

Nine-month interim report 2000
January - September



Comments by the Chief Executive

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

- Focus on Germany and Poland
- Continued low electricity prices
- Compensation for Barsebäck distorts comparisons

MARKET DEVELOPMENT

The third quarter of 2000 was characterized by continued low prices on the electricity spot market, mainly due to the abundant supply of water. Hydro power increased by 1.6 TWh, compared with the same period the previous year, while nuclear power generation decreased by 6.1 TWh. Fossil-based power increased by 1.8 TWh. The substantial increase in income, compared with the same period the previous year is due to the addition of sales in Poland. Results were also positively affected by just over SEK 2.6 billion in compensation from the Swedish state for Barsebäck as well as by surplus funds from the Swedish SPP pension insurance company. The results, excluding these posts of unique character, emphasize the fact that further internal efficiency improvement and rationalization measures are necessary to reduce costs.

FOCUS ON GERMANY AND POLAND

The Group's strategic focus continues to be on expansion in Germany and Poland. Following an agreement with Sydkraft and its German shareholder, e.on, Vattenfall will become a majority shareholder in Hamburgische Electricitäts-Werke AG (HEW) as of next year, with an ownership stake of 71.2 per cent. HEW is Germany's fifth largest energy group, with about one million customers, net sales corresponding to SEK 20.5 billion and almost 7,000 employees. This acquisition marks a definite internationalization of the Vattenfall Group. With the acquisition, the operations of the Group in Germany are almost as large as those in the Nordic region. For Vattenfall, this is a decisive step in the realization of its vision to become a leading European energy company and to gain a significant share of the German electricity market.

HEW has also reached an agreement with

e.on, whereby HEW will become a majority shareholder in Berlin's Bewag power company, with a stake of 60 per cent. The agreement has been blocked through a judicial process. However, Vattenfall and HEW are both working intensively to resolve the dispute.

HEW also made a bid for the Veag energy company in eastern Germany on November 15.

A new energy trading company, Nordic Powerhouse, was jointly formed by Vattenfall AB and HEW. Each company owns a half of the new company.

For its acquisition of the majority of the shares in HEW, Vattenfall will pay SEK 4.2 billion in cash to e.on and Sydkraft and transfer shares and participating interests in a number of companies in Sweden, Norway, Lithuania and the Czech Republic to both companies. The agreement includes a block of shares in Forsmark nuclear power plant, a majority stake in Vattenfall Naturgas, certain network operations in Östergötland, Vattenfall's shares in Baltic Cable and Vattenfall's stake in companies in Norway, Lithuania and the Czech Republic. The agreement, which is expected to be finalized in January 2001, is based on the assumption that no objections will be raised by corporate boards of directors and anti-trust authorities.

In Poland, Vattenfall has obtained exclusive negotiation rights for the acquisition of the Górnoślaski Zakład Elektroenergetyczny (GZE) energy company.

Vattenfall has also acquired a small but strategically important block of shares amounting to a one per cent stake in the Polish Gielda Energii SA power exchange.

OTHER BUSINESS

As of August 1, Barsebäck Kraft AB is a wholly owned subsidiary of Ringhals AB.

At the same time, Vattenfall has transferred 25.8 per cent of the shares in Ringhals AB to Sydkraft in accordance with the agreement reached between Vattenfall, Sydkraft and the state on November 30, 1999. Sydkraft will retain responsibility for the decommissioning and dismantling of Barsebäck and, in the same way, Vattenfall will retain responsibility for Ringhals's four reactors.

Vattenfall and Skellefteå Kraft have agreed

to change assets in hydro power plants in the Skellefte, Ume and Indal rivers in Sweden.

During the third quarter, the acquisition of Uppsala Energi was also completed.



Lars G Josefsson
President and Chief Executive Officer

Key Figures and Ratios

SEK million	January – September		Change %
	2000	1999	
Net sales	22,055	19,951	11
Operating profit	6,399	4,104	56
Operating margin (%)	29.0	20.6	
Profit before tax and minority interests	5,218	3,121	67
Pre-tax profit margin (%)	23.7	15.6	

Group

SALES AND PERFORMANCE

Net sales increased by 11 per cent or SEK 2,104 million to SEK 22,055 million (19,951). The main reason for the improvement is the acquisition of the Polish energy company, Elektrociepłownie Warszawskie SA (EW), which primarily increased income from district-heating.

Sales in Sweden accounted for 74 per cent (75) of net sales, sales in the rest of the Nordic countries and to NordPool for 16 per cent (21) and sales in Poland for 8 per cent (0).

Operating expenses amounted to SEK 19,290 million, which is an increase of SEK 3,121 million. Of the increase in costs, company acquisitions accounted for just over SEK 3,143 million. The cost of products sold increased by SEK 2,428 million, while selling expenses, research and development costs and administrative expenses increased by SEK 693 million. The net amount of other operating income and operating expenses has been

affected by the surplus funds from SPP, which amount to SEK 456 million. The agreement concerning Barsebäck has had a positive impact on results, corresponding to SEK 2,639 million. Depreciation amounted to SEK 3,502 million (3,091).

