

VATTENFALL
ANNUAL REPORT 2001



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Cover: Generator overhaul at VEAG's Hohenwarte 2 hydro power station in Thüringen in October 2001.

ABOUT VATTENFALL

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

The business is concentrated to northern Europe with a focus on Sweden, Finland, Germany and Poland. During 2001, the Vattenfall Group expanded considerably when majority shareholdings in the German companies, Hamburgische Electricitäts-Werke AG (HEW), VEAG Vereinigte Energiewerke AG (VEAG) and Lausitzer Braunkohle AG (LAUBAG) were acquired. In 2002, Vattenfall also acquired a majority shareholding in Bewag AG. In Poland, the production company, Elektrociepłownia Warszawskie S.A. is a part of the Vattenfall Group. Vattenfall also has a minority interest with management responsibility in the electricity distribution company, Gornoslaski Zakład Elektroenergetyczny S.A. (GZE).

The dominant business is electricity, where Vattenfall is active throughout the value chain with generation, trading on financial and physical markets, sales to corporate customers and households as well as electricity transmission on high-voltage networks and distribution. To this must be added the production and sales of district-heating as well as energy solutions, IT, communication, contracting and consulting.

In the Nordic countries, Vattenfall is the largest company within the power and heat sector, with net sales of about SEK 35 billion (EUR 3.9 billion) in 2001, electricity generation of just over 90 TWh in 2001 and heat generation of 6 TWh. In the Nordic countries, Vattenfall has about 1.3 million network customers and sells electricity to just under 1.5 million customers. Vattenfall has about 8,500 employees in the Nordic countries.

In Germany, work is underway to integrate the acquired companies into Vattenfall Europe. The operations comprise HEW with electricity and heat in Hamburg, VEAG with electricity generation and transmission in eastern Germany, LAUBAG with lignite mining for VEAG's power plants and, from 2002, Bewag, with electricity and heat in Berlin. Vattenfall's German business will have just over SEK 60 billion in net sales (EUR 7 billion) and an aggregate annual electricity generation of 82 TWh and 16 TWh of heat. Vattenfall Europe will be Germany's third largest power group - at year-end the four companies had just over 20,000 employees.

In Poland, Vattenfall is among the largest companies in the industry, with an electricity generation of 4 TWh and heat generation of 12 TWh in 2001. Furthermore, Vattenfall has a minority interest of 32 per cent and management responsibility in the electricity distribution company, GZE.

In total, the Vattenfall Group had 28,650 employees at year-end 2001. The Group comprises 10 business units and a German sub-group.

Vattenfall's organisation is presented on page 12.

The Vattenfall Group after the acquisition of Bewag

	Nordic countries	Germany and Poland*	Total
Net sales, EUR million	3,906	7,078	10,984
Electricity generation, TWh**	90	86	176
Heat generation, TWh	6	28	34
Employees	8,500	23,600	32,100

* Stake in GZE not included.

** Volumes for a normal production year. About 75 TWh of the generation in the Nordic countries is available to Vattenfall. The rest is allocated to minority shareholders.

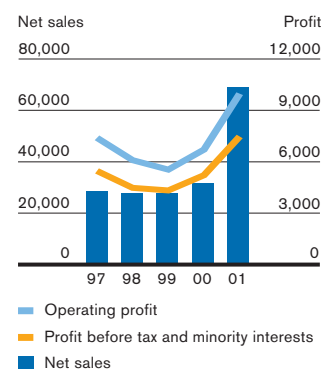
2001 IN BRIEF

- Considerable improvement in profit, operating profit increased to SEK 10.0 billion (6.7).
- The return on net assets, excluding items affecting comparability, increased to 8.8 per cent (6.6).
- Net sales improved to SEK 69 billion (32). Vattenfall is now established as the fifth largest electricity company in Europe (141 TWh).
- Vattenfall's electricity generation in the Nordic countries reached a record high-level (92 TWh).

