's consolidated accounts from January 1, 2000. Barsebäck's first reactor was closed down on November 30, 1999 and, according to a conditional parliamentary resolution, Barsebäck 2 is scheduled to be closed down no later than by the middle of 2001. However, in order to safeguard the power supply in southern Sweden, the ultimate deadline for the close-down of Barsebäck 2 has been postponed. According to the Government, the conditions for the close-down of Barsebäck 2 should be met no later than by the end of 2003.

Nuclear Waste Management

In Sweden, the Swedish Nuclear Fuel and Waste Management Co (SKB) is responsible for the treatment and final disposal of spent nuclear fuel and other radioactive waste. SKB is owned by the nuclear power companies and Vattenfall's stake in the company is 58 per cent.

In 2000, SKB completed the feasibility stage for the siting of a deep repository for high-level radioactive waste where six different sites were studied to determine their suitability for hosting a repository. Östhammar, Tierp and Oskarshamn have been selected by SKB as the sites that are most suitable for further investigation. The site investigations can start in 2002, providing that the Government, municipalities concerned and regulatory authorities give the go-ahead.

Sales in Sweden

The end-customer market is expanding through partnerships and new sales channels.

In Sweden, Vattenfall has built up an extensive customer base, through acquisitions and partnerships. Some of the sales are conducted through associated companies such as the 50 per

cent-owned Plusenergi in Gothenburg and partnership companies such as Sevab in Strängnäs.

As Vattenfall broadens its product range, the company is also exploring new ways of reaching customers. One example, is the partnership with KF (the Swedish Co-operative Union) to sell electricity to customers holding the "MedMera" KF loyalty card.

Energy Solutions

Vattenfall has developed one-stop energy solutions for the outsourcing of energy facilities such as cooling, compressed air, indoor climate, electricity and energy systems. A number of local energy companies work in partnership with Vattenfall so that they can provide a larger selection from this range of services.

Extended and Improved Customer Service

In 2001, a new shared Customer Service Center was set up in Umeå to handle customer service within Sales Sweden and Electricity Networks Sweden. The aim is to provide a rapid response to customer queries as well as to provide a high level of service and a variety of products. The Customer Service Center will also respond to and assist customers in the event of disturbances and power cuts.

The aim is to significantly reduce costs while maintaining quality of service.

Development of the Swedish Electricity Network

Vattenfall's electricity network in Sweden comprises 16,000 kilometers of regional lines and 155,000 kilometers of distribution lines. Vattenfall operates and develops the Group's electricity network and delivers electricity network services to industries, distribution companies and 967,000 low-voltage customers. Operations comprise six wholly-owned companies, three partly-owned subsidiaries and two associated companies. Local network customers comprise 18 per cent of the Swedish market and Vattenfall's share of the regional network is about 50 per cent. The focus of operations is to improve efficiency and service

while maintaining a level of profitability that allows reinvestment and a normal return on investment. Preparations are underway for a new operational support system, including new IT systems, and for the replacement of the 27 operational stations by four.

Network Markets

The year 2000 was the first entire year of business under the new system of settlement based on standard load profiles. One consequence of the new system was that more customers changed their electricity supplier, resulting in major handling costs for the power companies.

The average network tariff in Sweden remained largely unchanged in 1999 and 2000 due to the continued rationalization of operations. A certain redistribution of price levels between the network areas was achieved in 1999 and in both years, the price structure between customer groups was changed. Fourteen cases where tariffs had been increased in certain network areas in 1999 were called into question by the Swedish Energy Administration and in two cases the decisions were subsequently withdrawn. Following Vattenfall's appeal, the County Administrative Court ruled, in December 2000, in favour of the Energy Administration's decision concerning the twelve remaining network areas. An appeal against the court ruling was lodged with the Court of Appeal early in 2001. As a result of its decisions concerning the tariffs for 1999, the Administration also decided against Vattenfall's tariffs for these twelve network areas in 2000. Vattenfall has also appealed against these decisions. At the beginning of 2001, the County Administrative Court had not yet reached a ruling regarding these tariffs.

At the end of 2000, the Energy Administration announced the decision that the regional network companies would not be allowed to pass on to their customers the special fee of 0.2 öre per kWh which was charged in 2000. The purpose of the fee was to finance renewable small-scale energy. Vattenfall has lodged an appeal against the decision. A court ruling had not yet been reached at the beginning of 2001.

With respect to long-term network pricing, a government-appointed commission of inquiry into electricity networks has proposed that network pricing should be subjected to subsequent review (ex post), as has been done so far, and that the price levels should be evaluated in terms of the network owner's performance. In the opinion of the commission of inquiry, an efficient network company should be able to achieve a financial return on a par with the normal return on any activity that is subject to open competition and that incurs a similar risk.

Vattenfall Enhances Electricity Network Quality

Two major low-pressure fronts occurring at year-end 2000, bringing abundant precipitation in the form of heavy wet snow caused power cuts for about 55,000 of Vattenfall's electricity network customers. This resulted in lengthy and difficult repair work, leaving 40,000 customers from the West to the East Coast of Sweden without electricity for more than eight hours.

In 2000, as a result of disturbances the previous year, Vattenfall started work on reinforcing the network and on clearing power line tracks. In January 2001, Vattenfall decided on a plan of action to further reinforce the networks and to improve service to customers, including raising the network investment level from SEK 600 to 800 million per year. In particularly vulnerable areas, overhead lines will be replaced by underground cables or insulated overhead cables. The areas concerned are the western part of Sweden and parts of the eastern region. The capacity of the telephone service function will also be substantially enhanced.

The power cuts at the end of the year cost about SEK 80 million in 2000 and the cost of compensation under the service guarantee represented SEK 22 million of this amount. In 2001, the voluntary guarantee to network customers will be considerably increased. The new guarantee, which will apply in the case of the wholly-owned subsidiaries, means that a customer who suffers a power cut for more than 24 hours will receive SEK 1,000 in compensation for each day





copenhagen



Ström A/S, Vattenfall's sales company in Denmark, is located in Hellerup, north of Copenhagen. The distribution company, in which Vattenfall owns an 12 per cent stake, NES A/S, is also located there. Avedøre power plant is located in Hvidovre municipality, south of Copenhagen. Vattenfall is a minority shareholder in the plant, with a 40 per cent stake in Unit 2, which will start operation in 2001. The plant is a gas and biofuel-fired CHP plant for electricity generation and district-heating deliveries to Copenhagen and neighbouring municipalities. The other shareholder is Energi E2, the large generation company in Zealand.

Building Svarta Diamanten (Black Diamond), an extension of the Royal Library.
Address Søren Kierkegårds Plads 1, Copenhagen K
Architect Schmidt Hammer & Lassen K/S
Commissioned by Ministry of Culture
Built in 1995-99

without electricity. The guarantee applies from July 1, 2001.

Acquisition and Disposal of Electricity Networks in Sweden

Over the past year, electricity networks in Uppsala and Sigtuna, with a total of 104,000 customers, were acquired.

As a step in the acquisition of the majority ownership in HEW, Vattenfall signed an agreement with E.ON and Sydkraft in autumn to sell electricity networks in Östergötland, with 45,000 customers.

The disposal of Vattenfall's 33.3 per cent in Baltic Cable AB, which has a DC connection between Sweden and Germany, is also included in the agreement.

District-heating Market Increases

District-heating is a segment that Vattenfall considers to have good development potential. Operations are conducted by Vattenfall and through facilities that are jointly owned with municipalities.

Vattenfall's district-heating operations are conducted at about twenty locations in Sweden, from Pajala in the north to Trollhättan in the south. During the year, business expanded considerably through the acquisition of Uppsala Energi.

Besides Uppsala, Vattenfall's largest district-heating facilities are located in Haninge, Nyköping, Motala and Vänersborg. Biofuel-fired facilities are in the majority and are successively increasing.

In Sweden, heat is delivered to about 14,000 customers and net sales comprise about SEK 1.5 billion. The largest customers comprise property companies while more than half of the number of customers are single family home-owners. Vattenfall delivers a total of about 3.7 TWh of district-heating per year and is, thereby, one of the main district-heating suppliers in Sweden.

Uppsala Energi has significant experience and expertise within district-heating and this will be of considerable benefit to Vattenfall as it con-

tinues to focus on this segment. Heat generation in Uppsala is largely based on a peat-wood mixture and household refuse. About 230,000 tonnes of refuse – corresponding to 10 per cent of the amount produced in Sweden – are incinerated every year.

New Agreements concerning Färdig Värme

Sales of Färdig Värme in Sweden amounted to 2.4 TWh of heat (2.3).

In the case of Färdig Värme, Vattenfall buys, leases or builds the facility, conducts maintenance and operation, purchases fuel and delivers heat to the customer.

The main type of fuel used is biofuel, followed by electrical boilers, fuel oil and natural gas. To a certain extent peat, refuse and coal as well as solar heat and waste heat are used. Vattenfall has agreements with 140 facilities.

Vattenfall is responsible for the entire heat supply at several of the AssiDomän forestry group's facilities, including Lövhölmens Såg, a sawmill in Piteå.

In Götene, the municipality and Arla are conducting a joint project for biofuel-fired district-heating. In parallel, Vattenfall is building and operating a new Färdig Värme facility which will supply hot water to the district-heating network and steam to the Arla dairy.

Mega for Major Industrial Customers

A two-year agreement with AssiDomän AB for 1.6 TWh per year and a three-year agreement with Holmen AB for just over 4 TWh per year are among the major electricity delivery agreements signed in Sweden in 2000. In addition to electricity deliveries, the agreement with AssiDomän involves participation in a project for the optimization of AssiDomän's own electricity generation in relation to the Nordpool spot price. Both agreements are a continuation of a long-term partnership agreement.

Energy and Consulting

Services also Sold to External Customers

SwedPower has 440 consultants specializing in

the energy, industry and infrastructural sectors in Sweden and abroad.

External sales comprised 43 per cent of net sales. Two major external projects were conducted in 2000: a shutdown analysis for Oskarshamns Kraftgrupp, and the project and construction management of the Södra Länken tunnel in Stockholm.

Vattenfall Utveckling AB is the Group's shared resource for strategic development work within energy and for the development of future energy solutions and services. The company also provides testing services. Operations are largely located at the development laboratory in Älvkarleby. The company has about 170 employees.

Operations and Maintenance Services

The number of employees in contracting operations was about 1,700 and 17 per cent of the sales in 2000 were external.

At the beginning of 2000, contracting comprised five different companies. In January 2001, they were amalgamated into two companies, geographically located in northern and southern Sweden. The three companies, VGS Thermal, VGS Nuclear and VGS Hydro International were closed down.

The contracting company located in the north is Vattenfall Service Nord AB which has developed into an established contracting company.

The company located in the south is Vattenfall Elnätservice AB which, in 2000, reported almost the same level of net sales as in 1999. External sales amounted to 16 per cent. The focus on optical fiber cable installation was successful and this is expected to be a growth sector for the two new contracting companies.

Vattenfall Energimätning AB is developing its measurement operator service for small electricity distributors.

New Business

Vattenfall develops services within infocom and e-business and has 50,000 customers in telecommunications.

Abonnera.com sells basic subscriptions via

the Internet. The purpose of this business is to simplify transactions and to save time and money for the customer by providing customer access to all subscriptions via a single URL, invoice and customer service point. The service targets retail customers and small companies.

Through the Arrowhead and Sensel subsidiaries, Vattenfall is developing a wide range of services including broadband access, telecommunications and Internet as well as intelligent services for the corporate market. In view of the poor market development, Vattenfall has decided to postpone the commercialization of intelligent services for the home.

Optical Fiber Network

– A New Medium for Business

In April, Vattenfall decided to invest up to SEK 1 billion in broadband operations. In partnership with Svenska Kraftnät, Birka Energi and Sydkraft, a powerful optical fiber digital communications highway is being built between Stockholm, Gothenburg and Malmö. In co-operation with Svenska Kraftnät, a corresponding highway is planned for Stockholm-Luleå.

Through the newly formed company, Vattenfall Connection AB, Vattenfall is investing in regional broadband networks and is also offering broadband services to both urban network owners and end-customers. Vattenfall is working in partnership with others to develop capacity and service sales for customers. In an agreement in June 2000, Vattenfall granted half of the usufruct for the network to Arrowhead AB. As payment, Vattenfall AB received newly issued shares in Arrowhead and, thereby, became a majority shareholder in the company.

Vattenfall Naturgas AB

Vattenfall Naturgas AB (VNG) imports, distributes, markets and sells natural gas in Sweden, primarily to distribution companies, power and heat producers and to major industries.

Vattenfall owns 51 per cent of VNG and the other shareholders are Ruhrgas, DONG, Statoil and Fortum.

In 2000, the company started to supply natural gas to Pilkington Floatglas in Halmstad. It will be possible for the pipeline to the municipalities of Partille and Lerum to start operation during 2001. Similarly, the natural gas network in Mölndal has been expanded.

Poland

Poland is a growth market that has been prioritized. Through acquisitions in 2000, Vattenfall now has a significant role on both the heat and electricity markets. Net sales from operations in Poland comprise SEK 2.6 billion. During the year, Vattenfall's electricity sales in Poland amounted to 3.7 TWh (0.0).

District-heating – A Development Area for Vattenfall in Poland

At the beginning of 2000, Vattenfall acquired 55 per cent of the shares in Elektrociepłownia Warszawskie (EW). Vattenfall's ownership in EW will increase in the future. In connection with the take-over of EW, an extensive restructuring of the company was started. The work will result in improved resource utilization and lower operational costs. The company is responsible for district-heating production and for about 70 per cent of the electricity used in Warsaw. The company's six CHP plants generate a total of 4 TWh of electricity and 13 TWh of heat per year. Generation is primarily coal-based.

EW complies with the requirements of Polish environmental legislation. Vattenfall has signed an agreement to go a step further and enhance EW's environmental performance. A number of projects have therefore been initiated to improve the efficiency and environmental performance of the facilities.

Vattenfall previously acquired minority interests in district-heating companies in Ostrowski and Uskta and the aim is to obtain majority ownership. The district-heating company in Ostrowski has built a small gas-operated CHP plant which drives a steam turbine. In 2000, Ostrowski sold 178 GWh of heat and 9 GWh of electricity. Ustka sold 45 GWh of heat.



Market Increases through Acquisition of Electricity Distribution

In December, Vattenfall signed an agreement with the Polish state to acquire 25 per cent of Gornoslaski Zaklad Elektroenergetyczny S.A. (GZE) or, translated into English, the "Upper Silesian Power Distribution Co". In addition, Vattenfall obtained a further 6.8 per cent through a directed share issue. The transaction was completed in February 2001. According to the agreement, Vattenfall will become a majority shareholder within a two-year period. GZE, with its headquarters in Gliwice in southern Poland, sells 10.7 TWh of electricity and network services to 1,120,000 customers. GZE reports SEK 4 billion in net sales and has just over 3,000 employees.

Enhanced Transmission Possibilities

Vattenfall is a shareholder in SwePol Link AB, which operates a DC connection between southern Sweden and northern Poland. The cable was taken into operation in August 2000 and improves the possibility of efficiently utilizing the combined generation capacity in the Baltic region. Initially, the cable is being used for sales to Poland of about 35 GWh of electricity per week.

Germany

In the year 2000, the German energy market underwent the most fundamental change since the start of the deregulation process in 1998. Two years after open competition was first allowed, the market has been transformed. Two powerful energy groups, E.ON and RWE, have been formed and are currently targeting a new, emerging European energy market.

At the same time, Vattenfall has positioned itself as one of the most powerful foreign players on the German market.

In November 1999, Vattenfall signed an agreement to buy 25.1 per cent of the shares in Hamburgische Electricitäts-Werke (HEW) from the City of Hamburg. In October 2000, Vattenfall signed a memorandum of understanding with E.ON and Sydkraft to acquire additional shares



hamburg



In 2001, Hamburgische Electricitäts-Werke (HEW) will be the base for the Group's operations in Germany. HEW is one of Germany's six largest electricity suppliers and, with the acquisition of Veag and Laubag, will be the fourth force in the German electricity supply system. HEW has about SEK 20 billion in net sales and generates and sells electricity, district-heating, gas and energy services. Through acquisitions at the beginning of 2001, Vattenfall will own just over 70 per cent of HEW. The City of Hamburg owns 25 per cent. Nordic Powerhouse, which is jointly owned by Vattenfall and HEW and which conducts financial and physical trading in electricity and gas, is also located in Hamburg.

