THREE-MONTH INTERIM REPORT 2002

January – March

"A market leader has a great responsibility: the responsibility for ensuring market efficiency, for ensuring that we do not abuse our market position, for ensuring that we handle environmental issues and for ensuring that ethical considerations are taken into account when we make decisions."

Lars G Josefsson
President and Chief Executive Officer

VATTENFALL

Comments by the Chief Executive Officer

- **Net sales more than doubled to SEK 28,445 million (11,539) and the return on net assets increased to 10.7 per cent (9.9)**
- **Operating profit increased by 53 per cent to SEK 5,103 million (3,340)**
- **The acquisition of Bewag was completed and the integration of the German companies is progressing as planned**

The first quarter of 2002 was characterized by a continued improvement in financial performance for Vattenfall. A major and essential structural change is the consolidation of the Berlin-based company, Bewag, into the Group from February 1. Altogether, operations in Germany have shown satisfactory results and Vattenfall is now the third largest player on the German electricity market. In Poland, results were better than expected.

Compared with the annual accounts, we can also report that Market Nordic Countries is now showing a positive operating result. Measures implemented have had an impact and we anticipate a continued positive development.

On the other hand, the price level on the Nordic market has decreased, which means that Generation Nordic Countries has had a marginal decrease in results, compared with 2001.

In general, the trends that became apparent last year have been confirmed. Net sales improved by 146.1 per cent to SEK 28,445 million (11,559). Operating profit increased by 52.8 per cent to SEK 5,103 million (3,340). The operating margin and the pre-tax profit margin declined to 17.9 and 15.6 per cent respectively, which is explained by the generally lower margins in the German operations.

These figures reflect Vattenfall's strong growth over the past year on the German market, which is associated with an overall improvement in profitability. We are well on the way to realising our vision of becoming a leading European energy company. Our aim is for our customers to also benefit from the company's increased strength in the form of investments in the energy system as well as improved customer service.

Market Development

At the beginning of 2002, the supply of water to the reservoirs increased. Winter was relatively mild, which meant a somewhat lower energy consumption in the Nordic countries.

During the first quarter, Vattenfall's hydro power production in Sweden was 9.0 TWh (10.2) and nuclear generation, 10.7 TWh (11.2).

During the period, Vattenfall accounted for 22 per cent (21) of total balance of physical trading on the Nord Pool power exchange.

Since Vattenfall continuously adapts the end-customer price to the price trends on Nord Pool, the price was reduced in January.

Consolidation in Germany

The integration of the four German companies, HEW, Bewag, VEAG and LAUBAG, is progressing as scheduled. The holding company, Vattenfall Europe AG, will become an important part of the work on putting in place the new German structure and on realizing the Group's vision of becoming a leading European energy company.

The German operations will be united by a single corporate profile and a single brand – Vattenfall. The local product names of Bewag and HEW will be retained.

Government Energy Bill

In Sweden, the Government, supported by the Center Party and the Left Party, has presented an energy bill which is based on the premise that the transformation of the Swedish energy system must be achieved in a responsible and controlled manner and with a long-term approach. Among the measures proposed in the bill, is that the possibility of reaching an agreement on nuclear power, similar to that reached in Germany, should also be tried in Sweden.

At Vattenfall, we have made it clear that we are prepared to discuss future energy production in Sweden within the framework of a secure electricity supply. Since power production is a long-term activity, it is important for the rules of the game to be clarified. A long-term focus, predictability and market-neutral regulations are necessary for Swedish electricity generation to stimulate growth even in the future. The German agreement has created stability concerning the continued operation of nuclear power plants. We are positive to the idea of discussing such a solution for Sweden. In order to create favourable conditions for commercially viable operation during the economic lifetime of the facilities, the present punitive tax on nuclear power must be abolished.