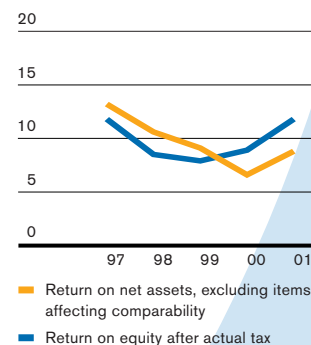
Financial Highlights

	2001	2000
Net sales, SEK m	69,003	31,695
EBIT, SEK m	9,959	6,688
Profit before tax and minority interest, SEK m	7,454	5,189
Return on equity after actual tax, %	11.8	8.9
Return on net assets, excl. items affecting comparability, %	8.8	6.6
Equity/assets ratio, %	22.7	35.4
Funds from operation, SEK m	13,148	5,830
Investments, SEK m	43,443	23,840
Total electricity sales, TWh	149.9	83.1
Total heat sales, TWh	25.4	17.0
Electricity generation, TWh*	140.9	83.7
Average number of employees in the Group	23,814	13,123

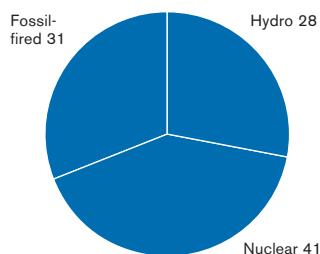
Sales and Profit, SEK m



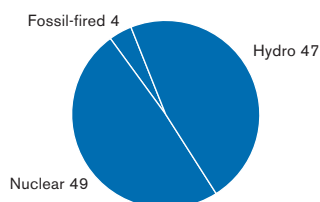
Return on Capital, %



Total Electricity Generation, 140.9 TWh, 2001, % *



Total Electricity Generation, 83.7 TWh, 2000, %



* 2001 includes a full year of generation by HEW and for VEAG from May 16. Bewag will be consolidated from 2002.

Vattenfall Has Established a Strong Market Position in Northern Europe

The net sales of the Vattenfall Group more than doubled, from SEK 32 billion to SEK 69 billion, during the past year. Vattenfall has now taken a major step out into Europe. This achievement is reflected in the accounts. During 2001, Vattenfall was a company with 45 per cent of its net sales in Sweden, 5 per cent in Finland, 40 per cent in Germany and 5 per cent in Poland. From the beginning of this year, all German operations, including the Berlin-based company, Bewag, will be consolidated into the Group and Vattenfall's sales will increase to around SEK 100 billion.

Vattenfall's vision is to be a leading European energy company. This means that Vattenfall must be the customer's choice in the short and long term. We must also make a positive contribution to the economic development of the countries where we operate.

Vattenfall is the leading power company in Sweden and the Nordic countries, and as the market evolves, our ambition is to continue to develop this leading role. During the year, Vattenfall's power generation in the Nordic countries totalled a record-high 92 TWh (81)*. Nuclear power accounted for a substantial share of the increase. Both the hydro power and nuclear power plants have operated highly satisfactorily, with high availability and reduced operating expenses. In Sweden, we focused on the maintenance and upgrading of electricity net-

works in combination with our service interruption guarantee. Although work in this area is still in progress, it is gratifying to see the positive results already at this stage. We are also pleased that our customers have noticed the improvement.

In a European perspective, Vattenfall is now the fifth largest power generator and the largest district-heating company. In Germany, we are now the third largest electricity company. Vattenfall has established a strong foothold in northern Europe and our long-term vision is within reach. Being a leading energy company in Europe requires a competitive strength that can challenge corporations with an international focus such as the German-based E.ON and RWE, French-based EDF, Belgian Tractebel and Spanish Endesa. The restructuring of the European industry will continue, resulting in fewer but larger companies. In the long term, Vattenfall must grow further in order to continue to be an industry leader and to provide optimum service to customers.

For us to attain a leading position, our business volumes must be high. This will allow us to achieve economies of scale while we reduce costs and the need for capital at the same time as we can spread our risks. It is satisfying to note that Vattenfall has simultaneously managed to grow and enhance profitability. The improvement in profitability is mainly due to the fact that pricing on the Nordic generation market has returned to

Market Positions

	Sweden	Finland	Germany	Poland
Electricity generation and sales	1	2	3	Among the 3 largest
Electricity trading	1 of the 3 largest on the Nordic market		1 of 5	Non-existent
Distribution	1	2	3	1
District-heating	2	Smaller scope	1	1

* 76 TWh of the electricity generation in the Nordic countries was at Vattenfall's disposal while 16 TWh was allocated to minority shareholders.

normal at the same time as the German operations have exceeded our expectations with respect to the direction and rate of development. Even so, we must improve our profitability in absolute terms. We also have a major and most essential task ahead of us: that of actually realising the full potential of the German integration project.