Building Cruise Liner Terminal
Address Edgar-Engelhard-Kai, Hamburg, Germany
Architect Alsop & Störmer Architects
Commissioned by The City of Hamburg, DFDS Scanway
Built in 1990-93

in HEW. In early 2001, Vattenfall will acquire over 70 per cent of the shares in HEW and will thereby be the first international group to own a majority stake in a major German power company.

HEW – A Platform for Growth

Today Vattenfall conducts all of its operations on the German market through HEW. The company has become Vattenfall's platform for growth in Germany.

Vattenfall/HEW intends to establish a new corporate group, together with Berlin's utility Bewag, the Veag energy company, and the lignite mining company, Laubag, which is providing the fuel for Veag's state-of-the-art power plants in eastern Germany.

In its traditional market segment, HEW currently supplies energy to industrial customers, small businesses and around 1.1 million households. The company is a shareholder in four nuclear power plants and operates Hamburg's electricity and district-heating networks.

Three years after the deregulation of the German electricity market, the HEW group is well positioned with interests in about 100 companies in the power, gas, district-heating, waste management, telecommunications, contracting and consultancy sectors. The group, with some 6,800 employees, reported net sales of EUR 2.3 billion in 1999.

Market and Sales

In 2000, HEW's electricity sales exceeded the amount generated by its own power plants.

According to preliminary figures, total power sales in the past year rose by almost 30 per cent to around 17 TWh. Together with 12 TWh in sales from the Energy Trading Center, this amounted to total sales of 29 TWh for the year 2000, while generation amounted to 16 TWh. Net sales in Hamburg represented about 13 TWh. The installed capacity for district-heating is 2,840 MW. HEW now supplies district heating to around 370,000 households.

Three years after deregulation, there are

about 35 companies competing on the Hamburg market. The number of customers switching suppliers is relatively low, only 2.5 per cent for all the customer categories combined. HEW is the German market leader for "bundled customers". These customers are industries and companies which operate in many different locations in Germany but which are "bundled together" into a single unit by HEW, leading to considerable benefits for the customers in terms of reduced administration. Such customers include large retail chains (Edeka, REWE), almost all of the oil companies, as well as DaimlerChrysler, Philips, Siemens, the Otto group, Beiersdorf, Fielmann, Tchibo and others.

In France, HEW's customers represent a total contracted volume of 1 TWh.

Nordic Powerhouse

Early in 2001, HEW's trading unit will be transferred to the new trading company, Nordic Powerhouse, which was started as a joint venture between Vattenfall and HEW and which was officially registered as a company in December 2000. The company will trade physical and derivative energy products on the continental European market and on all relevant power exchanges. The experience gained by Vattenfall and HEW in their respective markets complement each other. Trading know-how from the Scandinavian market is being combined with experience and contacts on the continental European market.

Nordic Powerhouse will employ a staff of about 60, which will comprise employees from HEW's current trading unit, HEW's subsidiary VASA Energy, and specialists from Vattenfall's Supply & Trading business unit. Nordic Powerhouse will offer products such as portfolio management, risk management, access to trading on power exchanges and market analysis.

Building the "Fourth Force"

The year 2000 provided a historical opportunity for the emerging Vattenfall/HEW Group to grow through acquisitions on the German energy market. The Group has the potential to become what

has been called “die vierte Kraft” – the fourth force – which, according to the German Federal Cartel Office, is necessary in order to safeguard competition on the market. The other three forces are RWE Energie, E.ON Energie and EnBW.

The new Vattenfall/HEW Group would, in fact, be the third largest company on the German electricity market. However, two important acquisitions – Bewag and Veag/Laubag – are currently blocked due to a judicial process. In the case of Bewag, the minority shareholder, Mirant Corporation, has started an arbitration process with E.ON. The acquisition of Veag and Laubag will be reviewed by the Federal Cartel Office in spring 2001.

As payment for these acquisitions, HEW is transferring holdings, including its majority stake in the gas supplier, Hein Gas, and its minority stake in the Swedish energy company, Sydkraft.

Other Countries

The focus on the Nordic countries, Poland and Germany has led to changes in other commitments. Vattenfall’s European electricity sales outside the Nordic region, Poland and Germany amounted to 2.6 TWh (2.6).

Since 1990, through the wholly-owned subsidiary, Nordic Power Invest (NPI), Vattenfall has actively invested in the private power sector on new markets in Asia and Latin America. Today, NPI has a project portfolio worth over SEK 1 billion which generates a substantial cash flow.

Vattenfall’s strategy to become a leading European energy company requires a concentration of management resources, time and capital in northern Europe. One consequence of this focus is that Vattenfall’s commitment to other investment markets must be reduced. Vattenfall has therefore decided to dispose of NPI.

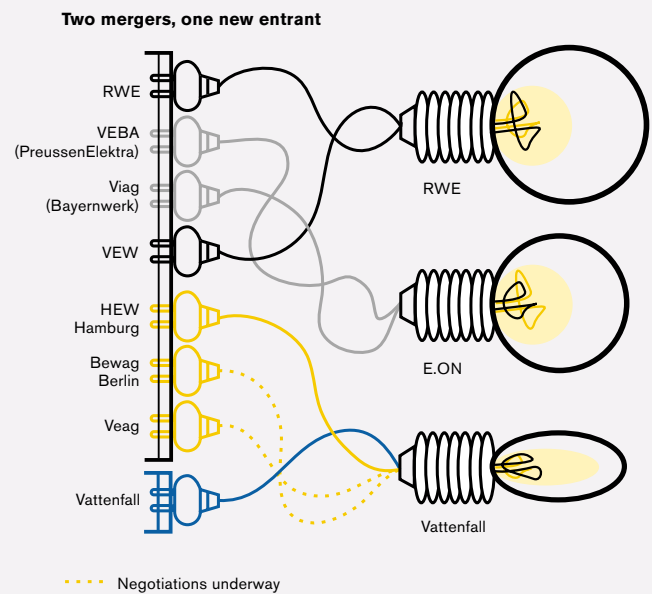
Less Emphasis on Operations in Other Countries

As a step in the acquisition of the majority shareholding in HEW, Vattenfall reached an agreement, in autumn, with E.ON and Sydkraft to

dispose of Vattenfall’s 41.8 per cent in Vychodoceska Energetika (VCE) in the Czech Republic and 10.7 per cent in Lithuanian Power Company (LPC) in Lithuania. Prior to the agreement, Vattenfall had maintained an extensive exchange of experience with VCE.

Vattenfall has penetrated the electricity market in the Netherlands. In 2000, sales increased on the free market, with deliveries from 2001. Vattenfall provides “green electricity” and other products.

Vattenfall and Seven German Players Create Three Powerful Forces on the German Market



EnBW – the fourth major German company – is not included in the picture.

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The Board of Directors and President of Vattenfall AB (publ.) (556036-2138) hereby submit the annual accounts and consolidated accounts for 2000 (pages 40–73).

Group

Essential Structural Changes

An extensive restructuring of the European electricity market is currently underway, with the consolidation of players into fewer and larger companies. With a larger customer base, Vattenfall can increase the effectiveness of its offerings and thereby continue to keep down electricity prices on the domestic market while generating growth in value for its owner.

Structural changes implemented in 2000:

In January 2000, Vattenfall acquired 55 per cent of the Polish energy company, Elektrociepłownia Warszawskie (EW), for SEK 2,056 million. Under the agreement, Vattenfall's ownership stake will increase over the next few years and investments will be made. In 2000, Vattenfall also acquired one per cent of the new Polish power exchange, Gielda Energii S.A.

In April 2000, ownership of a 25.1 per cent stake in HEW (Hamburgische Electricitäts-Werke AG), acquired for about SEK 7.6 billion from the City of Hamburg under an agreement in 1999, was transferred to Vattenfall. Vattenfall's German subsidiary, VASA Energy, merged with HEW. Under the agreement, the City can sell its remaining 25.1 per cent stake to Vattenfall. A further 1.2 per cent of the shares in HEW were acquired from institutional investors. Vattenfall and HEW formed a jointly-owned energy trading company, Nordic Powerhouse GmbH.

In Sweden, all of the shares in Uppsala Energi AB were acquired for SEK 3,407 million on September 1, 2000. The electricity network in Sigtuna was acquired from Birka Energi AB for SEK 286 million.

Vattenfall's 99-per cent ownership stake in Ljusfors Kraft AB was sold to Tekniska Verken i Linköping AB.

Vattenfall sold to Skellefteå Kraft AB its 72 per cent stake in Bastusels Kraft AB, with the power stations in Bastusel, Rebnis, Sädva, Bergnäs, Slagnäs and Grytfors as well as the wholly-owned power plant, Klippen, and the right to compensatory and consortium power from a couple of small power plants. In return Vattenfall acquired Bastusel power station from Bastusels Kraft AB.

In a transaction with Fortum, Vattenfall sold its 37 per cent shareholding in Bullerforsens Kraft AB and became the sole owner of the Finnish power company, Pamilo Oy, in which it previously held a 49 per cent stake.

During the year, Vattenfall Connection AB was founded. The company plans to develop high capacity data connections, known as broadband, by installing optical fiber in existing power lines.

Barsebäck Kraft AB became a wholly-owned subsidiary of Ringhals AB in January 2000. At the same time, Vattenfall transferred 25.8 per cent of the shares in Ringhals AB to Sydkraft in accordance with the agreement reached between Vattenfall, Sydkraft and the Swedish state on November 30, 1999. Vattenfall received SEK 2,639 million in compensation from the state, which affects profit after minority interests by SEK 1,958 million. Sydkraft will retain the responsibility for the decommissioning and dismantling of Barsebäck and, in the same way, Vattenfall will retain the responsibility for Ringhals's four nuclear reactors.

In Finland, Vattenfall concluded its acquisition of Keski-Suomen Valo Oy for SEK 1,587 million early in 2000. During the year, Hämeenlinnan Energia Oy was also acquired for SEK 752 million.

The 2.1 per cent stake in the Finnish nuclear company, TVO, which was owned by Revon Sähkö Oy, was sold to the City of Helsinki for SEK 395 million.

Structural changes agreed upon in 2000 and implemented early in 2001:

In December 2000, Vattenfall reached an agreement with the Polish state to purchase 25 per cent of the shares in the electricity distribution company, Gornoslaski Zakład Elektroenergetyczny S.A. (GZE) for EUR 167.5 million or SEK 1,420 million. Furthermore, through a directed share issue for EUR 66 million or SEK 560 million, Vattenfall increased its ownership stake to 31.8 per cent. The transaction was completed in February 2001. Under the agreement, Vattenfall will become a majority shareholder within two years through additional acquisitions and new share issues.

The hydro power plants owned by Vattenfall on the Motala River were sold at the beginning of 2001 to Tekniska Verken i Linköping AB.

During the first few months of 2001, Vattenfall acquired a further 7.8 per cent of the shares

in HEW from external shareholders. This brings Vattenfall's ownership stake in HEW to 34.1 per cent, at the beginning of March 2001.

Structural changes not yet implemented at the beginning of 2001:

As a step in becoming a majority shareholder in HEW, Vattenfall signed an extensive memorandum of understanding in October 2000, concerning acquisitions and asset exchange with E.ON AG and Sydkraft AB. The agreement means that Vattenfall will acquire Sydkraft's and E.ON's shares in HEW, corresponding to 21.8 per cent and 15.4 per cent of the share capital. In addition to approx. SEK 4.3 billion in cash, Vattenfall will provide the following assets in payment: shares in Forsmarks Kraftgrupp AB (8.5 per cent of the capital), network operations in Östergötland, Vattenfall's shareholdings in the Norwegian companies, Hafslund ASA (21 per cent), Fredrikstad Energiverk (49 per cent), Fredrikstad Fjernvarme (35 per cent) as well as Fredrikstad Energinett (35 per cent), Vattenfall's stake in Baltic Cable AB (33.3 per cent), LPC in Lithuania (10 per cent) and VCE in the Czech Republic (42 per cent). The agreement is expected to be largely implemented during the first half of 2001.

Vattenfall will then have an ownership stake of 71.3 per cent in HEW, before the City of Hamburg's option.

At the end of 2000, HEW signed an agreement to acquire 81.25 per cent of the generation company, VEAG Vereinigte Energiewerke AG (Veag) in eastern Germany and 92.5 per cent of the mining company, Lausitzer Braunkohle AG (Laubag) from the power companies E.ON and RWE. After the acquisitions, HEW's ownership stake in these companies will be 87.5 and 95 per cent, respectively. The acquisitions will be reviewed by the German Federal Cartel Office in spring 2001.

In August 2000, HEW signed an agreement with E.ON to purchase 49 per cent of the shares in the Bewag energy company in Berlin. The transaction was called into question by Bewag's shareholder, Mirant Corporation, and will be resolved by arbitration in spring 2001. If the acquisition is completed, HEW will own approximately 60 per cent of the share capital in Bewag.

In Norway, Vattenfall has a 49 per cent stake in Oslo Energi AS. The other shareholder, Oslo Energi Holding AS, has requested that Vattenfall

purchase the remainder of the company. Negotiations are underway and are expected to be completed during the first half of 2001.

In Estonia, in January 2001, Vattenfall acquired Pärnu Soojuus, a district heating plant with an annual output of 163 GWh.

Personnel

The average number of employees amounted to 13,123 (7,991). Salaries and remuneration amounted to SEK 3,551 million (2,762). For further information concerning the average number of employees, salary costs as well as remuneration to the senior management, see Note 33.

Research and Development (R&D)

Vattenfall's R&D activities are integrated into its business operations. This means that, in 2000, each business area and service company was responsible for conducting its own R&D with an emphasis on the commercial benefit of the work. R&D for the Group was co-ordinated by the executive group staff, Corporate Strategies.

In 2000, R&D, excluding product development, amounted to SEK 481 million (479), of which the Swedish Nuclear Fuel and Waste Management Co. accounted for SEK 273 million (266). R&D costs comprised 1.5 per cent (1.7) of net sales.

Environmental Impact of the Group

Operations conducted in Sweden that require a permit mainly comprise nuclear power plants used for electricity generation, power and heat generation in combustion facilities and electricity generation in wind power plants. The main environmental impact of nuclear power plants is from the radioactive waste generated. The impact of the combustion facilities is from emissions of carbon dioxide and substances to the air that contribute to acidification.

In Sweden, the Group also conducts activities that require a permit under the Environmental Code through hydro power generation. Peat-cutting activities, which require a permit, were also conducted during the year. The Group operates networks for electricity distribution and transmission under concession. The main environmental impact from the hydro power and network operations as well as peat harvesting is from land use.

Electricity generation in nuclear and hydro power plants as well as network operations are

essential business activities unlike other activities requiring a permit.

Furthermore, the Group also conducts business outside Sweden which requires a permit under the law of other countries. This includes heat and electricity generation at the subsidiary EW in Warsaw, Poland. The main environmental impact is from emissions to air and from the generation of solid waste.

During the year, no major accidents occurred that led to any unforeseen environmental impact. On a few occasions, minor incidents resulted in limited environmental impact, including oil emissions to land and water. The emissions were immediately reported to the authorities concerned and clean-up operations were carried out.

Parent Company

Net sales for the parent company amounted to SEK 17,405 million (18,450). Net profit for the year was SEK 3,362 million (3,929). The investments amounted to SEK 14,865 million (7,963). Liquid assets were SEK 123 million (48) while funds in the group account managed by Vattenfall Treasury AB amounted to SEK 5,115 million (14,824).

Vattenfall AB is wholly owned by the Swedish state.

Environmental Impact of the Parent Company

The company conducts several activities that require a permit or must be reported under the Swedish Environmental Code.

93 heat generation facilities must be licensed and a further 41 must be reported. Some of the facilities that must be licensed also generate electricity.

An additional number of oil-fired electricity generation plants that must be licensed have been shut down or are reserve power facilities.

All combustion plant operations affect the environment primarily through emissions to the air. Several of the heat generation facilities use solid fuel and this results in the generation of solid waste.

The company owns and operates a total of 39 wind power plants, all of which require a permit or must be reported. In Sweden, the company also conducts water operations that require a permit under the Environmental Code. These operations comprise electricity generation by hydro power plants. The main environmental

impact is from land use for hydro power plants and noise from wind power plants.

Electricity generation in hydro power plants is an essential business activity, unlike other activities that require a permit.

Demands for the review of conditions for the regulation of water courses were made in connection with flooding in 2000. However, there are no indications that the permits for Vattenfall's facilities will have to be reviewed in the foreseeable future. The permits for some of the heat generation facilities may have to be reviewed over the next few years. The company's financial position and performance are not dependent upon these facilities.