General Meeting of Shareholders

At the General Meeting of Shareholders on April 25, Chister Bådholm, Peter Lindell, Elisabeth Salander Björklund and the previous alternates, Jan Grönlund and Kent Ögren were elected as board members. The Chairman, Dag Klackenberg, and the board members, Annette Brodin-Rampe, Peter Fallenius, Göran Johansson and Lars G Josefsson were re-elected.

Lars G Josefsson
President and Chief Executive Officer

SUMMARY OF VATTENFALL'S FINANCIAL PERFORMANCE

	January - March		Change
SEK million	**2002**	2001	**%**
Net sales	**28,445**	11,559	**146.1**
Operating profit before depreciation (EBITDA)	**8,159**	4,676	**74.5**
Operating profit (EBIT)	**5,103**	3,340	**52.8**
Funds from operation (FFO)	**5,734**	3,541	**61.9**
Financial items, net	**–659**	–526	**–25.3**
Profit before tax and minority interests	**4,444**	2,814	**57.9**
Net profit for the period	**2,317**	1,984	**16.8**
Return on net assets *	**10.7**	9.9	

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

* *Concerns the period of April 2001 – March 2002 as well the whole of 2001.*

GROUP

Sales and Performance

Net sales increased by 146 per cent or SEK 16,886 million to SEK 28,445 million. The large increase is due to the fact that the German part of the Group is now included in sales, with the exception of Bewag which was consolidated from February 1.

Operating expenses amounted to SEK 23,687 million, representing an increase of SEK 14,808 million which is attributable to acquired companies. The cost of products sold increased by SEK 13,036 million, while selling expenses, research and development costs and administrative expenses increased by SEK 1,772 million. Depreciation amounted to SEK 3,056 million net (1,336).

Operating profit amounted to SEK 5,103 million, of which items affecting comparability comprise SEK 54 million (3,340, of which items affecting comparability amounted to 385). The operating margin was 17.9 per cent (28.9).

Financial income and expenses – net amounted to SEK -659 million (-526).

Return on net assets was 10.7 per cent on a rolling twelve-month basis.

Interest coverage for the quarter improved to 4.9 times (4.6).

Profit before tax and minority interests amounted to SEK 4,444 million (2,814). The pre-tax profit margin was 15.6 per cent (24.3).

Financial Position

Liquid assets amounted to SEK 9,214 million (December 31, 2001: 10,340). To this must be added SEK 20,202 million in saleable investment assets in HEW and LAUBAG.

Net debt, namely interest-bearing debt and provisions minus liquid assets and investment assets amounted to SEK 74,370 million (December 31, 2001: 55,736). The increase is mainly due to borrowing for the financing of the acquisition of the Bewag shares.

Equity amounted to SEK 40,807 million, which is an increase of SEK 1,229 million since the 2001 annual accounts. The dividend proposed by the Board of Directors of SEK 1,030 million was adopted by the General Meeting of Shareholders. The equity-assets ratio amounted to 21.4 per cent (December 31, 2001: 22.7).

In March EUR 650 million was raised with a maturity of seven years under Vattenfall Treasury AB's EMTN programme. Funds were received at the beginning of April.

In February, both Moody's and Standard & Poor's confirmed Vattenfall's single A rating (A3 and A-, respectively) with "Outlook" negative.

Investments

The Group's *investments* amounted to SEK 21,920 million (5,093), of which growth investments, namely company acquisitions and expansion investments in fixed assets, amounted to SEK 17,725 million. Company acquisitions amounted to SEK 16,893 million, of which acquisitions of group companies comprised SEK 16,855 million (114), associated companies, SEK 21 million (3,758) and other long-term securities, SEK 17 million (270). SEK 5,027 million (951) was invested in tangible and intangible assets.

Structural Changes

In February, HEW took over 44.8 per cent of the shares in Bewag from Mirant Corporation. This means that HEW now owns 89.5 per cent of the shares, corresponding to 92.1 per cent of the votes, in Bewag. Bewag was consolidated into the Group from February 1.