Through internationalisation and profitable growth, we are creating a stronger Vattenfall. Ultimately, this will benefit customers through better opportunities for investment in the energy system as well as improved customer service. In the aftermath of market deregulation, we must deal, as must others in the industry, with the lingering problem of inadequate service to end-customers, primarily households. Vattenfall will focus on resolving the remaining difficulties and on achieving the objective of becoming the customer's number one choice.

A leading energy company must bear a special 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. Energy and environmental issues are inextricably linked. The most important environmental issue is perhaps greenhouse gas emissions, generated by the combustion of fossil fuels, including coal. Europe and the world will be dependent on fossil fuels for energy within the foreseeable future. Consequently, Vattenfall is deeply committed to reducing emissions, particularly carbon dioxide and acidifying substances. Vattenfall stands for responsibility, in Sweden, in the Nordic countries and in Europe. By becoming an industry leader, and by acting responsibly, we are achieving our goal of becoming the number one choice for customers, the environment and the economy. A leading role is founded on both sustainable performance and appeal.

At Vattenfall, we are proud of our achievements. I would particularly like to thank all of the employees throughout our European Group for their efforts. Without the commitment of our employees, we would not have been able to consolidate our position in northern Europe so rapidly and efficiently.

The power industry has undergone a



radical transformation through deregulation. In Sweden, there are currently four electricity companies of substantial size from an international perspective. Three of these are subsidiaries of major foreign-owned energy groups. Vattenfall is the sole remaining independent Swedish power company that can compare itself, in size, to European competitors.

A dynamic and competitive Vattenfall is a guarantee for maintaining competition on the northern European power market.

Lars G Josefsson
President and Chief Executive Officer
Stockholm, March 5, 2002

Vision

Vattenfall - a leading European energy company

Deregulation has created completely new conditions. National boundaries and protected markets are becoming a thing of the past.

A strongly competitive market is evolving in Europe where about ten major companies are spearheading developments. Vattenfall is one of these companies, focusing on the Nordic countries, Germany and Poland.

Being a leading company means that Vattenfall must be the number one choice for the customer and the environment as well as actively contribute to the development of sustainable energy solutions for the future. Vattenfall's profitability must match that of the major industry players.

Mission

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

Vattenfall's aim is to be the number one choice for customers, the environment and the economy.

Vattenfall's market position is based on a high operational performance and low costs combined with responsibility. Vattenfall has the capacity and expertise to deliver energy, mainly electricity and heat, which is environmentally-acceptable and cost-effective, now and in the future, and which fulfils the customer's individual need for qualified energy solutions.

By providing energy for an improved quality of life - heat and light, temperature and comfort, security and safety, reliability and an efficient utilisation of resources - Vattenfall gives its customers value for money.

Financial Objectives

Vattenfall's focus is on value creation and on profitable growth

Profit and cash flow growth are the basis of value creation and profitable growth. Consequently, over the next few years, Vattenfall will be focusing on consolidation and on ensuring the rapid integration of and profitability growth in the German companies.

Vattenfall has the ambition to hold a Single A rating from the major rating agencies. The owner's objective, expressed as pre-tax interest coverage, is between 3.5 and 5 times. In 2001, the figure was 2.6 times (3.1). See the diagram on page 33 and the table on page 61.

The owner's profitability objective is 15 per cent on the book value of equity after tax. The return on equity was 11.8 per cent in 2001 (8.9). See the diagram on page 1 and the table on page 61.

The Group's profitability objective, expressed as the return on net assets, is to achieve an 11 per cent return before tax after the German integration has been completed.

Dividend Policy

The aim is to maintain a sustainable and stable dividend, which should normally correspond to one-third of the net profit.

VATTENFALL TAKES RESPONSIBILITY

Through the ongoing deregulation of the electricity market, conditions are changing for all of Vattenfall's operations in the Nordic countries, Germany and Poland. The customer and the market make their choices while society is establishing the framework, primarily through various types of regulatory control. Vattenfall takes responsibility by actively anticipating stakeholders' expectations and demands.