Agreement with Arrowhead AB

In June, Vattenfall AB granted Arrowhead AB a usufruct for half of the capacity of the planned optical fiber network. In recompense, Vattenfall received Arrowhead shares from a new issue. Vattenfall's stake in Arrowhead was 53 per cent at year-end. Additional shares were acquired after the end of the year. As of March 6, 2001, Vattenfall's stake amounted to about 64 per cent.

Board of Directors

Up to the general meeting of shareholders on April 13, 2000, Vattenfall AB's Board of Directors consisted of eight board members and two alternates as well as three employee representatives, with a corresponding number of alternates appointed by the trade unions. Following the general meeting, the Board comprised seven board members and two alternates, elected by the general meeting as well as three employee representatives with a corresponding number of alternates, appointed by the trade unions. The President was a board member up to the general meeting on April 13. The Secretary of the Board is a Vattenfall AB employee.

During financial year 2000, the Board held ten meetings, including eight scheduled meetings, one of which was the meeting following the general meeting of shareholders. The work of the Board follows an annual plan which ensures that the required decision-making is conducted and fulfils the Board's need for information. The work is also influenced by the rules of procedure which were revised by the Board in autumn 2000. The Board meets with the company's auditors every year.

Financial Risk Management

The Vattenfall Group is exposed to risk due to market price fluctuations, which can have an impact on the income statement and balance sheet. For Vattenfall, this primarily applies to electricity and fuel prices as well as interest and foreign exchange rates. Vattenfall works actively with financial risk management in order to control and limit risk exposure.

Financial risk management is conducted in accordance with the rules and risk limits established by Vattenfall's Board of Directors and management concerning risk exposure as well as in accordance with the criteria set for counterparties, liquidity and availability of funds. Internal security and control are given very high priority.

Electricity Price Risk

The electricity price is a critical factor in Vattenfall's financial development. To manage the risks that naturally result from Vattenfall's dependency on the electricity price, a risk policy has been formulated that clearly defines which Vattenfall unit is responsible for each specific type of risk. Vattenfall's energy trading centers, in Stockholm and Hamburg, manage the electricity price risk. These centers provide all of the Vattenfall's operational units with an efficient service for hedging the risk of unfavourable changes in the electricity price, thereby allowing the units to focus on their core business.

The price of electricity in the Nordic region is largely dependent on the availability of hydro power whereas, in continental Europe, it is largely dependent on fuel prices (gas and oil). In the Nordic countries, the electricity price is highly volatile since it is dependent on the supply of water in the reservoirs (see diagrams). Vattenfall actively uses various forms of electricity derivatives to hedge price risk on behalf of the operational units. Derivatives are traded bilaterally between different participants, via brokers, via the Nordic Power Exchange Nordpool, APX in the Netherlands and, later in 2001, via EEX and LPX in Germany.

Vattenfall's Energy Trading Centers

Trading on energy markets is conducted by a unit for each specific market. In the Nordic region, energy trading is conducted by the Energy Trading Center in Stockholm while Vattenfall,

together with HEW, has established Nordic Powerhouse in Hamburg, which is a trading center specializing in continental Europe and focusing on the German and Dutch energy markets. The function of these trading centers is to ensure that the other operational units within the Group have continuous access to price hedging instruments on the energy market on the best possible terms. The performance of the trading centers is measured on the basis of their hedging process efficiency. Vattenfall is currently a market maker on Nordpool and also offers contracts denominated in SEK to counterparties on the Swedish electricity market.

Financing Risk

The Group's operations are capital-intensive, with major liquidity fluctuations during the year, which makes it necessary to have both short and long-term funds available. The target for short-term liquidity is always to have no less than 10 per cent of the Group's sales in the form of liquid assets or committed credit lines. Long-term availability of funds is measured in terms of the average remaining maturity of the portfolio, which was 5.2 years (4.8) at December 31.

Interest Rate Risk

Interest rate risks relating to long-term borrowings are managed using a portfolio method, whereby the average fixed interest rate term is not allowed to fluctuate more than 12 months on either side of a certain norm of 2 1/2 years. Other interest rate risks are managed within the overall risk limit for interest rates and exchange rates.

Currency Risk

The exposure of the Group to currency risk is related to the effects of exchange rate movements on future cash flows (transaction exposure) and on the value of the net assets of foreign subsidiaries (translation exposure).

Payments are mainly made in SEK. Transaction exposure arises in connection with electricity trading and fuel purchases, largely due to the fact that trading on the Nordic electricity derivatives market is primarily conducted in NOK. Fuel is preferably purchased in USD and EUR. Transaction exposure also arises in connection with borrowing in foreign currencies.

As a rule, no currency risks are taken with respect to long-term borrowing. Virtually all

currency risks in other forms of transaction exposure are hedged through matching and different types of derivatives. Any remaining exposure is then managed together with the interest rate exposure within the overall risk limit established for the Group.

Translation risk exposure was not hedged during the year.

Counterparty Risk

Counterparty risks associated with investments, derivative contracts etc. are managed within the limits set on the basis of external credit assessments. Only a number of major Nordic banks and credit institutions as well as parties with very high credit ratings are accepted as counterparties. Furthermore, before entering into long-term swap agreements, an International Swaps and Derivatives Association, Inc. (ISDA) agreement must be signed with the counterparty. Counterparty risks in derivatives are constantly quantified through mark-to-market valuations as well as a standard mark-up for future value changes in accordance with the method stipulated by Finansinspektionen (the Swedish Financial Supervisory Authority) for institutions which are required to calculate capital ratios.

The management of counterparty risk in electricity trading is governed by counterparty rules where the basis of assessment is based on external credit assessment. Nordpool represents a considerable counterparty risk for Vattenfall which, in addition to trading in its own market-

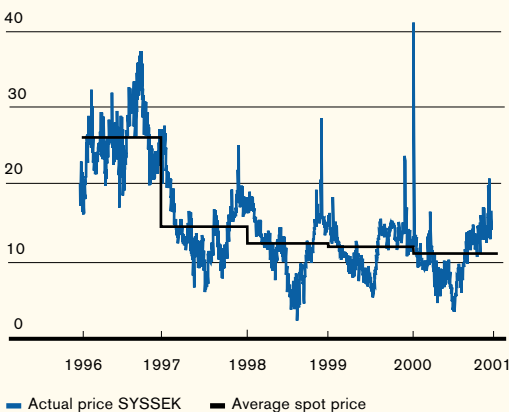
place, also provides a clearing service for bilaterally traded standard power contracts. Under Norwegian law, Nordpool is not formally a financial trading exchange and the level of equity is low. Nordpool's creditworthiness is therefore based on the clearing margin requirements.

Vattenfall is working to improve the electricity market's management of credit risk through organizations such as ISDA, EFET (European Federation of Energy Traders) and NAET (the Nordic Association for Electricity Traders). In 2000, a new standard for principal agreements between bilateral parties, was established by NAET for the Scandinavian market (FEMA). This agreement is also used as a basis for the further development work that EFET is conducting to develop a new agreement standard in Europe.

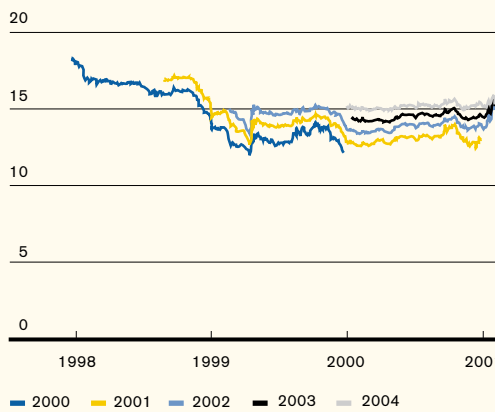
Vattenfall Treasury

Vattenfall's financial management operations are conducted by the wholly-owned subsidiary, Vattenfall Treasury AB (publ.), which is responsible for the Group's funding and investment operations and for the management of the associated financial risks. Vattenfall Treasury AB is a service company and serves as the Group's internal bank with about 100 account-holders among the companies and units within Vattenfall. The centralized treasury function allows the units within the Group to focus on their core business.

Spot price, price area Sweden, öre per kWh



Annual price, price area Sweden, öre per kWh



The diagram shows how the price for a full-year contract for a future year such as 2003, has been fixed in advance, in 2000.

Consolidated Income Statement

SEK million	Note	2000	1999
Net sales	1, 2	31,695	27,754
Cost of products sold	4, 5	-23,484	-19,402
Gross profit		8,211	8,352
Selling expenses		-1,741	-1,570
Administrative expenses		-2,417	-1,523
Research and development costs		-574	-611
Other operating income		3,933	1,034
Other operating expenses		-1,382	-309
Participations in the results of associated companies	6	658	142
Operating profit	7	6,688	5,515
Result from other long-term securities held	9	204	34
Other interest income and similar profit/loss items	10	833	508
Interest expense and similar profit/loss items	11	-2,536	-1,760
Profit before tax and minority interests		5,189	4,297
Tax	13	-1,757	-1,400
Minority interests in the profit for the year	14	-462	-359
Net profit for the year		2,970	2,538

Product Areas

SEK million	Net sales		Operating profit/loss	
	2000	1999	2000	1999
Electricity	18,575	18,499	6,058*	4,198
District-heating	2,828	1,028	103	121
Energy services	3,693	2,633	-60	-52
Network services	7,763	7,097	1,590	1,657
Natural gas	1,327	863	76	69
Other and eliminations	-2,491	-2,366	-1,079	-478
Total	31,695	27,754	6,688**	5,515**

* The operating profit includes SEK 2,639 million in compensation from the state for Barsebäck.

** SEK 1,719 million (348) in non-recurring items have had a positive impact on operating profit.

Comments

Net Sales and Performance

Net sales amounted to SEK 31,695 million (27,754). The increase can mainly be explained by the acquisition of Keski-Suomen Valo and Hämeenlinnan Energia in Finland, of the Polish energy company Elektrociepłownia Warszawskie (EW) and of Uppsala Energi, which has primarily increased income from district-heating. Net sales outside Sweden increased to 27 per cent (25).

Operating profit was SEK 6,688 million (5,515). Operating profit was positively affected by SEK 1,719 million in non-recurring items, including SEK 532 million in surplus funds from SPP and SEK 2,639 million in the agreed compensation from the state for Barsebäck. Operating profit was negatively affected by approx. SEK 1,500 million in non-recurring items as well as by the acquisition of the majority shareholding in EW. Administrative expenses increased by SEK 894 million, mainly as a result of acquired companies. Operating profit expressed as a percentage of net sales (operating margin) was 21.1 per cent (19.9).

Financial income and expenses – net, which is the net amount of other interest income and interest expense, amounted to SEK –1,703 million (–1,252). The interest cover was 3.1 times (3.4).

Profit before tax and minority interests amounted to SEK 5,189 million (4,297) of which non-recurring items were SEK 1,852 million (348). Expressed as a percentage of net sales, profit (pre-tax profit margin) was 16.4 per cent (15.5).

Taxes amounted to SEK –1,757 million (–1,400), of which SEK 981 million (1,291) was attributable to tax on profit for the year and for previous years.

Net profit for the year amounted to SEK 2,970 million (2,538), resulting in a return on equity after actual tax of 8.7 per cent (7.7).

Product Areas

Electricity

Net sales amounted to SEK 18,575 million (18,499). Direct sales to customers, primarily energy companies, increased by 2.6 TWh, while sales on electricity exchanges decreased by 6.4 TWh. Sales amounted to 83.1 TWh (86.9) with customers accounting for 70.1 TWh (67.5) and electricity exchanges accounting for 13.0 TWh (19.4).

In addition, 13.3 TWh (8.5) was delivered to minority shareholders in power plants etc.

Electricity input amounted to 99.9 TWh (98.7), of which in-house generation comprised 83.7 TWh (86.6) and purchases, 16.2 TWh (12.1). In total, 39.6 TWh (36.7) of hydro power, 40.6 TWh (49.0) of nuclear power and 3.5 TWh (0.9) of thermal power etc. were generated. Of the electricity input, 3.5 TWh (3.3) was utilized internally, mainly to cover network losses.

Operating profit amounted to SEK 6,058 million (4,198). Operating profit was negatively affected by the lower electricity price as a result of the mild weather and the high availability of hydro power as well as by the lower volume of bilateral electricity sales in the Nordic countries. The lower volume of sales to electricity exchanges had a negative impact on profit in spite of a somewhat higher price level than in 1999.

District-heating

Net sales amounted to SEK 2,828 million (1,028). The volume sold amounted to 14.6 TWh (3.0) of district-heating. The increase is due to company acquisitions. Operating profit amounted to SEK 103 million (121).

Energy Services

Energy Services comprise Energy Solutions, Färdig Värme (Ready Heat), Energy and Consulting Services as well as Contracting Services. Contracting accounted for about 60 per cent of net sales and also made a positive contribution to operating profit while Energy Solutions, Energy and Consulting Services and Färdig Värme reported negative results.

Net sales amounted to SEK 3,693 million (2,633). The increase is primarily attributable to Contracting. Färdig Värme sales amounted to 2.4 TWh, which is an increase of 0.1 TWh. Operating loss was SEK –60 million (–52).

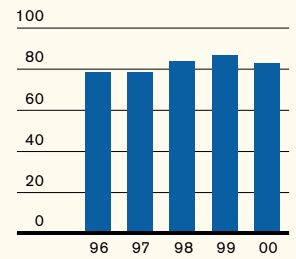
Network Services

Net sales amounted to SEK 7,763 million (7,097). Output energy amounted to 84 TWh (79) and input energy to 36 TWh (35). Operating profit amounted to SEK 1,590 million (1,657).

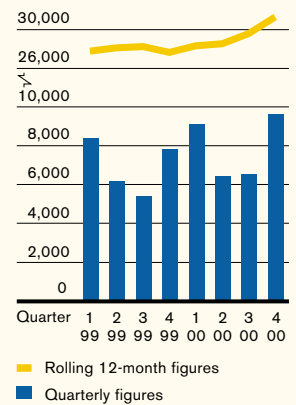
Natural Gas

Net sales amounted to SEK 1,327 million (863), which corresponds to 9.1 TWh (9.3) in volume sold. The increase in net sales can be explained by high oil prices in 2000, while the oil price was low at the beginning of 1999. Of the volume sold, 0.2 TWh (0.3) was sold within the Group. Operating profit amounted to SEK 76 million (69).

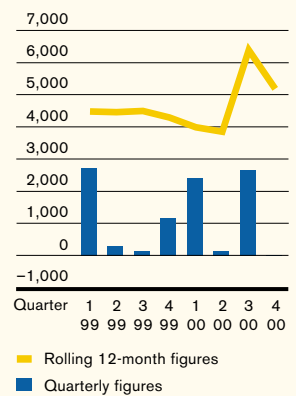
Electricity sales (TWh)



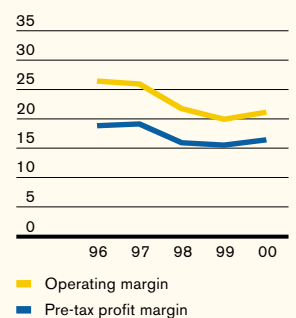
Net sales (SEK m)



Profit before tax and minority interests (SEK m)



Operating and pre-tax profit margin (%)



Consolidated Balance Sheet

SEK million	Note	Dec. 31, 2000	Dec. 31, 1999
Assets			
FIXED ASSETS			
Intangible assets			
Concessions, patents, licences, trademarks and similar rights	15	512	494
Renting and similar rights	15	1,091	755
Goodwill	15	1,390	304
Total intangible assets		2,993	1,553
Tangible assets			
Land and buildings	16	19,364	18,323
Plant and machinery	16	44,770	36,123
Equipment, tools, fixtures and fittings	16	937	891
Construction in progress	16	2,958	1,632
Advance payments for tangible assets	17	60	285
Total tangible assets		68,089	57,254
Financial assets			
Participations in associated companies	18, 19	13,267	5,223
Receivables from associated companies	17	1,654	1,687
Other securities held as fixed assets	18, 19	1,019	1,549
Other long-term receivables	17	2,919	1,272
Total financial assets		18,859	9,731
Total fixed assets		89,941	68,538
CURRENT ASSETS			
Inventories etc.	20	5,558	4,901
Current receivables	21	11,963	8,364
Investments		5,176	3,738
Cash and bank balances		2,367	1,122
Total liquid assets		7,543	4,860
Total current assets		25,064	18,125
Total assets		115,005	86,663
Equity, provisions and liabilities			
Equity	23		
Restricted equity			
Share capital		6,585	6,585
Revaluation reserve		277	295
Equity method reserve		636	616
Other restricted reserves		15,979	16,333
Non-restricted equity			
Non-restricted reserves		8,673	6,980
Net profit for the year		2,970	2,538
Total equity		35,120	33,347
Minority interests in equity		4,985	2,472
Interest-bearing provisions	24	187	1,210
Non-interest-bearing provisions	25	13,792	11,192
Total provisions		13,979	12,402
Long-term interest-bearing liabilities	26	41,116	19,714
Long-term non-interest-bearing liabilities	27	878	1,222
Total long-term liabilities		41,994	20,936
Current interest-bearing liabilities	28	9,551	11,351
Current non-interest-bearing liabilities	29	9,376	6,155
Total current liabilities		18,927	17,506
Total equity, provisions and liabilities		115,005	86,663
Pledged assets	30	709	150
Contingent liabilities	31	7,162	7,046
Commitments under consortium agreements	32		
US Leases	See note 31		

Comments

Financial Position

Assets

Tangible assets increased by SEK 10,835 million to SEK 68,089 million. The increase is largely due to the acquisition of Elektrociepłownie Warszawskie (EW), Uppsala Energi and Keski-Suomen Valo. The investments amounted to SEK 4,426 million (2,462).