In Germany, an agreement with the authority BvS (previously Treuhand) was reached concerning an early final settlement for commitments made in connection with the privatisation of VEAG and LAUBAG.

In Poland, Vattenfall sold its shares in district-heating companies in Ostrow Wielkopolski (23.2 per cent) and Ustka (34 per cent) to Sydkraft.

In April, Vattenfall's ownership stake in Elektrocieplownie Warszawskie (EW) increased from 55 to 68.9 per cent through the acquisition of shares from the personnel.

At the beginning of April, Vattenfall's ownership stake in Hafslund ASA in Norway, corresponding to 5.8 per cent of the votes, was sold to Sydkraft.

Personnel

At the end of March, the number of employees amounted to 33,937 (December 31, 2001:28,657). The increase is due to the fact that Bewag is now a part of the Group. The number of employees outside Sweden was 25,909 (December 31, 2001: 20,668).

PROFIT AREAS

Generation Nordic Countries

Sales increased by SEK 191 million to SEK 5,622 million. Excluding items affecting comparability, operating profit declined by SEK 16 million to SEK 2,010 million. A total of 9.5 TWh (10.7) of hydro power and 15.1 TWh (16.6) of nuclear power was generated.

As of March 13, the electricity supplied by the Ringhals Nuclear Power Plant is certified in accordance with EPD (Environment Product Declaration).

Market Nordic Countries

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

Net sales improved by SEK 2,539 million to SEK 7,426 million. Operating profit increased by SEK 269 million to SEK 101 million, which is mainly due to an improved electricity trading result. The volume sold was 14.0 TWh (16.1). In March, the Munksund combined heat and power plant was inaugurated. From the plant, Vattenfall will supply steam and electricity to SCA's paper mill under a long-term agreement.

Heat Nordic Countries

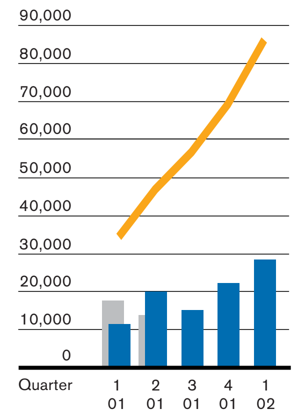
Net sales amounted to SEK 920 million (912). Operating profit increased by SEK 61 million to SEK 214 million. The increase is mainly explained by increased cost-efficiency and improved customer agreements as well as the fact that better fuel economy has been achieved through changes in tax rules for biofuel-based electricity generation. The volume sold amounted to 2.3 TWh (2.5).

Electricity Networks Nordic Countries

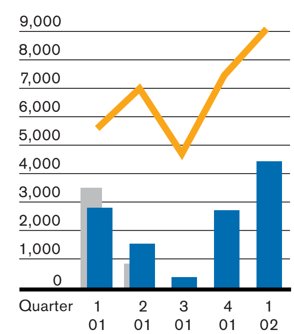
Electricity Networks Nordic Countries comprise the business units Electricity Networks Sweden and Electricity Networks Finland.

Net sales amounted to SEK 2,545 million (2,580). Operating profit excluding items affecting comparability amounted to SEK 1,067 million (1,072).

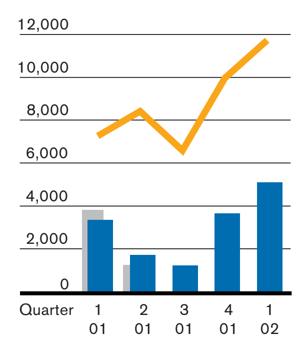
Net Sales, SEK m



Profit before tax and minority interests, SEK m



Operating profit, SEK m



Rolling 12-month values

Quarterly values

Pro forma quaterly values, reflecting the situation that would have arisen if HEW had been consolidated from January 1.

Services

Net sales declined by SEK 30 million to SEK 630 million. The decline is primarily due to the fact that the Finnish contracting business was included in the Group during the corresponding period the previous year. Operating profit excluding items affecting comparability increased by SEK 4 million to SEK 24 million.