Customers

Reliable energy supply and efficient solutions coupled with a high service level and availability at a reasonable cost will make Vattenfall attractive to all customer categories and enhance the competitiveness of its corporate customers. In terms of concrete measures, in 2001, Vattenfall launched an extensive programme to improve service reliability in the rural network in Sweden. The programme includes a responsive and efficient organisation to resolve service interruptions, including an improved information service. The reliability of Vattenfall's other operations is also continuously being improved. Customer service was developed through the establishment of a Shared Customer Service Centre during the year.

An Efficient Electricity Market

Vattenfall is actively participating in Swedish and Nordic work on improving and developing the way in which the deregulated market operates. Vattenfall is one of the companies behind the financing of a special power reserve of more than 1,000 MW to guarantee, over a three-year period, supply reliability in Sweden during periods of extreme cold when electricity consumption is high. In addition, Vattenfall has its own reserve capacity in hydro power. Thus, Vattenfall has more than adequately assumed its part of the responsibility for Sweden's supply reliability. As a major player on the German, Finnish and Polish markets, Vattenfall is also working to improve the efficiency of these markets.

Development of Electricity and Heating Systems

The energy system is of crucial importance for a functional society. Vattenfall aims to participate in the development of efficient sustainable energy

solutions for the future. In 2002, the Group will pursue co-operation within R&D and environment in the considerably expanded organisation.

New policy measures and directives on the national and European level are powerful driving forces for the development of new solutions. This development is leading to an increasing proportion of renewable energy and combined heat and power, and is reducing the output of gases that result in climate change. Policy measures must also be in harmony with the new market regulations in the energy sector. Green certificates and emissions trading are examples of such market-based instruments.

To complement the development work conducted by the business units, Vattenfall is also carrying out long-term work to lay the groundwork for tomorrow's business. This work focuses on new energy sources as well as on rational energy use. Bioenergy, wind power, decentralised energy solutions and energy recovery from waste are examples of production-oriented development work. Carbon dioxide separation and storage could play a significant role in limiting greenhouse gas emissions from the use of fossil fuels. IT as a tool for the operation and maintenance of facilities could result in cost savings and improved safety. Another important area of development is to attune the knowledge within the Group so that it can also serve the industry's need for more efficient energy processes.

Vattenfall also conducts joint work with other companies on long-term multi-client development projects. The Swedish electricity industry's development company, Elforsk, is targeting universities to ensure that expertise is developed in important areas.

Environmental Work at Vattenfall

The aim of Vattenfall's environmental work is to achieve sustainability by integrating efficient resource utilisation, environment and social responsibility. From 2001, Vattenfall is preparing annual sustainability reports for the Group.

Power plants, district-heating systems and transmission networks, together with trading and sales, are the basis of Vattenfall's business. Investments in these facilities is a long-term activity.

List of Environmental Certificates**ISO 14000 (Environment)**

Fernheizwerk Neukölln, Berlin
 Forsmarks Kraftgrupp AB
 Gotlands Energiförsäljning AB
 Gotlands Energientreprenad AB
 Gotlands Energiverk AB, GEAB
 Heinola Energia Oy
 HEW Contract Lokstedt, Hamburg
 Heizkraftwerk Mitte, Berlin
 Heizkraftwerk Rügenberger Damm, Hamburg
 Ringhals AB
 SwedPower AB
 Svensk Kärnbränslehantering AB
 Vattenfall Bråviken AB
 Vattenfall Kaukolämpö Oy
 Vattenfall AB Mega
 Vattenfall Siirto Oy
 Vattenfall Sveanät AB
 Vattenfall Sähkönymynti Oy
 Vattenfall AB Vattenkraft
 Vattenfall AB Värme (District-heating and Ready Therm in Sweden)
 Vattenfall Värme Uppsala AB
 Vattenfall VätterEl AB

MAS Registrations

Boden's power station
 Bergforsen power station
 Fernheizwerk Neukölln, Berlin
 Forsmarks Kraftgrupp AB
 Heizkraftwerk Mitte, Berlin
 Heizkraftwerk Rügenberger Damm, Hamburg
 Heizwerk Borsigstrasse, Hamburg
 Jordbro Värmeverk
 Ringhals AB
 Vattenfall Värme Norden
 Vattenfall Värme Uppsala AB
 Älvkarleby power station

EPD (Environmental Product Declaration)

Electricity from power stations in the Lule river
 Electricity from Forsmarks Kraftgrupp AB

Environmental improvement is an ongoing process of change, occurring through small steps as well as through large leaps of achievement.