Participations in associated companies amounted to SEK 13,267 million, which is an increase of SEK 8,044 million. The increase is mainly due to the investment in Hamburgische Electricitäts-Werke (HEW).

Current receivables increased by SEK 3,599 million to SEK 11,963 million.

Liquid assets amounted to SEK 7,543 million (4,860), which corresponds to 23.8 per cent (17.5) of net sales. Liquid assets comprise SEK 1,374 million (1,960) in investments concerning arbitrage transactions with refinancing risk. During the year, the average volume of liquid assets was about SEK 6,200 million (6,700). Of this amount, about SEK 1,600 million (3,800) comprised investments concerning interest-arbitrage transactions.

Equity, Provisions and Liabilities

Equity, including minority interests amounted to SEK 40,105 million, which is an increase of SEK 4,286 million. The equity/assets ratio was 35.3 per cent (42.3).

Interest-bearing provisions decreased by SEK 1,023 million to SEK 187 million (see also Note 24).

Non-interest-bearing provisions increased by

SEK 2,600 million, mainly as a result of reported deferred tax liabilities on surplus values arising from company acquisitions.

Interest-bearing liabilities increased by SEK 19,602 million to SEK 50,667 million. The increase is primarily due to the financing of company acquisitions.

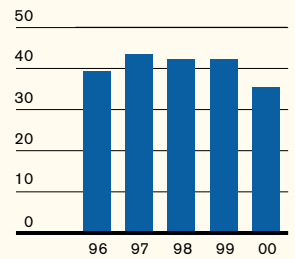
Vattenfall has three Commercial Paper programmes and two Medium Term Note programmes which, together, allow for more flexible financing options. The short-term Commercial Paper Programme is backed up by a Revolving Credit Facility of USD 600 million, which falls due in 2003. In addition, there is a USD 750 million back-up in the form of 364-day credit facilities.

The maturity profile of Vattenfall's loans is shown in the diagram below. About 90 per cent of the total loan portfolio consists of loans raised abroad.

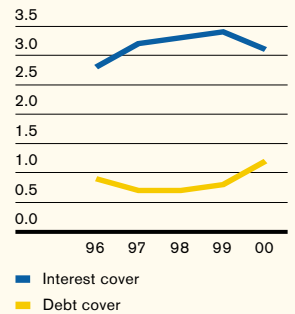
For short-term borrowing, Vattenfall has been given a P-1 credit rating by Moody's and A-1 by Standard & Poor's. This is the highest possible rating from Moody's and the second highest rating from Standard & Poor's. For international long-term borrowing, Vattenfall has been given an A1 rating by Moody's and A+ by Standard & Poor's. In December, both Moody's and Standard & Poor's placed Vattenfall on Credit Watch for a possible downgrade due to the planned and implemented acquisitions in Germany and Poland.

Current non-interest bearing liabilities increased by SEK 3,221 million to SEK 9,376 million. The increase is largely due to company acquisitions.

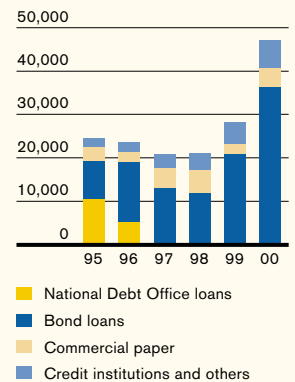
Equity/assets ratio (%)



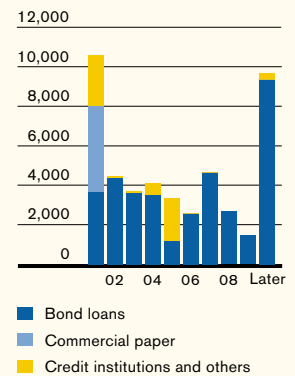
Interest cover and debt cover (times)



Total borrowings (SEK m)*



Maturity profile (SEK m)*



Loans maturing in 2001 include SEK 1,374 million in arbitrage.

* Excluding loans from minority owners.

Consolidated Cash Flow Statement

SEK million	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	2,970	2,538
Adjustment for the effects of non-cash items *	2,860	3,686
Cash flow from operating activities before changes in operating assets and liabilities (internally generated funds)	5,830	6,224
Cash flow from changes in operating assets and liabilities		
Decrease in inventories	654	539
Increase in receivables	-1,188	-1,125
Increase/decrease in payables	835	-2,400
Cash flow from operating activities	6,131	3,238
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisitions of group companies **	-10,035	-2,916
Investment in participations in associated companies and other long-term securities	-9,042	-2,519
Investment in tangible fixed assets	-4,426	-2,462
Investment in intangible fixed assets	-337	-19
Sale of tangible and intangible fixed assets	1,145	2,473
Sale of shares and participations	665	77
Liquid assets in acquired/sold companies, net	254	255
Cash flow from investing activities	-21,776	-5,111
Cash flow before financing activities	-15,645	-1,873
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from borrowings	30,034	10,575
Repayment of debt	-10,395	-6,493
Contributions from minority interests	331	14
Dividends paid	-1 580	-1,676
Cash flow from financing activities	18,390	2,420
Cash flow for the year	2,745	547
LIQUID ASSETS		
Liquid assets at the beginning of the year	4,860	4,439
Translation differences	-62	-126
Cash flow for the year	2,745	547
Liquid assets at the end of the year ***	7,543	4,860

* - *** See specification on page 51.

Comments

Operating Activities

Cash flow from operating activities before changes in operating assets and liabilities decreased by SEK 394 million to SEK 5,830 million. Cash flow from operating activities amounted to SEK 6,131 million (3,238). The increase is mainly due to an increase in operating liabilities.

The degree of self-financing was 0.2 times (0.8).

Investing Activities

The Group's investments amounted to SEK 23,840 million (7,916), of which growth-related investments, i.e. company acquisitions and expansion investments in fixed assets, amounted to SEK 20,759 million (6,004). Company acquisitions amounted to SEK 19,077 million (5,435). Acquisitions of group companies accounted for SEK 10,035 million (2,916), associated companies, SEK 8,880 million (2,137) and other long-term securities, SEK 162 million (382).

SEK 4,426 million (2,462) was invested in tangible fixed assets.

SEK 1,359 million (742) was invested in electricity generation facilities and SEK 1,256 million

(851) was invested in electricity networks. Within the heat segment – district-heating, Färdig Värme and power and heat – the investments amounted to SEK 1,308 million (520). The remaining investments mainly concerned equipment, tools, fixtures and fittings. Expansion investments in fixed assets amounted to SEK 1,681 million (569). District-heating, Färdig Värme and power and heat accounted for most of these investments.

Sales of tangible fixed assets are mainly attributable to plant in Germany.

SEK 337 million (19) was invested in intangible assets.

Financing Activities

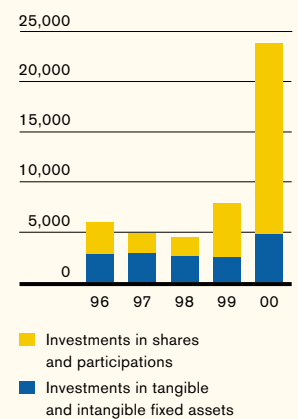
Long-term interest-bearing liabilities increased by SEK 21,402 million. Borrowing for the year through the Euro Medium Term programme (MTN) amounted to about SEK 23,100 million, of which SEK 818 million was in the form of one-year loans. The average maturity profile of the loan portfolio is 5.2 years.

The net debt – i.e. interest-bearing liabilities and provisions minus liquid assets – increased by SEK 15,896 million to SEK 43,311 million. The increase is mainly due to investments.

Depreciation according to function

	2000	1999
Cost of products sold	5,187	4,217
Selling expenses	112	52
Administrative expenses	174	79
Research and development costs	4	3
Total depreciation	5,477	4,351

Investments (SEK m)



Cash Flow Statement Specification

* Adjustment for non-cash items

	2000	1999
Depreciation according to plan	5,477	4,351
Compensation for Barsebäck	-1,979	—
SPP funds	-426	—
Participation in the results of associated companies	-388	-89
Unrealized foreign exchange gains	-3	-74
Unrealized foreign exchange losses	6	65
Capital gains	-583	-409
Capital losses	461	116
Write-down of shares	209	10
Change in interest receivable	-406	-175
Change in interest payable	5	70
Change in provisions	-561	-281
Change in income tax liability	586	-257
Minority interest in profit for the year	462	359
	2,860	3,686

Interest paid amounted to SEK 2,456 million (1,617) and interest received to SEK 310 million (279). Taxes paid amounted to SEK 1,171 million (1,657).

** Acquisition of group companies

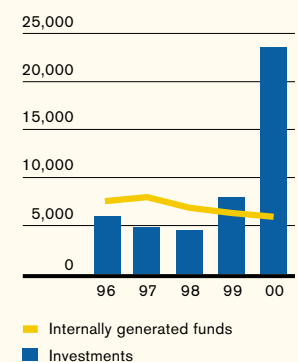
Assets in group companies acquired mainly comprise fixed assets. See notes 15, 16 and 18.

*** Liquid assets at the end of the year

	Dec. 31, 2000	Dec. 31, 1999
Investments	5,176	3,738
Cash and bank balances	2,367	1,122
Liquid assets at the end of the year	7,543	4,860

"Investments" refers to investments with maturities of less than one year. Investments with maturities of less than three months amounted to SEK 4,287 million (2,453).

Self-financing (SEK m)



Parent Company Income Statement

SEK million	Note	2000	1999
Net sales	1, 2, 3	17,405	18,450
Cost of products sold	4, 5	-13,970	-14,752
Gross profit		3,435	3,698
Selling expenses		-629	-707
Administrative expenses		-1,097	-630
Research and development costs		-218	-158
Other operating income		552	388
Other operating expenses		-603	-152
Operating profit	7	1,440	2,439
Result from participations in group companies	8	1,717	74
Result from participations in associated companies	6	173	19
Result from other long-term securities held	9	-193	775
Other interest income and similar profit/loss items	10	1,067	633
Interest expense and similar profit/loss items	11	-1,438	-1,186
Group contributions corresponding to dividends		1,524	1,251
Profit before appropriations and tax		4,290	4,005
Appropriations	12	-127	1,252
Profit before tax		4,163	5,257
Tax	13	-801	-1,328
Net profit for the year		3,362	3,929

Parent Company Cash Flow Statement

SEK million	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	3,362	3,929
Adjustment for the effects of non-cash items	-595	-1,801
Cash flow from operating activities before changes in operating assets and liabilities (internally generated funds)	2,767	2,128
Cash flow from changes in operating assets and liabilities	10,319	-4,691
Cash flow from operating activities	13,086	-2,563
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in group companies, associated companies and other long-term securities	-14,122	-7,537
Investment in tangible and intangible fixed assets	-743	-426
Sale of tangible fixed assets	643	5,117
Sale of shares and participations	582	1,143
Cash flow from investing activities	-13,640	-1,703
Cash flow before financing activities	-554	-4,266
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,129	5,591
Dividends paid	-1,500	-1,500
Cash flow from financing activities	629	4,091
Cash flow for the year	75	-175
LIQUID ASSETS		
Liquid assets at the beginning of the year	48	223
Cash flow for the year	75	-175
Liquid assets at the end of the year	123	48

Interest paid amounted to SEK 1,397 million (1,036) and interest received to SEK 999 million (1,089). Tax paid amounted to SEK 587 million (1,052).

Parent Company Balance Sheet

SEK million	Note	Dec. 31, 2000	Dec. 31, 1999
Assets			
FIXED ASSETS			
Intangible assets			
Concessions, patents, licences, trademarks and similar rights	15	1	6
Renting and similar rights	15	624	678
Total intangible assets		625	684
Tangible assets			
Land and buildings	16	11,871	12,496
Plant and machinery	16	5,858	6,109
Equipment, tools, fixtures and fittings	16	61	87
Construction in progress	16	560	411
Advance payments for tangible assets	17	—	57
Total tangible assets		18,350	19,160
Financial assets			
Participations in group companies	18, 19	26,481	12,987
Receivables from group companies	17	2,447	38
Participations in associated companies	18, 19	1,513	1,527
Receivables from associated companies	17	1,397	909
Other securities held as fixed assets	18, 19	443	594
Other long-term receivables	17	1,442	135
Total financial assets		33,723	16,190
Total fixed assets		52,698	36,034
CURRENT ASSETS			
Inventories etc.	20	88	103
Current receivables	21	15,270	20,821
Investments			—
Cash and bank balances		123	48
Total liquid assets	22	123	48
Total current assets		15,481	20,972
Total assets		68,179	57,006
Equity, provisions and liabilities			
Equity	23		
Restricted equity			
Share capital (131,700,000 shares at a par value of SEK 50 each)		6,585	6,585
Statutory reserve		1,316	1,316
Non-restricted equity			
Profit brought forward		4,914	3,067
Net profit for the year		3,362	3,929
Total equity		16,177	14,897
Untaxed reserves	12	10,192	10,065
Interest-bearing provisions	24	44	112
Non-interest-bearing provisions	25	115	146
Total provisions		159	258
Long-term interest-bearing liabilities	26	22,403	16,060
Long-term non-interest-bearing liabilities	27	4,977	4,794
Total long-term liabilities		27,380	20,854
Current interest-bearing liabilities	28	2,336	1,425
Current non-interest-bearing liabilities	29	11,935	9,507
Total current liabilities		14,271	10,932
Total equity, provisions and liabilities		68,179	57,006
Pledged assets	30	—	—
Contingent liabilities	31	73,682	59,567
Commitments under consortium agreements	32		

Accounting Policies and Valuation Principles

Consolidated Accounts

The consolidated accounts concern the parent company and companies in which Vattenfall held more than 50 per cent of the voting power or in any other way had a controlling influence at the year-end.

The consolidated accounts have been prepared in accordance with the Swedish Financial Accounting Standards Council Recommendation, RR 1:96.

The consolidated accounts have been prepared using the purchase accounting method. This means that the group equity only includes that portion of the subsidiary's equity earned after the acquisition date. The surplus values arising after market valuation in connection with the acquisition of the company's assets and liabilities are attributed to the appropriate item. Deferred tax is taken into account in these surplus values except for water rights which are not amortized. Remaining differences in relation to the acquisition prices are reported as goodwill.

Companies acquired during the year are included in the consolidated income statement as of the time of acquisition. Divested companies are included in the consolidated income statement up to the time of disposal.

Intercompany profits on sales between group companies are eliminated in their entirety, taking into account deferred tax.

Associated companies are accounted for in accordance with the equity method. Dividends from associated companies are not included in the profit for the Group. Instead, the Group's share of an associated company's pre-tax profit, net of any amortization of surplus values, is reported under "Participations in the results of associated companies." The Group's portion of an associated company's reported tax expense and deferred tax liability in untaxed reserves is included in the tax expense for the Group.

For practical reasons, the results of associated companies are included in Vattenfall's accounts after a slight delay, normally one calendar quarter.

The book value of the Group's shareholding in an associated company is adjusted to take account of the Group's share of the company's profit after tax, less any amortization of surplus values and dividends received.