Germany and Poland

Net sales amounted to SEK 19,571 million (1,053). Operating profit excluding items affecting comparability increased by SEK 1,606 million to SEK 1,821 million. When comparing this result with that of the corresponding period of the previous year, it should be noted that HEW's net sales and profit were first reported in Vattenfall's six-month report. In total, 35.9 TWh of hydro power and 9.1 TWh of district-heating were generated. The volume sold amounted to 41.8 TWh and 9.1 TWh, respectively. Intensive work on structuring the German operations under the Vattenfall Europe holding company with business units for generation, transmission, electricity networks, sales, trading and heat was conducted with the aim of ensuring that the new organisation is fully operational no later than by the beginning of 2003.

Other Business

Other Business comprises service companies and other operations outside the core business as well as shared group expenses. Net sales amounted to SEK 382 million (1,123). The operating result excluding items affecting comparability was SEK –179 million (–355).

PARENT COMPANY

Net sales amounted to SEK 5,527 million (5,419). Profit after financial items amounted to SEK 1,208 million (1,185). Investments during the period amounted to SEK 6,618 million. Liquid assets amounted to SEK 192 million (December 31, 2001: 124). Funds in the group account managed by Vattenfall Treasury AB amounted to SEK 8,923 million (December 31, 2001: 6,760).

ACCOUNTING POLICIES

When preparing this report, Vattenfall applied the accounting policies specified under the heading of "Accounting Policies and Valuation Principles" on page 38 of Vattenfall's Annual Report 2001.

The Group also applies the Swedish Financial Accounting Standards Council's recommendation (RR20) on interim reports.

From January 2002, Vattenfall will for the first time apply the following new recommendations issued by the Council: RR1:00 Consolidated Financial Statements, RR15 Intangible Assets, RR16 Provisions, Contingent Liabilities and Eventual Assets, RR17 Write-downs, RR19 Operations in Liquidation, RR21 Salary Costs and RR23 Related Party Disclosures. All of these recommendations agree in essential respects with corresponding recommendations issued by the International Accounting Standards Board. The application of these new recommendations do not entail any change in accounting policies for Vattenfall.

In the case of company acquisitions, a market valuation of the acquired company's assets and liabilities is made. Any remaining difference compared with the acquisition price is reported as goodwill or as negative goodwill. The acquisition calculation for the German company, Bewag AG, acquired during 2002, is still preliminary at the time of writing this report. Therefore, no goodwill or negative goodwill is reported.

Negative goodwill concerns expected future losses and expenses which cannot be reported as identifiable liabilities at the time of acquisition. Negative goodwill is reported as a provision in the consolidated balance sheet. Negative goodwill, which concerns Vattenfall's previous acquisitions in Germany, amounts to SEK 17,159 million. During the first quarter of 2002, SEK 317 million of this negative goodwill was dissolved in the gross profit against restructuring costs in Germany. Planned future losses and expenses are continuously being followed up and this negative goodwill will be dissolved as such losses and restructuring costs arise.

Stockholm, May 14, 2002

Lars G Josefsson
President and Chief Executive Officer

CONSOLIDATED INCOME STATEMENT

	January-March			Full year
			Pro forma *****	
Amounts in SEK million	**2002**	2001	2001	2001
Net sales	**28,445**	11,559	17,712	69,003
Cost of products sold*	**–20,740**	–7,704	–12,724	–52,408
Gross profit	**7,705**	3,855	4,988	16,595
Selling expenses, research and development costs and administrative expenses**	**–2,947**	–1,175	–1,809	–9,313
Other operating income and expenses – net	**104**	412	530	2,166
Participations in the result of associated companies	**241**	248	96	511
Operating profit (EBIT)	**5,103**	3,340	3,805	9,959
Financial income	**476**	253	816	2,232
Financial expenses	**–1,135**	–779	–1,110	–4,737
Profit before tax and minority interests	**4,444**	2,814	3,511	7,454
Tax	**–1,466*** **	–844****	–1,157	–2,167
Minority interests in profit for the period	**–661**	14	–116	–1,097
Net profit for the period	**2,317**	1,984	2,238	4,190