Operating profit amounted to SEK 6,399 million (4,104), including the SPP funds and the SEK 2,639 million in compensation for Barsebäck. The operating margin was 29.0 per cent (20.6).

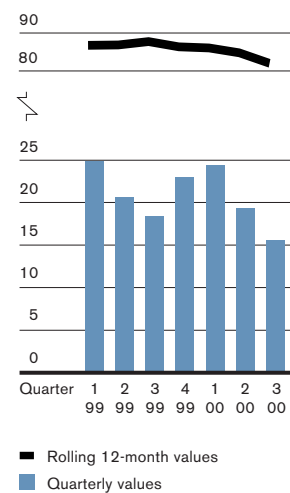
Financial income and expenses – net amounted to SEK –1,180 million (–983). The interest cover was 4.0 times (3.4).

Profit before tax and minority interests was SEK 5,218 million (3,121). Minority interests in the compensation from the state amounted to SEK 681 million. The pre-tax profit margin was 23.7 per cent (15.6).

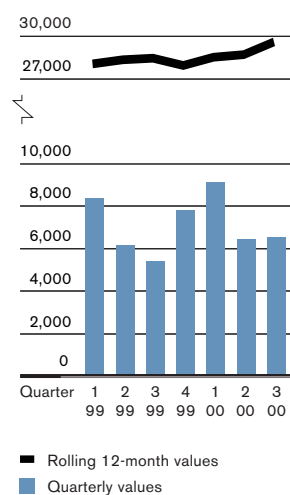
FINANCIAL POSITION

Liquid assets amounted to SEK 5,479 million (December 31, 1999: 4,860). SEK 1,369 mil-

Electricity sales (TWh)



Net sales (SEK m)

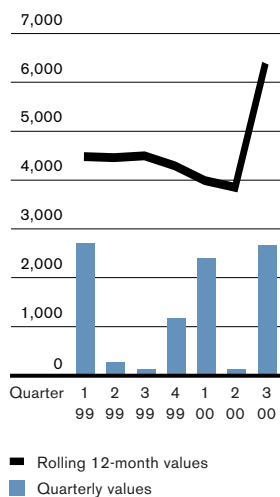


lion (December 31, 1999: 1,960) of liquid assets comprised investments concerning interest-arbitrage transactions.

The net indebtedness, that is, interest-bearing liabilities and provisions, less liquid assets amounted to SEK 44,724 million (December 31, 1999: 27,415).

Equity amounted to SEK 34,734 million, which is an increase of SEK 1,387 million since year-end 1999. The equity-assets ratio was 35.2 per cent (December 31, 1999: 42.3).

Profit before tax and minority interests (SEK m)



INVESTMENTS

The Group's investments amounted to SEK 19,916 million (6,255), of which acquisitions of group companies (primarily EW and Uppsala Energi) amounted to SEK 8,193 million (2,866), associated companies (mainly HEW) to SEK 8,220 million (1,235) and other long-term securities to SEK 236 million (372). SEK 2,558 million (1,773) and SEK 708 million (9) were invested in tangible and intangible assets, respectively.

PERSONNEL

At the end of September, the number of employees, expressed in terms of man years, amounted to 13,255 (December 31, 1999: 7,991). The increase is due to company acquisitions, of which EW represents 4,055 man years.

Product Areas

ELECTRICITY

Net sales amounted to SEK 13,252 million (13,060). Sales to customers and power exchanges amounted to 59.5 TWh (63.9), representing 50 TWh (48.4) and 9.5 TWh (15.5), respectively.

In addition, 9.7 TWh (6.1) was delivered to minority shareholders in power plants etc.

Electricity purchases amounted to 71.6 TWh (72.5), of which in-house generation comprised 60.8 TWh (63.4) and purchases 10.8 TWh (9.1). A total of 29.3 TWh (27.7) of hydro power, 29.0 TWh (35.1) of nuclear power and 2.4 TWh (0.6) of fossil-based power was generated. Of the electricity purchases, 2.5 TWh (2.5) was utilized internally, mainly to cover network losses.

Operating profit amounted to SEK 5,137

million (3,159). Operating profit includes SEK 2,639 million in compensation from the state for Barsebäck.

DISTRICT-HEATING

Net sales amounted to SEK 1,828 million (626). The volume sold amounted to SEK 9.4 TWh (1.9). The increase is largely due to the acquisition of Elektrociepłownia Warszawskie SA. Operating profit amounted to SEK 22 million (49).

ENERGY SERVICES

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

Net sales amounted to SEK 2,312 million (2,014). Sales of FärdigVärme amounted to 1.8 TWh (1.5). Operating profit amounted to SEK -56 million (-36).

NETWORK SERVICES

Net sales amounted to SEK 5,353 million (5,099). Transmission volumes amounted to 56.6 TWh (55.1). Operating profit amounted to SEK 1,157 million (1,095).