Foreign Currencies

When preparing the consolidated accounts, all items in the income statements of a foreign subsidiary are translated into SEK at the average exchange rate for the year. All subsidiaries conduct independent business activities. Therefore, all balance-sheet items, apart from net profit/loss for the year, are translated at the exchange rates

prevailing at year-end (closing rate). The changes in group equity arising from variations in the closing rate, compared with the rates for the previous years, directly affect equity and are reported as an equity item, among restricted and non-restricted reserves. The difference arising in the consolidated balance sheet through the translation of a foreign subsidiary's net profit/loss into SEK on the basis of the average exchange rate affects non-restricted reserves for the Group.

Receivables and liabilities denominated in foreign currencies are valued at the closing rate, in the accounts of the individual group companies as well as in the consolidated accounts. When hedging, the spot exchange rate on the date that the currency was hedged is used in the valuation of the underlying receivable or liability.

As of October 1999, net assets in foreign currencies are no longer hedged through loans and other financial instruments. In the consolidated accounts, exchange rate differences on these loans have previously been set off against translation differences in equity.

Exchange rate differences (see Notes 10 and 11) are divided into operational and financial differences. Operational differences are included in operating profit.

The most important exchange rates used in the consolidated accounts are provided below.

Key Exchange Rates Applied in the Consolidated Accounts

Country	Currency	Average rates		Closing rates	
		2000	1999	Dec. 31, 2000	Dec. 31, 1999
Denmark	DKK	1.1378	1.1884	1.1870	1.1505
Finland	FIM	1.4263	1.4863	1.4890	1.4403
Norway	NOK	1.0462	1.0603	1.0715	1.0605
Germany	DEM	4.3360	4.5183	4.5285	4.3784
USA	USD	9.1844	8.2871	9.5350	8.5250
	EUR	8.4805	8.8076	8.8570	8.5892

Appropriations, Deferred Tax Liability and Untaxed Reserves

Tax legislation in Sweden and in certain other countries allows companies to defer tax payments through appropriations to untaxed reserves. In the consolidated balance sheet, untaxed reserves are divided into deferred tax liability and equity. The deferred tax liability is reported as provisions and the equity portion is included in restricted equity. The tax liability in the untaxed reserves is calculated on the basis of the anticipated tax rate for the following year in each country (in the case of Sweden, 28 per cent).

The consolidated income statement does not include any appropriations. The tax expense for the Group is calculated as the sum of the reported tax expenses in the individual group companies, adjusted for the effects of

transfers to/from untaxed reserves etc. This adjustment is equivalent to the year's change in the tax liability in the untaxed reserves, which is included in the deferred tax liability in the consolidated balance sheet.

The individual group companies (including Vattenfall AB) disclose untaxed reserves on the balance sheet as a separate item. In the income statement, transfers to/from untaxed reserves are reported under "Appropriations". The reported tax expense comprises the tax payable on profit after appropriations.

Group contributions are reported in accordance with the Swedish Financial Accounting Standards Council's statement.

Net Sales

Net sales does not include value-added tax and indirect taxes (primarily energy tax). Charges paid by customers for connection to the electricity network, are taken up as revenue at the time of connection.

Research and Development

R&D costs are taken up as an expense as they are incurred.

Depreciation and Amortization

Depreciation according to plan is calculated on a straight-line basis over the estimated useful life of an asset. Depreciation according to plan is distributed according to function in the income statement. Furthermore, accelerated depreciation is reported by the parent company under appropriations in the income statement and under untaxed reserves in the balance sheet.

Depreciation Rates (Years)

	Plant and equipment	Buildings	Land improvements
Plants in operation			
Properties	30	26–50	25
Hydro power plants	40	50	25
Thermal power plants *	25	25	25
Gas pipelines	20	—	—
Power lines and transformer stations **	30	30	30
Equipment etc.	3–10	—	—

* 15 years for reinvestment in nuclear power plants.

** 25–35 years for local distribution networks.

Intangible fixed assets are amortized over an appropriate period but no longer than the length of any underlying agreement. Goodwill acquired before 1997 is amortized over no more than 10 years, while goodwill acquired in 1997 and after is amortized over no more than 5 years with certain exceptions. The goodwill arising in connection with the acquisition of HEW is amortized over 20 years.

Fixed Assets

Intangible and tangible fixed assets are valued at cost (acquisition value) plus revaluation less accumulated depreciation according to plan. Revaluations are reported taking into account deferred tax. The cost of large plants, built by the Group, includes interest accrued during the construction period. Interest is capitalized, in the case of plant with a cost in excess of SEK 100 million.

Inventories etc.

Inventories are valued at the lower of cost or net realizable value in accordance with the first-in/first-out principle. The consumption of nuclear fuel is calculated as a depletion of the energy content of the fuel rods and is based on the cost of each batch of fuel loaded into the core. The value of the energy stored in the form of water in reservoirs is not reported as an asset.

Work in Progress and Revenue Recognition

Contracts are carried out on a cost plus and fixed price basis. The former are recognized as revenue as invoices are issued, while the percentage of completion method is applied to the latter.

Work in progress is valued as the direct costs incurred plus a reasonable proportion of indirect costs. Bad debts are written off in their entirety irrespective of the degree of completion of the contract in question.

Receivables

Receivables are carried at the amount likely to be received.

Current Asset Investments

Current asset investments include bonds, commercial paper and other interest-bearing financial instruments. Current asset investments are valued at the lower of cost and market at balance sheet date. Unrealized losses are set off against unrealized gains. Where losses exceed gains, the net amount is reported in the income statement; where gains exceed losses, the surplus is not included in income.

Pensions

When Vattenfall became incorporated, the Group took over the relevant pension liabilities accrued by the state. In the case of the municipal electricity companies acquired by Vattenfall, the Group has taken over the relevant pension liabilities accrued by the municipality. Pension liabilities accrued by active personnel are now organized within pension plans and insurance schemes which are standard in the markets in which Vattenfall operates. This applies to employees at the Swedish com-

panies and to some employees at foreign subsidiaries. The provision reported in the balance sheet has been calculated using customary actuarial methods.

The entire pension liability in Sweden is intended to be secured by assets in the Vattenfall Pension Fund which was founded in 1999 through payments from Vattenfall AB and Ringhals AB. In 2000, a further 10 group companies dissolved their pension liabilities, under the Pension Liabilities Act, through payments to the Fund (see Note 24).

Leasing

The Group's accounting for material contracts is mainly based on the Swedish Financial Accounting Standard Council's recommendation RR6 "Accounting for Leases". This means that, at the inception of the lease, a finance lease is recognized as an asset and reported as a tangible fixed asset purchase as well as reported among other current liabilities and other long-term liabilities.

Note 1 – Net sales

	Group		Parent company	
	2000	1999	2000	1999
Sales including indirect taxes	33,373	29,478	18,363	19,651
Indirect taxes	-1,678	-1,724	-958	-1,201
Net sales	31,695	27,754	17,405	18,450

Note 2 – Net sales by product area

	Group		Parent company	
	2000	1999	2000	1999
Electricity	18,575	18,499	13,545	14,522
District-heating	2,828	1,028	318	319
Energy services	3,693	2,633	1,326	972
Network services	7,763	7,097	2,075	2,462
Natural gas	1,327	863	—	—
Other and eliminations	-2,491	-2,366	141	175
Total	31,695	27,754	17,405	18,450

Sales in Sweden accounted for 73 per cent (75) of net sales and the other Nordic countries accounted for 16 per cent (21).

Note 3 – Intra-group transactions

Transactions with group companies accounted for 14 per cent (10) of the parent company's total income from sales and 68 per cent (69) of its total purchase costs.

Note 4 – Cost of products sold

Direct costs include SEK 1,996 million (1,892) in production taxes and duties for the Group and SEK 196 million (185) for the parent company as well as SEK 517 million (401) in property taxes for the Group and SEK 279 million (243) for the parent company.

Note 5 – Cost of nuclear waste management

	Group	
	2000	1999
Fees to Nuclear Waste Fund		
– own high-level waste *	453	683
– SVAFO **	57	73
Provisions for the future expenses of managing low and intermediate-level waste	50	52
Total	560	808

* According to the Act (1995:1544) on the Financing of Future Expenses of Spent Nuclear Fuel etc., the holder of a licence to own or operate a nuclear reactor must pay, as long as the reactor is in operation, an annual fee to finance the management of spent nuclear fuel and other radioactive waste. The fee is paid into the Nuclear Waste Fund and is based on the energy delivered by the reactor. The Fund reimburses these fees in the form of government grants as the nuclear power company incurs costs for (a) the treatment and final disposal of spent fuel and radioactive waste from its reactors, after the fuel and waste have been removed from the reactors, (b) the decommissioning and dismantling of the unit and (c) the research and development necessary in order to fulfill the obligations in (a) and (b).

During 2000, SEK 422 million (351) was disbursed from the Fund in respect of costs for which the Vattenfall Group is liable. At December 31, the market value of the Vattenfall Group's share of the Fund was SEK 16,115 million (14,243).

** According to the Act (1988:1597, latest amendment, 1995:1545) on the Financing of the Management of Certain Radioactive Waste etc., the holder of a licence to own and operate a nuclear reactor must pay a fee as a contribution to the activities which have been conducted at Studsvik AB, relating to the development of the Swedish nuclear power programme. This fee is also based on the energy delivered from the reactor and is paid into and administered by the Nuclear Waste Fund.

Note 6 – Participations in the results of associated companies

	Group		Parent company	
	2000	1999	2000	1999
Share of profits *	509	142	—	—
Dividends	—	—	17	19
Capital gains/losses on sales proceeds	149	—	156	—
Total	658	142	173	19

* The participation for HEW is based on a preliminary, unaudited forecast.

Note 7 – Depreciation classified according to function

	Group		Parent company	
	2000	1999	2000	1999
Cost of products sold	5,187	4,217	702	641
Selling expenses	112	52	20	13
Administrative expenses	174	79	15	30
Research and development costs	4	3	—	—
Total	5,477	4,351	737	684

Note 8 – Result from participations in group companies

	Parent company	
	2000	1999
Dividends	1,887	159
Shareholder's contribution	—	—
Write-downs	-266 *	-82
Capital gains/losses on sales proceeds	96	-3
Total	1,717	74

* The amount includes a repaid shareholder's contribution of SEK 200 million, which was previously reported as an asset.

Note 9 – Result from other long-term securities held

	Group		Parent company	
	2000	1999	2000	1999
Dividends	167	16	5	6
Interest income *	—	—	—	747
Write-downs	-208	—	-200	—
Capital gains/losses on sales proceeds	245	18	2	22
Total	204	34	-193	775

* Interest income from subsidiaries amounted to SEK 0 million (613).

Note 10 – Other interest income and similar profit/loss items

	Group		Parent company	
	2000	1999	2000	1999
Interest income	716	454	999	342*
Exchange gains	117	54	68	291
Total	833	508	1,067	633

* Includes SEK 639 million (342) in interest income from subsidiaries. Operations-related exchange gains for the Group amounted to SEK 77 million (35).

Note 11 – Interest expense and similar profit/loss items

	Group		Parent company	
	2000	1999	2000	1999
Interest expense *	2,461	1,687	1,397*	1,036*
Exchange losses	75	73	41	150
Total	2,536	1,760	1,438	1,186

* Interest expense to subsidiaries amounted to SEK 1,322 million (1,008). Operations-related exchange losses for the Group amounted to SEK 32 million (31).

Note 12 – Appropriations and untaxed reserves

Parent company 2000	Transfer to/ from (-)		
	Jan. 1		Dec. 31
Accelerated depreciation	6,833	-336	6,497
1996 tax allocation reserve	363	—	363
1997 tax allocation reserve	931	—	931
1998 tax allocation reserve	715	—	715
1999 tax allocation reserve	382	—	382
2000 tax allocation reserve	841	—	841
2001 tax allocation reserve	—	463	463
Total	10,065	127	10,192

Untaxed reserves added through mergers have been divided into a deferred tax liability portion and an equity portion.

The following changes occurred in untaxed reserves in 1999: SEK -2,093 million in accelerated depreciation was dissolved, SEK 841 million was transferred to the 2000 tax allocation reserve.

Note 13 – Taxes

	Group		Parent company	
	2000	1999	2000	1999
Direct tax on profit for 2000 and previous years	1,010	1,330	801	1,340
Share of tax at associated companies	495	32	—	—
Deferred tax	252	38	—	-12
Total	1,757	1,400	801	1,328

The year's tax expense of SEK 1,757 million (1,400) comprised 34 per cent (33) of profit before tax and minority interests.

The increase in tax for minority companies is mainly due to an amendment of the German tax legislation in 1999 concerning provisions for the cost of closing down nuclear power plants. HEW has distributed the main impact of this change over two years – 1999 and 2000. A minor portion has been distributed over the period from 2001 to 2005.

The parent company's unrecorded deferred tax expense relating to appropriations amounted to SEK 36 million (-351).

As is the case with many major Swedish companies, the Swedish companies within the Vattenfall Group have been subjected to a scheduled audit by the Swedish Tax Authorities. The comments of the Swedish Tax Authorities have been evaluated. Tax cases are underway with respect to matters where the company does not share the opinion of the Tax Authorities. However, this will not result in additional tax payable since taxes owed have already been paid.

Note 14 – Minority interests in profit for the year

	Group	
	2000	1999
Minority interest in profit before tax	508	350
Minority interest in tax	-46	9
Total	462	359

Note 15 – Intangible fixed assets

	Concessions and similar rights		Renting and similar rights		Goodwill		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
GROUP								
Acquisition values								
Acquisition values brought forward	909	702	952	952	947	913	2,808	2,567
Companies acquired	135	215	753	13	1,334	185	2,222	413
Investments	3	12	6	6	328	1	337	19
Sales/disposals	—	-2	-28	-9	-284	-40	-311	-51
Reclassifications	—	—	—	—	—	-72	—	-72
Companies sold	-4	—	—	—	—	—	-4	—
Translation differences	7	-18	5	-10	64	-40	75	-68
Accumulated acquisition values carried forward	1,050	909	1,688	952	2,389	947	5,127	2,808
Accumulated depreciation according to plan								
Depreciation brought forward	-415	-314	-197	-158	-643	-338	-1,255	-810
Companies acquired	-14	—	-25	-5	-142	-4	-181	-9
Depreciation for the year	-107	-108	-378*	-42	-484***	333**	-969	-483
Sales/disposals	—	2	6	4	284	21	290	27
Companies sold	1	—	—	—	—	—	1	—
Translation differences	-3	5	-3	4	-14	11	-20	20
Accumulated acquisition values carried forward	-538	-415	-597	-197	-999	-643	-2,134	-1,255
Residual value according to plan carried forward	512	494	1,091	755	1,390	304	2,993	1,553
PARENT COMPANY								
Acquisition values								
Acquisition values brought forward	198	204	817	808	—	—	1,015	1,012
Investments	—	—	—	9	—	—	—	9
Sales/disposals	—	-6	-28	—	—	—	-28	-6
Accumulated acquisition values carried forward	198	198	789	817	—	—	987	1,015
Accumulated depreciation according to plan								
Depreciation brought forward	-192	-184	-139	-102	—	—	-331	-286
Depreciation for the year	-5	-8	-34	-37	—	—	-39	-45
Sales/disposals	—	—	8	—	—	—	8	—
Accumulated depreciation carried forward	-197	-192	-165	-139	—	—	-362	-331
Residual value according to plan carried forward	1	6	624	678	—	—	625	684
Accumulated accelerated depreciation	—	—	-620	-674	—	—	-620	-674
Book value	1	6	4	4	—	—	5	10

* Including an SEK 302 million write-down. ** Including an SEK 210 million write-down. *** Including an SEK 245 million write-down.