Gross profit before depreciation	**10,662**	5,139		24,430
Operating profit before depreciation (EBITDA)	**8,159**	4,676		18,250
Items affecting comparability	**54**	385		1,137
Financial items, net	**–659**	–526	–294	–2,505

* *Of which, depreciation net SEK 2,957 million (1,284 and 7,835, respectively).*
** *Of which, depreciation SEK 99 million (52 and 456, respectively).*
*** *Calculated according to a tax rate of 33 per cent.*
**** *Calculated according to a tax rate of 30 per cent.*
***** *Reflects the situation if HEW had been consolidated from January 1.*

PROFIT AREAS

	Net sales				Operating profit (EBIT) excluding items affecting comparability			
			Pro forma				Pro forma**	
	Jan-March		Jan-March	Full-year	Jan-March		Jan-March	Full-year
Amounts in SEK million	**2002**	2001	2001	2001	**2002**	2001	2001	2001
Generation Nordic Countries	**5,622**	5,431	5,431	22,266	**2,010**	2,026	2,026	5,983
Market Nordic Countries	**7,426**	4,887	4,887	19,492	**101**	–168	–168	–472
Heat Nordic Countries	**920**	912	912	2,590	**214**	153	153	129
Electricity Networks Nordic Countries	**2,545**	2,580	2,580	7,924	**1,067**	1,072	1,072	1,783
Services	**630**	660	660	2,938	**24**	20	20	151
Germany and Poland	**19,571**	1,053	7,206	32,752	**1,821**	215	585	3,584
Other Business	**382**	1,123	1,123	2,903	**–179**	–355	–260	–2,290
Other and eliminations*	**–8,651**	–5,087	–5,087	–21,862	**–9**	–8	–8	–46
Total	**28,445**	11,559	17,712	69,003	**5,049**	2,955	3,420	8,822

* *Mainly concerns trade between Market Nordic Countries, Electricity Networks Nordic Countries and Generation Nordic Countries.*
** *Reflects the situation if HEW had been consolidated from January 1.*

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	**31 March 2002**	31 March 2001	31 Dec. 2001
Assets			
Fixed assets			
Intangible fixed assets	**7,492**	2,714	2,678
Tangible fixed assets	**183,701**	68,286	158,984
Financial fixed assets	**47,591**	23,135	53,335
Total fixed assets	**238,784**	94,135	214,997
Current assets			
Inventories	**6,864**	5,091	6,567
Current receivables	**37,586**	11,825	27,139
Liquid assets*	**9,214**	5,213	10,340
Total current assets	**53,664**	22,129	44,046
Total assets	**292,448**	116,264	259,043
Equity, provisions and liabilities			
Equity**	**40,807**	38,091	39,578
Minority interests in equity	**21,584**	4,761	19,080
Provisions***	**98,403**	13,911	90,956
Long-term interest-bearing liabilities	**59,707**	42,118	58,420
Other long-term liabilities	**1,150**	713	1,599
Current interest-bearing liabilities*	**43,854**	7,995	30,113
Other current liabilities	**26,943**	8,675	19,297
Total equity, provisions and liabilities	**292,448**	116,264	259,043
Pledged assets	**325**	755	285
Contingent liabilities	**10,484**	7,203	10,733

* *Includes SEK 952 million (1,413 and 966, respectively) in interest-arbitrage transactions.*
** *Includes proposed not paid dividends for the previous year.*
*** *Of which, SEK 225 million (272 and 190, respectively) in interest-bearing provisions.*

Net assets at balance sheet date	**133,280**	87,752	110,062
Net assets, weighted average value, April 2001-March 2002	**109,714**		
Net debt	**74,370**	45,172	55,736