NATURAL GAS

Net sales amounted to SEK 883 million (508), which corresponds to a sold volume of 6.5 TWh (6.2). Of this volume, 0.2 TWh (0.2) was sold within the Group. Operating profit was SEK 60 million (47).

Parent Company

Net sales amounted to SEK 11,946 million (13,293). Profit after net financial items was SEK 1,065 million (1,664). Investments during the period amounted to SEK 9,292 million (5,744). Liquid assets amounted to SEK 168 million (December 31, 1999: 48). Funds in the group account managed by Vattenfall Treasury AB amounted to SEK 13,190 million (December 31, 1999: 14,824).

Stockholm, November 21, 2000

Lars G Josefsson

President and Chief Executive Officer

Consolidated Income Statement

Amounts in SEK million	January - September		Full year
	2000	1999	1999
Net sales	22,055	19,951	27,754
Cost of products sold	-16,035	-13,608	-19,402
Gross profit	6,020	6,343	8,352
Selling expenses, research and development costs and administrative expenses	-3,255	-2,562	-3,704
Other operating income and expenses - net	3,335	185	725
Participations in the result of associated companies	299	138	142
Operating profit	6,399	4,104	5,515
Financial income	561	337	542
Financial expenses	-1,742	-1,320	-1,760
Profit before tax and minority interests	5,218	3,121	4,297
Tax	-1,461*	-874*	-1,400
Minority interests in the profit for the period	-546	-65	-359
Net profit for the period	3,211	2,182	2,538

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

Product Areas

Amounts in SEK million	Net sales			Operating profit		
	January - September		Full year	January - September		Full year
	2000	1999	1999	2000	1999	1999
Electricity	13,252	13,060	17,857	5,137*	3,159	4,198
District-heating	1,828	626	1,028	22	49	121
Energy Services	2,312	2,014	2,633	-56	-36	-52
Network Services	5,353	5,099	7,097	1,157	1,095	1,657
Natural Gas	883	508	863	60	47	69
Other, eliminations**	-1,573	-1,356	-1,724	79	-210	-478
Total	22,055	19,951	27,754	6,399	4,104	5,515

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

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

Consolidated Balance Sheet

Amounts in SEK million	September 30 2000	September 30 1999	December 31 1999
Assets			
Fixed assets			
Intangible assets	2,787	1,847	1,553
Tangible assets	66,824	59,661	57,254
Financial assets	19,266	8,933	9,731
Total fixed assets	88,877	70,441	68,538
Current assets			
Inventories	5,804	4,880	4,901
Current receivables	11,877	7,676	8,364
Liquid assets *	5,479	4,268	4,860
Total current assets	23,160	16,824	18,125
Total assets	112,037	87,265	86,663
Equity, provisions and liabilities			
Equity	34,734	32,995	33,347
Minority interests in equity	4,221	2,242	2,472
Interest-bearing provisions	513	1,030	1,210
Other provisions	13,002	11,444	11,192
Long-term interest-bearing liabilities	39,803	20,057	19,714
Other long-term liabilities	1,925	1,205	1,222
Current interest-bearing liabilities *	9,887	10,515	11,351
Other current liabilities	7,952	7,777	6,155
Total equity and liabilities	112,037	87,265	86,663

* Includes interest-arbitrage transactions of SEK 1,369 million (2,582 and 1,960, respectively).

Consolidated Cash Flow Statement

Amounts in SEK million	January – September	
	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES		
Internally generated funds	7,039	5,902
Cash flow from changes in operating assets and liabilities	-3,359	-2,011
Cash flow from operating activities	3,680	3,891
CASH FLOW FROM INVESTING ACTIVITIES		
Investments	-19,916	-6,255
Sales	1,164	69
Liquid assets in acquired/sold companies, net	170	210
Cash flow after investments	-14,902	-2,085
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends	-1,580	-1,598
Financing	16,881	3,589
Contributions from minority shareholders	249	14
Cash flow for the period	648	-80
LIQUID ASSETS		
Liquid assets at the beginning of the period	4,860	4,439
Translation differences	-29	-91
Cash flow for the period	648	-80
Liquid assets at the end of the period	5,479	4,268

Key Ratios

(in per cent unless otherwise specified)

	October 1999 – September 2000	January – December 1999
Return on capital employed	11.0	9.3
Return on equity after standard tax	11.8	8.7
Return on assets	8.6	7.1
	January – September 2000	January – September 1999
Operating margin	29.0	20.6
Pre-tax profit margin	23.7	15.6
Equity-assets ratio	35.2	41.6
Debt cover, times	1.1	0.8
Interest cover, times	4.0	3.4

Definitions

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

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

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

Operating margin: Operating profit in relation to net sales.

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

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

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

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

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

Vattenfall's press release concerning the annual accounts for 2000 will be published on March 6, 2001.

This report has been translated from the Swedish original.