Note 16 – Tangible fixed assets

	Land and buildings		Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress		Total	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
GROUP										
Acquisition values										
Acquisition values brought forward **	27,827	27,878	71,945	70,270	3,521	3,246	1,632	1,347	104,925	102,741
Companies acquired	4,179	145	18,672	3,742	813	107	539	23	24,203	4,017
Investments ***	156	65	365	379	269	254	3,358	1,764	4,148	2,462
Transfer from construction in progress	241	114	2,660	1,331	12	44	-2,913	-1,489	0	—
Sales/disposals	-1,134	-311	-1,008	-3,160	-516	-170	-14	-7	-2,672	-3,648
Reclassifications	-57	-12	-210	-39	-25	87	323	-2	31	34
Companies sold	-542	-12	-720	1	-20	-9	-25	—	-1,307	-20
Translation differences	294	-40	972	-579	31	-38	58	-4	1,355	-661
Accumulated acquisition values carried forward	30,964 *	27,827 *	92,676	71,945	4,085	3,521	2,958	1,632	130,683	104,925
Accumulated depreciation according to plan										
Depreciation brought forward	-9,569	-9,129	-36,668	-34,629	-2,630	-2,369	—	—	-48,867	-46,127
Companies acquired	-1,832	-37	-9,004	-538	-607	-49	—	—	-11,443	-624
Depreciation for the year	-641	-529	-3,449	-2,942	-366	-346	—	—	-4,456	-3,817
Sales/disposals	279	103	659	1,232	482	132	—	—	1,420	1,467
Reclassifications	-4	—	115	65	-12	-29	—	—	99	36
Companies sold	162	12	241	—	8	5	—	—	411	17
Translation differences	-145	11	-595	144	-23	26	—	—	-763	181
Accumulated depreciation carried forward	-11,750	-9,569	-48,701	-36,668	-3,148	-2,630	—	—	-63,599	-48,867
Revaluations										
Revaluation brought forward	65	72	846	880	—	—	—	—	911	952
Companies acquired	80	—	—	17	—	—	—	—	80	17
Write-downs for the year of previous revaluations	-1	—	-51	-51	—	—	—	—	-52	-51
Other changes	—	—	—	—	—	—	—	—	—	—
Translation differences	6	-7	—	—	—	—	—	—	6	-7
Accumulated revaluations carried forward, net	150	65	795	846	—	—	—	—	945	911
Residual value according to plan carried forward	19,364	18,323	44,770	36,123	937	891	2,958	1,632	68,029	56,969

* Includes a non-depreciable cost of land and water rights amounting to SEK 9,525 million (8,865).

** Government grants received at Jan. 1: SEK 2,968 million (2,840).

*** Government grants received during the year: SEK 448 million (132).

cont'd.

	Land and buildings		Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress		Total	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
PARENT COMPANY										
Acquisition values										
Acquisition values brought forward **	16,936	18,717	11,086	21,998	293	725	411	687	28,726	42,127
Investments	96	1	12	6	19	24	616	386	743	417
Transfer from construction in progress	115	46	334	250	—	—	-449	-296	—	—
Sales/disposals	-700	-1,820	-315	-11,174	-82	-458	-18	-366	-1,115	-13,818
Reclassifications	—	-8	—	6	—	2	—	—	—	—
Accumulated acquisition values carried forward	16,447*	16,936*	11,117	11,086	230	293	560	411	28,354	28,726
Accumulated depreciation according to plan										
Depreciation brought forward	-4,440	-5,536	-4,977	-11,748	-206	-523	—	—	-9,623	-17,807
Depreciation for the year	-256	-247	-403	-358	-39	-34	—	—	-698	-639
Sales/disposals	120	1,343	121	7,129	76	351	—	—	317	8,823
Reclassifications	—	—	—	—	—	—	—	—	—	—
Accumulated depreciation carried forward	-4,576	-4,440	-5,259	-4,977	-169	-206	—	—	-10,004	-9,623
Residual value according to plan carried forward	11,871	12,496	5,858	6,109	61	87	560	411	18,350	19,103
Accumulated accelerated depreciation	—	—	-5,816	-6,077	-61	-82	—	—	-5,877	-6,159
Book value	11,871	12,496	42	32	0	5	560	411	12,473	12,944

* Includes a non-depreciable cost of land and water rights amounting to SEK 6,787 million (6,841).

** Government grants received, at Jan. 1: SEK 2 million (2).

Tax assessment values (Swedish real-estate)

	Group		Parent company	
	2000	1999	2000	1999
Buildings	64,837	42,890	32,932	15,326
Land	24,301	36,661	20,263	30,245
Total	89,138	79,551	53,195	45,571

Transmission lines and transformer stations are not subject to tax assessment values.

Note 17 – Advances and long-term receivables

	Advance payments to suppliers, tangible fixed assets		Receivables from group companies		Receivables from associated companies		Other long-term receivables	
	2000	1999	2000	1999	2000	1999	2000	1999
GROUP								
Balance brought forward	285	215	—	—	1,687	1,337	1,272	1,463
Acquired companies	28	—	—	—	—	—	134	6
New advances/receivables	40	202	—	—	1,333	1,008	1,419	31
Payments received	—	-60	—	—	-1,372	-657	-2	-20
Companies sold	—	—	—	—	—	—	59	—
Exchange rate differences	—	—	—	—	9	—	—	—
Reclassifications	-293	-72	—	—	-3	-1	37	-208
Balance carried forward	60	285	—	—	1,654	1,687	2,919	1,272
PARENT COMPANY								
Balance brought forward	57	59	38	123	909	630	135	123
New advances/receivables	—	57	2,447	—	490	374	1,329	30
Payments received	—	-59	-38	—	—	-95	—	-18
Exchange rate differences	—	—	—	—	—	—	—	—
Reclassifications	-57	—	—	-85	-2	—	-22	—
Balance carried forward	—	57	2,447	38	1,397	909	1,442	135

Note 18 – Participations in group companies, associated companies and other securities held as fixed assets

	Participations in group companies		Participations in associated companies		Other fixed asset securities	
	2000	1999	2000	1999	2000	1999
GROUP						
Balance brought forward	—	—	5,223	2,917	1,549	1,181
Companies acquired	—	—	8,011	55	94	370
Investments	—	—	154	2,083	162	382
New issues and shareholders' contribution	—	—	—	54	—	—
Disposals	—	—	—	—	-321	-40
Reclassifications	—	—	-324	112	7	-285
Change in value, associated companies	—	—	425	57	—	—
Write-downs	—	—	—	-7	-208	-3
Companies sold	—	—	-184	—	-262	—
Translation differences	—	—	-38	-48	-2	-56
Balance carried forward	—	—	13,267	5,223	1,019	1,549
PARENT COMPANY						
Balance brought forward	12,987	7,481	1,527	669	594	662
Investments	6,469	1,351	151	770	49	125
New issues	6	2,216	—	46	—	—
Shareholder's contribution made *	7,430	3,029	—	—	—	—
Disposals *	-165	-1,101	-162	-20	—	-5
Mergers of shareholdings	17	—	—	—	—	—
Reclassifications	3	126	-3	62	—	-188
Write-downs	-266**	-115	—	—	-200	—
Balance carried forward	26,481	12,987	1,513	1,527	443	594

* Shareholder's contribution made and disposals mainly refer to restructuring within the Group.

** The amount includes a repaid shareholder's contribution of SEK 200 million which was previously reported as an asset.

Note 19 – Shares and participations

The following is a list of the main shares and participations held directly or indirectly by the parent company.

GROUP COMPANIES

	Corporate i.d. no.	Reg. office	% holding	Number	Book value
Abonnera i Sverige AB	556572-9869	Stockholm	100	50,000	5
AB Ryssa Elverk	556012-2458	Mora	63	395,306	317
Arrowhead AB	556463-7683	Östersund	53	85,226,876	1,001
Elektrociepłownie Warszawskie S.A.	38 440	Warsaw	55	11,346,500	2,056
Energibolaget Botkyrka-Salem Försäljn. AB	556014-7406	Botkyrka	100	2,400	90
Forsaströms Kraft AB	556010-0819	Åtvidaberg	100	400,000	294
Forsmarks Kraftgrupp AB	556174-8525	Östhammar	74.5	223,500	223
Försäkrings AB Vattenfall Insurance	516401-8391	Stockholm	100	200,000	200
Gestrikekraft AB	556476-9858	Gävle	100	100,000	202
Gotlands Energiverk AB	556008-2157	Gotland	75	112,500	13
Kraftbyggarna Entreprenad AB	556333-2468	Luleå	100	38,000	46
Kraftbyggarna Invest AB	556497-6917	Stockholm	100	1,000	121
Nordic Power Invest AB	556377-2861	Stockholm	100	218,000	1,245
Ringhals AB	556558-7036	Varberg	74	222,600	457
Svensk Kärnbränslehantering AB *	556175-2014	Stockholm	36	360	0
Sensel AB	556573-5965	Stockholm	100	300,000	30
Ström A/S	250526	Gentofte	100	80,000	10
SwedPower AB	556383-5619	Stockholm	100	12,500	15
SwedPower International AB	556192-6212	Stockholm	85	3,400	19
Säffle Elverk AB	556499-8671	Säffle	100	8,500	189
Säffle Energi AB	556499-8689	Säffle	100	8,000	22
Uppsala Energiholding AB	556589-4622	Uppsala	100	1,000	3,407
Vattenfall Bråviken AB	556507-8572	Nyköping	100	200	70
Vattenfall Bränsle AB	556440-2609	Stockholm	100	100	96
Vattenfall Data AB	556439-0614	Stockholm	100	100	10
Vattenfall Deutschland GmbH	(HRB) 62659	Hamburg	100	2	8,217
Vattenfall ElnätService AB	556417-0859	Trollhättan	100	16,000	18
Vattenfall Energimätning AB	556329-0757	Motala	100	500	15
Vattenfall Engineering AB	556383-5643	Stockholm	100	160,000	199
Vattenfall Estonia OÜ	10142764	Tallinn	100	100	0
Vattenfall Fastigheter AB	556438-5952	Sundsvall	100	100	120
VGS Hydro International AB	556417-0750	Stockholm	100	8,000	10
Vattenfall Generation Services AB	556013-1574	Stockholm	100	150,000	16
Vattenfall Naturgas AB	556181-1034	Stockholm	51	1,274,992	10
Vattenfall Norge AS	(NO) 978-641423	Oslo	100	1,230,000	1,975
Vattenfall Normät AB	556437-8502	Luleå	100	100	283
Vattenfall Poland Sp. zo.o.	A-7069	Warsaw	100	40	2
Vattenfall Oy	1071366-1	Helsinki	100	10,000	1,484
Vattenfall Regionnät AB	556417-0800	Stockholm	100	8,000	11
Vattenfall Reinsurance S.A.	(B) 49528	Luxemburg	100	12,999	13
Vattenfall Support AB	556438-6026	Stockholm	100	100	1
Vattenfall Sveanät AB	556438-0268	Sollentuna	100	100	2,186
Vattenfall Treasury AB (publ.)	556439-0606	Stockholm	100	500	6
Vattenfall Utveckling AB	556390-5891	Älvkarleby	100	14,000	17
Vattenfall Västnät AB	556022-0369	Trollhättan	100	600	437
Vattenfall Östnät AB	556215-7494	Linköping	100	1,000	979
Västerbergslagens Energi AB	556565-6872	Ludvika	51	7,590	8
Västerbergslagens Kraft AB	556194-9784	Ludvika	58	89,726	19
Västerbergslagens Värme AB	556565-6856	Ludvika	51	5,566	6
Östra Roslags Elverk AB**	556036-2526	Norrköping	100	9,644	239
Other companies					72
Total parent company					26,481

* The Group owns a further 22 per cent via Forsmarks Kraftgrupp AB.

** Vattenfall has been registered as owner of the shares in connection with the compulsory redemption of shares. The reduction in compensation for outstanding shares was carried out at the County Administrative Board.

Major shareholdings held by group companies

	Reg. office	% holding		Reg. office	% holding
Barsebäck Kraft AB	Malmö	100	NPI Holding AB	Stockholm	100
Cahua SA	Peru	60	Pamilo Oy	Eno	100
Cementos Norte Pascasmayo Energia SA	Peru	100	Revon Sähkö Oy	Oulainen	100
Heinola Energia Oy	Heinola	100	Roden Energi AB	Östhammar	100
Hämeen Sähkö Oy	Hämeenlinna	100	Sigtuna Energi AB	Sollentuna	100
Hämeenlinnan Energia Oy	Hämeenlinna	100	Uppsala Energi AB	Uppsala	100
Keski-Suomen Valo Oy	Saarijärvi	100	Vattenfall AS	Oslo	100
Lapuan Sähkö Oy	Lappo	100	Vattenfall Indalsälven AB	Bispgården	74

ASSOCIATED COMPANIES

	Corporate i.d. no.	Reg. office	% holding	Number	Book value	
					Group	Parent company
Direct holdings						
i/s Avedøreværket 2	(LEV) 221005	Gentofte	40	participations	14	14
Baltic Cable AB	556420-6026	Malmö	33	10,000	189	1
Bodens Energi AB	556200-9117	Boden	40	20	55	0
Gulsele AB	556001-1800	Örebro	35	84,000	330	332
Luleå Energi AB	556139-8255	Luleå	30	54,000	163	3
AB Pite Energi	556330-9227	Piteå	50	70,000	174	7
Plusenergi AB	556572-4696	Göteborg	50	50,000	120	170
Preem Gas AB	556037-2970	Stockholm	30	750	8	7
Tierps Fjärrvärme AB	556249-4723	Tierp	40	1,000	5	1
Vychodoceska Energetika a.s.	60108720	Hradec Kralove	42	1,064,012	970	963
SwePol Link AB	556530-9829	Stockholm	48	288,000	6	3
Älvkarleby Fjärrvärme AB	556246-1425	Älvkarleby	49	980	8	1
Other					11	11
Indirect holdings						
A-Train AB	556500-3745	Stockholm	20	1,000,000	30	—
Fredrikstad Energinett AS	(NO) 980234088	Fredrikstad	35	178,446	335	—
Fredrikstad Energiverk AS	(NO) 971644494	Fredrikstad	49	7,553	474	—
Hafslund ASA	(NO) 912230252	Sarpsborg	21*	115,463,420	1,213	—
Hamburgische Electricitäts-Werke	HRB 1955	Hamburg	26	24,199,125	7,717	—
Nordic Hydropower AB	556023-6043	Stockholm	50	500	27	—
Oslo Energi AS	(NO) 874412004	Oslo	49	294,000	453	—
Ostrowski Zaklad Ciepowniczy	250017863	Kalisz	23	188,911	10	—
Päijät-Hämeen Voima Oy	1000864-7	Nastola	29	18,999	31	—
Terki Oy	0953-041-1	Helsinki	50	500	12	—
Tosli Investments BV	33.262.554	Amsterdam	50	9,000	860	—
Suomen Voimatekniikka Oy	0959028-9	Harjavalta	33	1,800	7	—
Åtvidabergs Fjärrvärme AB	556543-1607	Åtvidaberg	50	10,000	10	—
Other					35	—
Total					13,267	1,513

OTHER SECURITIES HELD AS FIXED ASSETS

	Countries	% holding	Number	Book value	
				Group	Parent company
Direct holdings					
Amsterdam Power Exchange (APX)	Netherlands	10	680,000	12	12
Houston Street Exchange NV	Netherlands	5	592,593	26	26
Jämtkraft AB	Sweden	20**	13,000	23	23
Leksand-Rättvik Energi AB	Sweden	8	11,696	23	23
Lithuanian Power Company	Lithuania	11	19,705,671	204	204
NESA A/S	Denmark	12	155,003	151	151
Other				4	4
Indirect holdings					
Dala Kraft AB	Sweden	12	22,678	59	—
European Energy Exchange (EEX)	Germany	3	50,000	9	—
Etelä-Pohjanmaan Voima Oy	Finland	11	504	123	—
Fredrikstad Fjernvarme	Norway		5,385	22	—
Spjutmo Kraft AB	Sweden	19	3,000	75	—
The Cogeneration Co Ltd (COCO)	Thailand	7	90,623,904	218	—
Other				70	—
Total				1,019	443

* 32 per cent of voting power. ** 16 per cent of voting power.

Note 20 – Inventories etc.

	Group		Parent company	
	2000	1999	2000	1999
Raw materials and consumables				
Nuclear fuel	4,267	4,190	—	—
Oil	94	111	49	95
Coal etc.	261	12	5	5
Materials and spare parts	936	588	34	3
Total	5,558	4,901	88	103

Note 21 – Current receivables

	Group		Parent company	
	2000	1999	2000	1999
Accounts receivable – trade	4,576	4,285	2,215	2,501
Receivables from group companies	—	—	8,556	15,449
Receivables from associated companies	2,865	2,450	2,763	2,350
Other receivables	3,404	683	1,218	180
Prepaid expenses and accrued income	1,118	946	518	341
Total	11,963	8,364	15,270	20,821

Specification of prepaid expenses and accrued income:

	Group		Parent company	
	2000	1999	2000	1999
Prepaid insurance premiums	18	57	—	17
Prepaid expenses, other	235	359	393	178
Prepaid expenses and accrued income, electricity	290	223	54	79
Accrued income, other	575	307	71	67
Total	1,118	946	518	341

Note 22 – Liquid assets

The parent company's liquid asset investments, cash and bank deposits are handled by the subsidiary, Vattenfall Treasury AB. Deposits in the group account amounted to SEK 5,115 million (14,824) and are reported under current assets as current receivables from group companies.