CONSOLIDATED CASH FLOW STATEMENT

	January-March		Full year
Amounts in SEK million	**2002**	2001	2001
Operating activities			
Funds from operation (FFO)	**5,734**	3,541	13,148
Cash flow from changes in operating assets and liabilities	**–3,218**	–519	–2,706
Cash flow from operating activities	**2,516**	3,022	10,442
Investing activities			
Investments	**–21,920**	–5,093	–43,443
Divestments	**324**	936	20,459
Cash flow from investing activities	**–21,596**	–4,157	–22,984
Cash flow before financing activities	**–19,080**	–1,135	–12,542
Financing activities			
Acquired/sold liquid assets and interest-bearing debt, net	**–1,318**	2	2,351
Dividend paid	**–**	–	–1,784
Increase in interest-bearing receivables and liabilities, net	**19,597**	–1,273	14,532
Cash flow from financing activities	**18,279**	–1,271	15,099
Translation differences	**–325**	76	240
Change in liquid assets	**–1,126**	–2,330	2,797
Change in net borrowing			
Net borrowing at the beginning of the period	**–55,736**	–43,311	–43,311
Cash flow after dividend	**–20,398**	–1,133	–11,975
Translation differences from net borrowing	**1,764**	–728	–450
Net borrowing at the end of the period	**–74,370**	–45,172	–55,736

CHANGE IN EQUITY

	January-March 2002	January-March 2001
Opening balance	**39,578**	35,120
Change in accounting policies	**–**	98
Change in translation difference	**–1,088**	889
Net profit for the period	**2,317**	1,984
Closing balance	**40,807**	38,091

EARNINGS PER SHARE

	January-March		Full year
	2002	2001	2001
Number of shares ('000)	**131,700**	131 ,700	131,700
Earnings per share	**17.59**	15.07	31.82

KEY RATIOS

(in per cent unless otherwise specified)

	April 2001-March 2002	Jan 2001-Dec 2001
Return on net assets	**10.7**	9.9
Return on equity	**11.9**	11.8

	January-March 2002	Jan-March 2001
Operating margin	**17.9**	28.9
Pre-tax profit margin	**15.6**	24.3
Interest coverage (times)	**4.9**	4.6
FFO interest coverage (times)	**6.1**	5.5
FFO net interest coverage (times)	**9.7**	7.7
Equity-assets ratio	**21.4**	37.3
Net debt/equity (times)	**1.2**	1.1
FFO/interest-bearing debt and provisions	**5.5**	7.0
FFO/net debt	**7.7**	7.8
EBITDA/net financial items (times)	**12.4**	8.9

DEFINITIONS

Operating margin (per cent): EBIT in relation to net sales.

Pre-tax profit margin (per cent): Profit before tax and minority interests in relation to net sales.

Return on equity (per cent): Net profit for the period in relation to equity at the beginning of the period.

Return on net assets: EBIT in relation to a weighted average of the balance sheets for the period minus non-interest-bearing liabilities and provisions, financial assets and liquid assets.

Interest coverage (times): EBIT plus financial income in relation to financial expenses.

FFO interest coverage (times): FFO plus financial expenses in relation to financial expenses.

FFO net interest coverage (times): FFO plus net financial items in relation to net financial items.

Equity-assets ratio (per cent): Equity plus minority interests in equity in relation to the balance sheet total at the end of the year minus interest-arbitrage transactions.

Net debt/equity (times): Interest-bearing debt and provisions minus investment assets and liquid assets in relation to equity plus minority interests in equity.

FFO/interest-bearing debt (per cent): FFO in relation to interest-bearing debt and provisions.

FFO/net debt (per cent): FFO in relation to interest-bearing debt and provisions minus investment assets and liquid assets.

EBITDA/net financial items (times): EBITDA in relation to net financial items.

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

Vattenfall's six-month report will be published on August 14, 2002.

This report has been translated from the Swedish original.

Vattenfall Support/Inhouse. Printing: Tryckindustri Information May 2002

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