A number of different tools and systems have been introduced to facilitate day-to-day environmental work. Life Cycle Assessments (LCA) are carried out to analyse the environmental effects of different activities over their lifetimes. By preparing Environmental Product Declarations (EPD), Vattenfall can demonstrate the impact on the environment of different technologies for electricity generation. Environmental audits have been conducted for more than ten years.

Most of Vattenfall's operations in the Nordic countries are conducted according to established environmental management systems. Several are certified in accordance with ISO 14001. Some facilities are also registered under EMAS.

In Sweden, Germany and Poland, projects are underway to inventory and restore contaminated sites after previous industrial and commercial activities.

In eastern Germany, the entire set of power plant facilities was upgraded during the nineties and is now one of the most modern in Europe.

In Poland, Vattenfall has undertaken to modernise EW's power plants in Warsaw.

In autumn 2001, the impact of LAUBAG's lignite mining activities in eastern Germany and the decision, made many years ago, to relocate the village of Horno was debated in Sweden. Lignite is a primary industry in Germany. Employment, energy and environmental policy were taken into account when the Federal Republic of Germany and the state of Brandenburg made the decisions upon which LAUBAG's business is based. A well-established process exists for the villages which must be relocated. A new village is built up in consultation with the inhabitants who are offered land corresponding to that which they have had to abandon as well as financial resources to construct new buildings.

In connection with the acquisition of LAUBAG, Vattenfall ensured that the necessary decisions and permits had been obtained and verified LAUBAG's compliance.

Human Resources and Corporate Culture

During 2001, the number of employees has in-

creased considerably as a result of acquisitions. A vital task for the new Vattenfall Group is to create shared values and to harmonise attitudes to ethics and regulations across the businesses in different countries. The aim is to cultivate a common corporate culture.

Through in-house and external management training programmes, Vattenfall maintains the supply of new managers and develops managerial talent throughout the Group. Trainee programmes for future managers are conducted at group level and within the various business units.

Work on human resource development and on ensuring positive employee involvement in the change process is emphasised. Employee surveys were conducted throughout Vattenfall's operations in different countries in 2001 to improve skills development and other areas.

Women represent 22 per cent of Vattenfall's workforce and the number in the various individual countries is between 21 and 37 per cent. Age and level of education also vary. The average age of employees is 45.

The profile of employees in the entire Group with respect to equality between the sexes and diversity in terms of age, ethnic background and skills is now being reviewed in a project called "Adding value through diversity". The aim of the project is to improve and broaden the human resource base.

Culture

The management of cultural capital is a natural part of Vattenfall's business. Cultural resources are also taken into account in the management of production facilities and in environmental work. A special committee in Sweden, comprising representatives from inside and outside Vattenfall, works actively with ideas and concrete measures in this area.

In Germany, respect for the local community, culture and traditions, especially in the case of ethnic minorities such as the Sorbs, is particularly important when LAUBAG, together with the local population, plans new housing for residents who must be relocated as a consequence of mining operations.

ELECTRICITY MARKET DEVELOPMENT IN NORTHERN EUROPE

The development of the northern European electricity market has entered a dynamic phase. The deregulation reforms of electricity trading that occurred in different countries in the nineties have created new conditions for industry players.



Vattenfall is established as a powerful player on the German electricity market. The foundation of Vattenfall Europe is the four German companies, Hamburgische Electricitäts-Werke AG (HEW), VEAG Vereinigte Energiewerke AG (VEAG), Lausitzer Braunkohle AG (LAUBAG) and Bewag AG in Berlin. This makes the Vattenfall Group Germany's third largest electricity supplier and network operator and the largest in Germany in district-heating. The picture shows the Köhlbrand Bridge in the Hamburg Harbour.

Electricity Market Development in Northern Europe

The electricity market and other monopoly markets in Sweden and Europe were deregulated in order to increase the competitiveness of the European economy and that of the economies of the individual countries. In Sweden, deregulation was originally proposed by a 1990 inquiry into productivity improvement. Within the EU, deregulation was related to the development of the internal market, although it was handled separately. As a whole, the reforms led to completely new market conditions.