Note 23 – Equity

	Share capital	Revaluation reserve	Equity method reserve	Other restricted reserves	Non-restricted equity
GROUP					
Jan. 1	6,585	295	616	16,333	9,518
Dividend	—	—	—	—	-1,500
Change in tax rate	—	—	—	-10	—
Change in revaluation reserve	—	-18	—	—	18
Transfers between restricted and non-restricted reserves	—	—	5	-738	733
Translation differences	—	—	15	394	-96
Net profit for the year	—	—	—	—	2,970
Dec. 31	6,585	277	636	15,979	11,643

Accumulated translation differences in equity amounted to SEK 324 million.

Total untaxed reserves in companies within the Group amounted to SEK 36,442 million, of which accelerated depreciation amounted to SEK 30,532 million. The equity portion is included in restricted reserves, see Accounting Policies, page 54.

SEK 22 million of the non-restricted equity at year-end is expected to be transferred to restricted reserves as proposed by the boards of subsidiaries.

	Share capital	Statutory reserve	Non-restricted equity	Total
PARENT COMPANY				
Jan. 1	6,585	1,316	6,996	14,897
Dividend	—	—	-1,500	-1,500
Group contributions corresponding to dividends	—	—	-808	-808
Tax effects due to group contributions	—	—	226	226
Net profit for the year	—	—	3,362	3,362
Dec. 31	6,585	1,316	8,276	16,177

Vattenfall AB's share capital comprises 131,700,000 shares, each with a par value of SEK 50.

Note 24 – Pension provisions

Provisions for pensions and similar commitments which Vattenfall AB and group companies are liable to pay.

	Group		Parent company	
	2000	1999	2000	1999
Pension commitments	3,741	3,598	2,484	2,563
Less: Capital in pension fund	-3,713	-2,798	-2,484	-2,563
Other pension commitments	159	410	44	112
Total	187	1,210	44	112
Information registered by PRI	2,099	1,462	1,126	522

During 1999, Vattenfall AB and Ringhals AB in accordance with the Pension Liabilities Act dissolved their pension liabilities through the payment into the Vattenfall Pension Fund of an amount corresponding to pension liabilities. During 2000, a further 10 group companies dissolved their pension liability, under the Pension Liabilities Act, through payments into the Vattenfall Pension Fund.

During the year, the return on the Pension Fund was 2.7 per cent (3.7).

Note 25 – Non-interest-bearing provisions

	Group		Parent company	
	2000	1999	2000	1999
Provisions for deferred tax liabilities	13,200	10,940	12	12
Other provisions	592	252	103	134
Total	13,792	11,192	115	146

A provision of SEK 53 million for low and intermediate-level nuclear waste management which is used to fund the Final Repository for Radioactive Operational Waste is included in the consolidated amounts.

Note 26 – Long-term interest-bearing liabilities

	Group		Parent company	
	2000	1999	2000	1999
Bond loans	33,285	12,865	—	—
Liabilities to credit institutions	3,952	4,053	—	—
Liabilities to associated companies and minority owners	3,557	2,762	—	—
Liabilities to group companies	—	—	22,401	16,057
Other liabilities	322	34	2	3
Total	41,116	19,714	22,403	16,060

Of the above liabilities in respect of the Group, the following amounts fall due after more than five years: Bond loans SEK 21,809 million (10,013), Liabilities to other credit institutions SEK 2,220 million (2,232), Liabilities to minority owners SEK 2,538 million (2,242), Other long-term borrowings SEK 301 million (6).

In respect of the parent company, SEK 669 million (669) in liabilities to group companies falls due after more than five years.

Liabilities to group companies mainly comprise long-term borrowings from Vattenfall Treasury AB.

Virtually all borrowings in foreign currencies are hedged.

Note 27 – Long-term non-interest-bearing liabilities

	Group		Parent company	
	2000	1999	2000	1999
Liabilities to group companies	—	—	3,741	4,168
Other liabilities	878	1,222	1,236	626
Total	878	1,222	4,977	4,794

Of the above liabilities for the Group, the following amount falls due after five years: Other liabilities SEK 194 million (264). For the parent company, the following amount falls due after five years: Other liabilities SEK 220 million (235).

Liabilities to group companies mainly comprise long-term liabilities to Forsmarks Kraftgrupp AB and others relating to power charges. In the case of Forsmarks Kraftgrupp AB, the credit is an interest-free loan in accordance with an agreement between the shareholders.

Note 28 – Current interest-bearing liabilities

	Group		Parent company	
	2000	1999	2000	1999
Bond loans	3,649	7,876	—	—
Commercial paper	4,372	2,502	—	—
Liabilities to credit institutions	929	861	—	—
Liabilities to minority owners	—	3	—	—
Liabilities to associated companies	5	26	—	—
Liabilities to group companies	—	—	2,334	1,423
Other liabilities	596	83	2	2
Total	9,551	11,351	2,336	1,425

Note 29 – Current non-interest-bearing liabilities

	Group		Parent company	
	2000	1999	2000	1999
Advance payments from customers	—	15	1	1
Accounts payable – trade	2,270	1,986	455	446
Liabilities to group companies	—	—	9,540	7,702
Liabilities to associated companies	236	85	107	70
Tax liabilities	507	87	316	24
Other liabilities	3,372	1,648	882	659
Accrued expenses and deferred income	2,991	2,334	634	605
Total	9,376	6,155	11,935	9,507

Specification of accrued expenses and deferred income:

	Group		Parent company	
	2000	1999	2000	1999
Accrued personnel costs	817	685	146	123
Accrued nuclear-related fees and taxes	55	265	—	—
Accrued interest expense	17	332	—	—
Other accrued expenses	1,342	629	110	204
Deferred income and accrued expenses, electricity	311	331	265	267
Other deferred income	449	92	113	11
Total	2,991	2,334	634	605

Note 30 – Pledged assets

	2000	1999
GROUP		
For own liabilities and provisions		
Liabilities to credit institutions:		
Floating charges	503	53
Real estate mortgages	88	92
Other	118	5
Total	709	150

The parent company has no pledged assets.

Note 31 – Contingent liabilities

	2000	1999
GROUP		
Guarantees	5,963	6,058
Other contingent liabilities	1,199	988
Total	7,162	7,046

2000 1999

PARENT COMPANY

Guarantees

of which:

for Vattenfall Treasury's lending to subsidiaries and associates	23,026	25,184
for subsidiaries and associates subordinated guarantees	45,053	26,686
	115	1,466
Nuclear Waste Fund	4,070	4,914
Contract guarantees	1,015	962
Other	403	355
Total	73,682	59,567

Other contingent liabilities

Compensatory and free power supplied:

Wholesale power supplied

– Number of commitments	13	16
– Capacity in MW	219	222
– Energy supplied in TWh/year	0.7	0.9

SEK 73,352 million (58,542) of the parent company's contingent liabilities relate to its subsidiaries. Vattenfall AB has guaranteed Vattenfall Treasury AB's commitments.

On some rivers, hydro power plants share regulation facilities. The owners of the plants are each liable for their share of the regulation costs.

Under Swedish law, Vattenfall has a strictly unlimited liability for third party losses as a result of dam accidents. Together with other hydro power producers in Sweden and Norway, Vattenfall has taken out a liability insurance cover which will pay out a maximum of NOK 5 billion for this kind of loss.

As a natural part of the Group's business, in addition to those specified above, additional guarantees are put up for the fulfillment of contractual commitments.

During 1999, Vattenfall conducted lease transactions, with investors in the USA as counterparties, with respect to three power facilities in Germany. The term of each lease is about 40 years and the lease contracts can be terminated after about half of the term has elapsed, without any financial consequences for Vattenfall. The present value of the lease payments that Vattenfall, through a defeasance structure, has undertaken to make was about SEK 2 billion at the time of the transaction. Of this amount, approximately 20 per cent is the maximum amount that Vattenfall, in the event of a force majeure, is liable to pay in compensation to the counterparty if Vattenfall chooses to, or cannot, fulfill the obligations of the lease contracts. At balance sheet date, the amount was SEK 298 million, which is included in the contingent liabilities above. The present value of the lease payments has been deposited in a bank with an AAA credit rating. On account of the structure of the contract, Vattenfall's credit risk is assessed to be negligible. The net amount of advance payments received and deposits made during 1999 has been reported in the balance sheet.

Note 32 – Commitments under consortium agreements

Power plants are often built on a joint venture basis. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership and each owner is liable – irrespective of output – for an equivalent proportion of the joint venture company's costs.

Vattenfall's investments in heat and other companies often entail a liability for costs in proportion to its share of ownership.

Vattenfall bears the full responsibility for Swe-Pol Link during the first ten years.

Note 33 – Average number of employees and personnel costs

Average number of employees	2000			1999		
	Men	Women	Total	Men	Women	Total
GROUP						
Sweden	6,330	1,756	8,086	5,727	1,602	7,329
Finland	607	202	809	313	135	448
Poland	3,244	870	4,114	13	4	17
Norway	4	4	8	9	6	15
Germany	2	3	5	49	34	83
Other countries	81	20	101	75	24	99
Total	10,268	2,855	13,123	6,186	1,805	7,991
PARENT COMPANY						
Sweden	877	429	1,306	1,341	503	1,844
Other countries	9	—	9	14	1	15
Total	886	429	1,315	1,355	504	1,859

Personnel costs	Group		Parent company	
	2000	1999	2000	1999
Salaries and other remuneration	3,551	2,762	521	730
Social security expenses (of which pension costs)	1,560 (546)*	1,698 (777)*	325 (161)**	447 (189)**
Total	5,111	4,460	846	1,177

* SEK 7 million (6) of the Group's pension costs relate to presidents, executive vice presidents and former executive vice presidents.

The Group's outstanding pension commitments in respect of these officers total SEK 64 million (44).

** The parent company's pension costs include SEK 3 million (1) for presidents, executive vice presidents and former executive vice presidents.

The company's outstanding pension commitments in respect of these officers total SEK 42 million (22).

None of the board members receive any pension benefits in connection with board duties.

Salaries and other remuneration	2000			1999		
	Board members and presidents *	Other employees	Total	Board members and presidents *	Other employees	Total
GROUP						
Sweden	43	2,879	2,922	37	2,526	2,563
Finland	7	218	225	7	112	119
Poland	7	367	374	—	—	—
Other countries	10	20	30	5	75	80
Total	67	3,484	3,551	49**	2,713	2,762
PARENT COMPANY						
Sweden	8	561	569	6	720	726
Other countries	—	2	2	—	4	4
Total	8	563	571	6***	724	730

* Board members and presidents also include alternates, executive vice presidents as well as former board members, alternates, presidents and executive vice presidents.

** Includes bonuses of SEK 3 million (2).

*** Includes bonuses of SEK 1 million (0.6).

Remuneration to the senior management of Vattenfall AB

In 2000, there were two chairmen of the Board of Directors. Jörgen Andersson, who was chairman until April 13, 2000, received a fixed fee of SEK 67k and Gerhard Larsson, who is the current chairman, received a fixed fee of SEK 140k.

In 2000, Vattenfall had three chief executive officers who were also presidents of Vattenfall AB. During the year, Carl-Erik Nyquist, who was President until April 13, received a salary and other emoluments, including the value of a company car, amounting to SEK 2,685k, including a bonus for 1999 of SEK 443k.

Bertil Tiusanen, who was acting President for the period of April 13 – August 14, 2000 and prior to that Deputy Chief Executive

Officer, received a salary and other emoluments, including the value of a company car, amounting to SEK 3,174k. This includes a bonus for 1999 of SEK 351k.

Lars G Josefsson, who has been Chief Executive Officer and President since August 14, 2000, has received a salary and other emoluments, including the value of a company car, amounting to SEK 1,581k.

The Chief Executive Officer, who was born in 1950, is entitled to retire at the age of 60. A retirement pension of 65 per cent of the salary at that time will be paid up to the age of 65. After that time, pension benefits will be paid under the applicable ITP plan plus

32.5 per cent of the portion of the salary exceeding 30 basic amounts for national social security purposes. The latter pension benefit has a time limit.

In the event of termination of employment by Vattenfall, the Chief Executive Officer is entitled to severance pay corresponding to a maximum of 24 months' salary. However, severance pay may only be paid until the contractual retirement age. The size of the severance pay will be calculated on the basis of the fixed salary applying at the time of termination of employment plus one-third of the aggregate of the variable portion of the salary/bonus for the past three years. In the event of new employment or income from another source, the severance pay will be reduced by an amount

corresponding to the new income or other benefits received during the period in question.

In the case of other senior officers of the Executive Group Management of Vattenfall AB or senior executives who have overall functional responsibilities, the future pension is based on the prevailing pension plan or corresponding terms. Several of the above-mentioned officers have the right, at their own request, and a duty, at the company's request, to take early retirement on reaching the minimum age of 60. Should their employment be terminated by the company, they are entitled to their salary during the contractual period of notice (6 months) plus severance pay of 18 months' salary.

Note 34 – Leasing

LEASING EXPENSES

Equipment leased through finance leases (where the group company is the lessee) and which is reported as a tangible fixed asset comprises:

	2000	1999
Acquisition value		
Equipment	—	8
Accumulated depreciation according to plan		
Equipment	—	-4
Residual value according to plan	—	4

Future payment commitments within the Group at December 31, 2000 for lease contracts and rental contracts are distributed as follows:

	Group		Parent company
	Finance lease	Operating lease	Operating lease
2001	—	131	11
2002	—	106	8
2003	—	63	3
2004	—	40	—
2005	—	38	—
2006 and beyond	—	15	—
Total	—	393	22

The year's leasing expenses in respect of group assets amounted to SEK 109 million. For the parent company, the corresponding figure was SEK 11 million.

LEASING INCOME

Certain group companies lease equipment to customers.

At December 31, 2000, the acquisition value of assets reported under Operating leases amounted to SEK 26 million. Accumulated depreciation amounted to SEK – 123 million and net investment to SEK 503 million.

Future lease payments for leased equipment (where the group company is the lessor) are distributed as follows:

	Group	
	Finance lease	Operating lease
2001	40	79
2002	37	70
2003	35	64
2004	30	57
2005	24	52
2006 and beyond	91	89
Less: financial income	-72	-75
Total	185	336

Note 35 – Reimbursement of auditors (SEK '000)

	Group 2000	Parent company 2000
Audit *		
Ernst & Young	5,723	2,473
Swedish National Audit Office	256	220
PricewaterhouseCoopers/Öhrlings	4,084	23
KPMG	1,043	—
Other	1,123	—
	12,229	2,716

Other fees **

Ernst & Young	1,654	400
PricewaterhouseCoopers/Öhrlings	13,078	—
KPMG	140	—
Other	184	—
	15,056	400
Total	27,285	3,116

* Concerns the audit which is legally required under the Swedish Companies Act.

** Other fees concern reimbursement for temporary engagements such as special projects, prospectus audits and various issues relating to company acquisitions.

Proposed Distribution of Profits

According to the consolidated balance sheet, the Group's non-restricted equity amounts to SEK 11,643,824k (9,518,753k). Of this amount, SEK 22,034k is expected to be transferred to restricted reserves. Thus, the total profits at the disposal of the general meeting of shareholders is SEK 8,276,448,815. The Board of Directors and President propose that profits be distributed as follows:

– dividend to shareholder	SEK	990,000,000
– to be carried forward	SEK	7,286,448,815
	SEK	8,276,448,815

This is equivalent to a dividend of SEK 7.52 per share.

Stockholm, March 6, 2001

Gerhard Larsson
(Chairman)

Helge Eklund

Lilian Fossum

Lars Hjorth

Göran Johansson

Bo Marking

Christina Striby

Johnny Bernhardsson
(employee representative)

Lars Carlberg
(employee representative)

Ronny Ekwall
(employee representative)

Lars G Josefsson
(President)

Audit Report (translation)

To the general meeting of the shareholders of Vattenfall AB

Corporate identity number 556036-2138

We have audited the annual accounts and the consolidated accounts, together comprising pages 40–73, the accounting records and the administration of the Board of Directors and the President of Vattenfall AB for the financial year 2000. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, March 9, 2001

Ernst & Young AB
Lars Träff
Authorized Public Accountant

Filip Cassel
Authorized Public Accountant
Swedish National Audit Office

Consolidated Accounts excluding Minority Interests in Electricity Generation Companies

Basis of Accounting

Joint work in Vattenfall's electricity generation subsidiaries is regulated by consortium agreements, where each partner's rights to a particular plant's output and liability to meet the plant's costs and financing are proportional to the partner's participating interest.