Greater freedom in power trading has stimulated considerable dynamism in the previously very stable electricity industry. The national deregulation reforms of recent years have been based on somewhat different solutions in the individual countries. The main direction – greater freedom for the customer – is without a doubt the dominant factor in the European electricity market.

Electricity market development has reached different stages in different countries. From Vattenfall's perspective, the northern European market is the most attractive. However, it should be noted that this market is partially affected by electricity trading in the rest of Europe. In Germany, market players can access the electricity networks after negotiations with the owners. In the Nordic countries, legislation grants sellers and buyers electricity network access on equal terms. So far, electricity trading in Poland has not been liberalised. However, given Poland's interest in joining the EU, it is highly likely that reforms will occur in time.

The explicit goals of the changes in the regulations for power trading have concerned different aspects of efficiency improvements. When the parliaments of different countries have debated a liberal electricity market, the arguments have focused on the efficient use of available generation resources, on achieving effective electricity pricing through trading on power exchanges and on improved cross-border trade in electricity.

The intensity of cross-border power trading has increased in spite of the limitations in the form of physical transmission capacity. However, with a well-developed physical transmission capacity, industry players no longer have to think in

terms of each country's self-sufficiency. Price signals on the market indicate when there is a need for additional capacity. Conditions such as the availability of gas, hydro power or other primary energy sources can be weighed together with other factors such as taxes and production charges. Wherever the situation is optimum, that is where new generation facilities will be built.

Electricity trade flows shift between exports and imports, over days, weeks and years. One year with low precipitation, severe cold or some other form of extreme change in weather can rapidly alter the direction of the trade flows. With an increasingly liquid exchange trading in financial contracts, risks can be managed.

During the initial years of the liberalised market, electricity prices fell substantially in the Nordic countries. One of the main reasons was the abundant supply of hydro power. However, the improved utilisation of the production system as a whole was also an important factor. With an underlying growth in the demand for electricity and with, from a historical perspective, a more normal precipitation conditions, it was natural that the electricity prices in 2001 should increase to more normal levels. Electricity prices that, in relation to production costs, result in a surplus are a necessary condition for investment in new generation capacity.

Value Chain

On a competitive electricity market, several different stages in trading can be distinguished. These stages are usually known as the electricity value chain. The value chain can be divided into generation, trading and sales to customers, with network operations comprising a separate value chain. This separation ensures that no cross-subsidisation occurs between network and power trading services. The relationships between the stages are illustrated by the diagram on the opposite page. Broad-based suppliers such as Vattenfall, with operations throughout the value chain, as well as more specialised players, which only target specific stages, all participate on the market.

Prices on the generation market are

controlled by supply and demand. The price is established on power exchanges for physical power trading. In the Nordic countries, the exchange spot prices are very volatile. The range of electricity available is to a large extent determined by the level of precipitation, which is also reflected in the spot price. In Germany and Poland, hydro power is less important for price trends.

The volume of the electricity demand in the Nordic countries is partially directly related to the winter temperature since many dwellings in Norway and Sweden are electrically-heated.

Power trading comprises risk management based on long-term and short-term financial contracts. The purpose is to hedge price risks. On the other hand, it is more difficult to manage volume risks, namely, variability in actual volume delivered in relation to the electricity volume purchased by the supplier in advance in order to meet supply commitments to the customer.

On the retail power markets, major players can actively manage their price and volume risks themselves by participating on the power exchanges. On the other hand, small electricity customers, especially households with electrical heating, cannot participate on the power exchange to manage risks in a practical and efficient manner. This means that the electricity suppliers assume both the price and volume risks from the customers.

Network services – electricity distribution to customers – are handled as a separate business where customers normally pay for the use of the high-voltage grid, regional networks and local networks. Major electricity customers may have access to high-voltage delivery points and consequently do not have to use local network services.

Structural Changes

Certain types of risk exposure are in some ways a new feature on the liberalised energy market. The general impression of developments is that it has become considerably more important to be a large player. With diminishing margins and the uncertainty created by price and volume risks, it is vital to increase earning capacity where possible. Economies of scale in the customer management system, in maintenance and in the development of generation are examples of how to enhance competitive advantage. Mergers and acquisitions within the power sector have also become common in recent years. Long-term survival requires substantial capacity with respect to efficiency, development capabilities, financial strength and risk management.

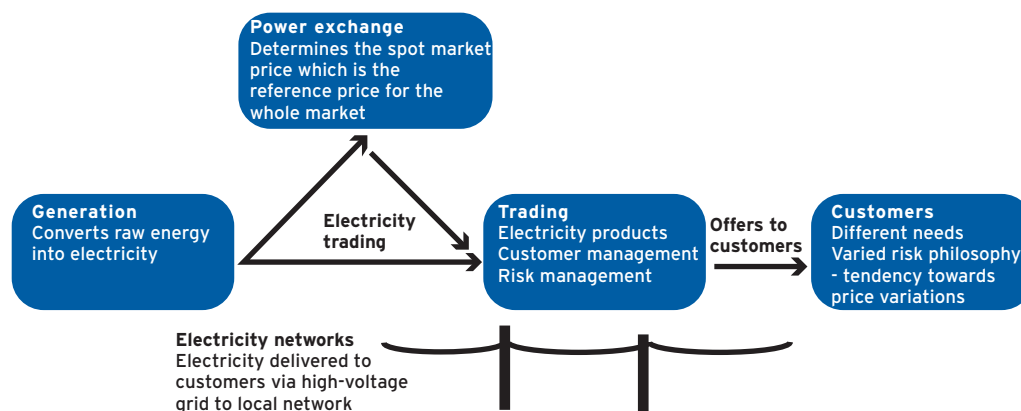
In northern Europe, the tendency is towards fewer but larger players, since economies of scale are advantageous on the competitive market. In Germany and in the Nordic countries where Vattenfall operates, there are six large independent electricity companies left: Vattenfall, E.ON, RWE, EnBW, Statkraft and Fortum. E.ON has an ownership stake of just over 60 per cent in Sydkraft and 35 per cent is held by Statkraft. Fortum has signed an agreement to acquire the remaining shares in Birka Energi from the City of Stockholm, with the exception of 50 per cent of the district-heating business.

Energy companies increasingly operate across national borders. For example, Vattenfall's German business, Vattenfall Europe, is the third largest player on the German electricity market. At the same time, German E.ON (through Sydkraft) and Finnish Fortum are now, after Vattenfall, the second and third largest electricity players,



After trial operation in 2001, Avedøre 2 was taken into commercial operation on January 1, 2002. The installed capacity is 560 MW. The plant can be fired with most fuels. Wood pellets and straw will be mainly used as fuel. Natural gas and oil may also be used.

Value Chain on a Competitive Electricity Market



respectively, on the Swedish market. French EDF dominates Gräninge, which is the fourth largest electricity generator in Sweden. At the same time, this process of concentration has led to the successive exit from the arena of a number of small players, mainly municipalities. This is a natural development since the electricity supply to the residents and companies in the municipalities can be secured by the market mechanisms without the municipalities themselves having to tie up substantial capital in the electricity sector. However, there is still a significant number of players in the market. These players generally operate within a limited geographical area.

During 2001, Vattenfall concentrated on developing energy-related products within its core business. Vattenfall generates a substantial volume of heat and is the fourth largest player in the fixed telecommunications segment in Sweden with about 100,000 customers. Vattenfall has also focused on developing broadband services in Sweden.

An Ongoing Process

The process of concentration and change that is taking place in the electricity sector will probably continue. It is likely that there are owners in the electricity sector that will not wish to or will be unable to remain in the industry once the extent of the risks involved become clear.

Risk management is not only a question of managing fluctuations in electricity demand and pricing. The electricity sector is also associated with significant political risks. Like other players,

Vattenfall must, to the best of its ability, adapt its business and comply with the political decisions made in the countries where it operates. Nevertheless, the fact that differences between these countries with respect to taxes, charges and regulations distort the basis of competition cannot be ignored.

How taxes are levied on different fuels, at the generation stage or at the consumption stage, can have a significant impact on the competitive strength of the different production facilities and players. This can be a crucial factor in maintenance decisions and decisions affecting investments in new electricity generation facilities. Large companies have considerably greater scope to handle the problems that can arise, compared with small players. Efforts to harmonise taxes and charges in the EU can mitigate this distorted competitive situation in the long run.