The following review shows the financial impact of these consortium agreements on the accounts of the Vattenfall Group. The consolidated accounts have been restated in accordance with the proportional consolidation method, i.e. only the Group's portion of subsidiaries' income statements and balance sheets are included.

The reason for applying the proportional method is that Vattenfall's interests in these companies are strictly limited to its participating interests. This method gives a true and fair view of the Group, compared with accounting

in accordance with traditional consolidation methods.

Profit

The restated operating profit is SEK 6,126 million, which is SEK 562 million lower than that based on traditional consolidation methods. Profit before tax and minority interests was SEK 4,271 million, which is SEK 918 million lower than that based on traditional consolidation methods.

Balance Sheet

The balance sheet total was SEK 106,119 million, which is SEK 8,886 million lower than that based on traditional consolidation methods. The equity/assets ratio decreases by 2 percentage points because the restated balance sheet includes only those portions of the generation companies' assets and liabilities that are actually owned by the Group.

Income Statement SEK million	2000	1999
Net sales	28,850	26,022
Cost of products sold	-20,841	-17,905
Gross profit	8,009	8,117
Selling expenses, research and development costs and administrative expenses	-4,479	-3,553
Other operating income and other operating expenses, net	1,939	729
Participations in the result of associated companies	657	142
Operating profit	6,126	5,435
Financial income	440	504
Financial expenses	-2,295	-1,580
Profit before tax and minority interests	4,271	4,359
Tax	-1,257	-1,420
Minority interests in the profit for the year	-44	-401
Net profit for the year	2,970	2,538

Balance Sheet SEK million	2000	1999
Assets		
Fixed assets	83,368	63,894
Current assets, excl. liquid assets	15,413	12,545
Liquid assets	7,338	4,627
Total assets	106,119	81,066
Equity, provisions and liabilities		
Equity		
Restricted equity	23,040	23,828
Non-restricted equity	10,545	9,519
Total equity	33,585	33,347
Minority interests in equity	1,318	1,006
Provisions and liabilities		
Interest-bearing provisions and liabilities	47,050	29,228
Non-interest-bearing provisions and liabilities	24,166	17,485
Total equity, provisions and liabilities	106,119	81,066

Key Ratios	2000	1999
Return on capital employed, %	9.0	9.8
Return on equity after actual tax, %	8.9	7.7
Return on assets, %	7.0	7.5
Pre-tax profit margin, %	14.8	16.8
Equity/assets ratio, %	33.3	42.2
Interest cover, times	2.9	3.8
Asset turn, times	0.27	0.32

Definitions and Calculation of Key Ratios:

Figures for the Group in 2000 (SEK million).

Return on capital employed

Operating profit including financial income in relation to average total assets less non-interest-bearing liabilities and provisions.

Operating profit plus financial income	7,725
Average capital employed	<u>79,526</u>
Return on capital employed, per cent	9.7

Return on equity after actual tax

Net profit for the year after tax and minority interests in relation to the average of equity at the start and at the end of the year.

Net profit for the year	2,970
Average equity	<u>34,234</u>
Return on equity after actual tax, per cent	8.7

Return on equity after standard tax

Profit before tax and minority interests less minority interests and tax at standard rate (28 per cent) in relation to the average of equity at the start and the end of the year.

Profit before tax and minority interests less minority interests and tax at standard rate (28 per cent)	3,403
Average equity	<u>34,234</u>
Return on equity after standard tax, per cent	9.9

Return on assets

Operating profit including financial income in relation to the average of total assets at the start and end of the year.

Operating profit including financial income	7,725
Average total assets	<u>100,834</u>
Return on assets, per cent	7.7

Operating margin

Operating profit in relation to net sales.

Operating profit	6,688
Net sales	<u>31,695</u>
Operating margin, per cent	21.1

Pre-tax profit margin

Profit before tax and minority interests in relation to net sales.

Profit before tax and minority interests	5,189
Net sales	<u>31,695</u>
Pre-tax profit margin, per cent	16.4

Equity/assets ratio

Equity (including minority interests) in relation to total assets at the end of the year less interest-arbitrage transactions.

Equity	40,105
Total assets less interest-arbitrage transactions	<u>113,631</u>
Equity/assets ratio, per cent	35.3

Debt cover

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 year.

Interest-bearing liabilities plus minority interests in equity less liquid assets	48,296
Equity	<u>40,105</u>
Debt cover, times	1.2

Interest cover

Operating profit including financial income in relation to financial expenses.

Operating profit including financial income	7,725
Financial expenses	<u>2,536</u>
Interest cover, times	3.1

Degree of self-financing

Internally generated funds in relation to total investments for the year.

Internally generated funds	5,830
Total investments	<u>23,840</u>
Degree of self-financing, times	0.2

Asset turn

Net sales in relation to the balance sheet total at the end of the year.

Net sales	31,695
Total assets	<u>115,005</u>
Asset turn, times	0.28

Six-year Review

SEK million	2000	1999	1998	1997	1996	1995
Income statement						
Net sales	31,695	27,754	27,957	28,458	29,030	26,796
Operating profit	6,688	5,515	6,067	7,376	7,672	7,354
Financial income	1,037	542	288	561	746	930
Financial expenses	-2,536	-1,760	-1,907	-2,498	-2,957	-3,158
Profit before tax and minority interests	5,189	4,297	4,448	5,439	5,461	5,126
Net profit for the year	2,970	2,538	2,664	3,399	3,725	3,576
Balance Sheet						
Liquid assets	7,543	4,860	4,439	3,961	4,321	3,099
Equity	35,120	33,347	32,325	31,158	28,875	26,305
Minority interests in equity	4,985	2,472	2,213	2,304	1,990	1,097
Interest-bearing provisions and liabilities	50,854	32,275	27,876	26,311	28,825	29,253
Non-interest-bearing provisions and liabilities	24,046	18,569	20,942	19,099	18,923	17,425
Total assets	115,005	86,663	83,356	78,872	78,613	74,080
Key financial ratios						
<i>(in per cent unless otherwise specified)</i>						
Return on capital employed	9.7	9.3	10.4	13.3	14.5	14.9
Return on equity after actual tax	8.7	7.7	8.4	11.3	13.5	14.2
Return on equity after standard tax	9.9	8.7	10.2	13.0	14.1	14.5
Return on assets	7.7	7.1	7.8	10.1	11.0	11.5
Operating margin	21.1	19.9	21.7	25.9	26.4	27.4
Pre-tax profit margin	16.4	15.5	15.9	19.1	18.8	19.1
Equity/assets ratio	35.3	42.3	42.2	43.3	39.3	37.0
Debt cover, times	1.2	0.8	0.7	0.7	0.9	1.0
Interest cover, times	3.1	3.4	3.3	3.2	2.8	2.6
Degree of self-financing, times	0.2	0.8	1.5	1.6	1.2	1.3
Asset turn, times	0.28	0.32	0.34	0.36	0.37	0.36
Other information						
Dividends, SEK m	990*	1,500	1,500	1,500	1,500	1,500
Total investments, SEK m	23,840	7,916	4,528	4,877	5,984	6,043
Internally generated funds, SEK m	5,830	6,224	6,758	7,869	7,455	7,711
Electricity sales, TWh	83.1	86.9	83.8	78.7	78.4	79.3
Average number of employees	13,123	7,991	7,996	7,847	8,263	8,460

* Proposed dividend.

The figures for 1995 have not been restated in line with the change in accounting policy (equity method).

Board of Directors

Gerhard Larsson

Born 1945. Chairman of the Board since the general meeting of shareholders, 2000. County Governor of Västernorrland County. Chairman of Handu AB, board member of IPWH and Center for Advanced Studies in Leadership.

Helge Eklund

Born 1944. Director. Board member since 1997. Board member of Mellanskog Industri AB.

Lilian Fossum

Born 1962. Director. Electrolux. Board member since 1999.

Lars Hjorth

Born 1943. Director. Board member since 1997. Chairman of MeritaNordbanken, Stockholm region. Board member of Karlshamn AB. Alternate in Folksam Liv.

Göran Johansson

Born 1945. Municipal Councillor in Gothenburg. Board member of the public utility, 1982–91 and board member of Vattenfall AB since 1995 (alternate 1992–94). Chairman of the Municipal Executive Board in Gothenburg. Board member of SKF AB, Liseberg AB and Svenska Mässan AB.

Bo Marking

Born 1937. Former President of Swedish Export Credit Corporation. Board member since 1996. Board member of Nordiska Investeringsbanken and SBAB Real Time Technology.

Christina Striby

Born 1944. General counsel at Posten AB. Board member since 1997. Board member of Postfastigheter AB.

Johnny Bernhardsson

Born 1952. Employee representative, SIF trade union. Board member since 1995.

Lars Carlberg

Born 1943. Employee representative, CF trade union. Board member since 1998.

Ronny Ekwall

Born 1953. Employee representative SEKO trade union. Board member since 1999. Alternate in 1998.

Alternates

Jan Grönlund

Born 1960. State Secretary, Ministry of Industry, Employment and Communications.

Kent Ögren

Born 1955. Municipal Councillor in Jokkmokk. Chairman of Jokkmokks Värmeverk AB. Board member of the local Police Board, Norrbotten.

Lars Carlsson

Born 1951. Employee representative, SIF trade union.

Per-Ove Lööv

Born 1961. Employee representative, SEKO trade union.

Stig Lindberg

Born 1946. Employee representative, Ledarna trade union.



Gerhard Larsson



Helge Eklund



Lilian Fossum



Lars Hjorth



Göran Johansson



Bo Marking



Christina Striby



Ronny Ekwall



Jan Grönlund



Kent Ögren



Johnny Bernhardsson



Lars Carlberg

Auditors

Ernst & Young AB

Lars Träff, authorized public accountant.

Filip Cassel, authorized public accountant
Swedish National Audit Office

Alternate

Staffan Nyström, authorized public accountant, Swedish National Audit Office.

Previous Board Members

Jörgen Andersson

Born 1946. Chairman of the Board until April 13, 2000.

Carl-Erik Nyquist

Born 1936. Board member until April 13, 2000.



Lars G Josefsson



Lennart Billfalk



Matts Ekman



Mats Fagerlund



Alf Lindfors



Knut Leman



Lisbeth Holm



Lars Segerstolpe

Executive Group Management

Lars G Josefsson

Born 1950, President and Chief Executive Officer from August 14, 2000.

Matts Ekman

Born 1946, Senior Executive Vice President and Chief Financial Officer (from February 1, 2001).

Lennart Billfalk

Born 1946. Executive Vice President, Corporate Strategies.

Mats Fagerlund

Born 1950. Executive Vice President, Corporate Legal Affairs and M&A.

Alf Lindfors

Born 1946, Executive Vice President, General Manager of the Generation Nordic Countries business unit. Responsible for Sweden-related issues.

Co-opted to the Executive Group Management

Lisbeth Holm

Born 1953, Senior Vice President, Corporate Human Resources.

Knut Leman

Born 1950, Senior Vice President, Corporate Communications (from March 1, 2001).

Internal Audit

Lars Segerstolpe

Born 1941, Senior Vice President.

Previous Chief Executive Officers during 2000:

Carl-Erik Nyquist

Born 1936, President and Chief Executive Officer up to April 13, 2000.

Bertil Tiusanen

Born 1949, Acting President and Chief Executive Officer, April 13-August 14, 2000.

Energy units

Power

A measure of the rate of work.

Expressed in watts (W)

1 kW (kilowatt) = 1,000 W

1 MW (megawatt) = 1,000 kW

1 GW (gigawatt) = 1,000,000 kW

Electrical energy

A measure of power over time.

1 kWh (kilowatt-hour) = 1 kW for one hour

1 MWh (megawatt-hour) = 1,000 kWh

1 GWh (gigawatt-hour) = 1,000,000 kWh

1 TWh (terawatt-hour) = 1,000,000,000 kWh

Voltage A measure of electrical potential.

1 kV (kilovolt) = 1,000 volts (V)

Energy units in practice

1 kWh is enough to run a car's heater for an hour or a 60 watt bulb for almost 17 hours.

1 MWh is enough to heat a house for a couple of weeks and can be generated in 20 minutes by Vattenfall's largest wind farm in windy weather.

1 GWh is enough to meet the energy needs of an average town with a population of 90,000 for 8 hours and can be generated in one hour by the Harsprånget hydro plant or in 20 minutes by Forsmark nuclear power plant.

1 TWh is enough to run two large newsprint machines for a year or to power all of Sweden's railways, subways and trams for 5 months and can be generated by the Ringhals nuclear power plant in 12 days.

Glossary

APX Amsterdam Power Exchange.

CHP plant Combined heat and power plant

Plant which supplies both electricity and district heating. Often known as a back-pressure plant if linked directly to an industrial process.

Compensatory power Power supplied from the owners of one power plant to the owners of another plant on the same river pursuant to a Water Rights Court ruling.

Consortium power Output from a power plant to which several parties have rights.

Derivative Financial instrument where the value or change in value is related to an underlying instrument. Derivatives (options, forward contracts and swaps) are often used for risk management (hedging).

Distributed electricity generation (distributed power) Small-scale, decentralized electricity generation, for example, small-scale power and heat generation in individual buildings.

District-heating Large-scale central heating system-based on hot water or steam and including many different buildings in a particular area.

EEX European Electricity Exchange in Frankfurt am Main.

EFET European Federation of Energy Traders. An organization for electricity and gas traders in Europe which works towards achieving an open and competitive energy market.

EMAS Eco Management and Audit Scheme. European Commission regulations for environmental management and auditing.

EMF Electromagnetic fields, generated by power lines, generators and other electrical equipment.

EnBW Energie Baden-Württemberg AG.

E.ON Parent company of one of the two largest German power companies. Electricity operations are conducted through E.ON Energie AG, which was formed through the merger of PreussenElektra AG and Bayernwerk AG.

EW Elektrociepłownia Warszawskie S.A.

EPD Environmental Product Declarations. A system based on Type III declarations in ISO TR 14025 and which aims at providing objective, credible and comparable information on the environmental impact of products and services, see www.environdec.com/eng/

Färdig Värme Special one-stop management service where Vattenfall assumes full responsibility for a customer's heat facilities, including maintenance, and works with the customer on environmental factors and energy efficiency.

GZE Gornoslaski Zakład Elektroenergetyczny S.A.

HVDC Light A new technology for DC transmission which has the benefits of a short construction time, minimal environmental impact and improved electricity quality. The technology is suitable for local electricity generation, for example by offshore wind power plants.

ISDA agreement A bilateral framework agreement in accordance with guidelines issued by the International Swap Dealers Association. The agreement regulates the parties' legal obligations in derivative transactions.

ISO 14001 International standard for environmental management systems.

Kyoto Protocol International agreement signed in 1997 concerning reduced emissions of climate gases, including carbon dioxide.

Local network Electricity distribution network with a voltage of 0.4 – 20 kV.

LPX Leipzig Power Exchange in Leipzig.

NAET Nordic Association for Electricity Traders. An association for traders active on the Nordic electricity derivatives market and representing companies from Sweden, Norway, Finland, Denmark, Germany, USA and England.

Nordpool The Nordic Power Exchange.

"Public market" Trade on a power exchange or other marketplace for several participants.

Regional network Electricity distribution network with a voltage (in Sweden) of 40–130 kV.

RWE Parent company of one of the two largest German power companies. Electricity operations are mainly conducted through the subsidiary, RWE Energie.

SKB Svensk Kärnbränslehantering AB (Swedish Nuclear Fuel and Waste Management Co). Responsible for the management of radioactive waste.

Spot market Short-term trading in electricity on an exchange with immediate rather than future delivery.

SPP Swedish pension insurance company.

Thermal power Electricity generated by a gas turbine or steam process.

Transmission income The prices paid by suppliers, customers and network owners for the transmission of electricity over a network.

Unit capability The unit capability factor is the ratio of the available electricity generation over a given time period to the reference energy generation over the same time period, expressed as a percentage.

UKPX United Kingdom Power Exchange.

VEW German electricity company that has merged with RWE.

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**“Vattenfall
– a leading European energy company”**