Vattenfall Must Benefit from Previous Experience

Vattenfall is now a major player on national markets in northern Europe where electricity market deregulation has reached different stages of development. Vattenfall can apply the experience that it has gained from the deregulation processes in Sweden and Finland to avoid making mistakes on the now rapidly evolving German market. Vattenfall is also well-prepared for similar future developments in Poland. With the expansion and broadening of business achieved over the past few years, Vattenfall has laid the foundations for a continued positive growth in value for its owner.

Electricity Balance 2001, TWh

Output	2001	2000
Bilateral trade		
Sweden	46.6	53.1
Norway	5.4	0.8
Finland	6.0	9.3
Denmark	0.6	0.6
Germany	51.7	3.7
Europe, other	12.7	2.6
Total bilateral trade	123.0	70.1
"Public market"	26.9	13.0
Total electricity sales	149.9	83.1
Delivery to minority shareholders	18.1	12.1
Consortium and compensatory power	1.3	1.2
Total	169.3	96.4

Input	2001	2000
Hydro power	39.9	39.6
Thermal		
Nuclear power	58.1	40.6
Fossil-based power	42.9	3.5
Total thermal power	101.0	44.1
Total internal generation	140.9	83.7
External bilateral purchases	24.5	9.5
"Public market"	10.3	6.7
Total electricity input	175.8	99.9
Less internal consumption	-6.5	-3.5
Total	169.3	96.4

The electricity balance shows Vattenfall's electricity sales for 2001 and 2000 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 were entitled to a portion of generation. Consortium and compensatory power: see page 64.

BUSINESS ACTIVITIES 2001

Net sales for the Group more than doubled to SEK 69 billion (32) and operating profit increased to SEK 10 billion (6.7).

The year 2001 was characterised by decisive steps taken by Vattenfall to realise the growth strategy established by the Board. Through the acquisition of a majority shareholding in HEW which, in turn, acquired a majority stake in VEAG and LAUBAG during the year, the foundations for Vattenfall Europe were laid. In February 2002, Vattenfall also acquired a majority shareholding in Bewag AG, making it the third largest power company in Germany and the fifth largest power generator in Europe.



Magdalena Skarga from EW in Warsaw is the first non-Nordic participant in Vattenfall's Swedish trainee programme. Magdalena is standing in front of Vattenfall Värme Uppsala's container-based peat store.

Vattenfall's Organisation

Business Unit

General Managers

Generation Nordic Countries

Alf Lindfors

Supply & Trading

Erik Hagland

Sales Sweden

Jan Åke Karlsson

Sales Finland

Maija-Liisa Friman

Mega

Jörgen Josefsson

Electricity Networks Sweden

Per Hallberg

Electricity Networks Finland

Lauri Virkkunen

Nordic Heat

Göran Hindemark

Services

Gunnar Axheim

Vattenfall Poland

Hannu Kostianen

Vattenfall Europe

Generation

Kurt Häge

Trading

Joachim Lubitz

Sales

Hans-Joachim Reh

Electricity Networks and Transmission

Berndt-Olof Helzén

Heat

Hans-Jürgen Cramer

A new organisation came into effect in January 1, 2001. The Executive Group Management is focusing mainly on strategic development, with an emphasis on long-term development and financing issues as well as on control, formulating objectives and on variance analysis. The Executive Group Management exercises control over the business through a system whereby each management executive has personal responsibility for the control of specific business units, on the mandate of the Chief Executive Officer. From 2002, Vattenfall's operations comprise 10 business units and one sub-group in Germany.

Operations in the Nordic countries are organised according to the value chain. A value chain-based organisation will also be introduced in Germany comprising the following units: Generation, Transmission, Electricity Networks, Sales, Trading and Heat.

Generation Nordic Countries has a generation capacity corresponding to 20 per cent of the electricity consumed in the Nordic countries. The electricity generated is sold within Vattenfall and to the Nordic power exchange, Nord Pool.

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

Sales Sweden and *Sales Finland* are primarily responsible for the sale of electricity and energy-related services as well as telecommunications.

Sales activities target households, energy companies, industries and other companies. Sales Sweden is also responsible for sales in Denmark.

Mega sells electricity, energy services, risk and portfolio management, one-stop energy solutions and other products to selected major industrial groups with extensive contracts. Vattenfall works with these customers throughout large parts of Europe.

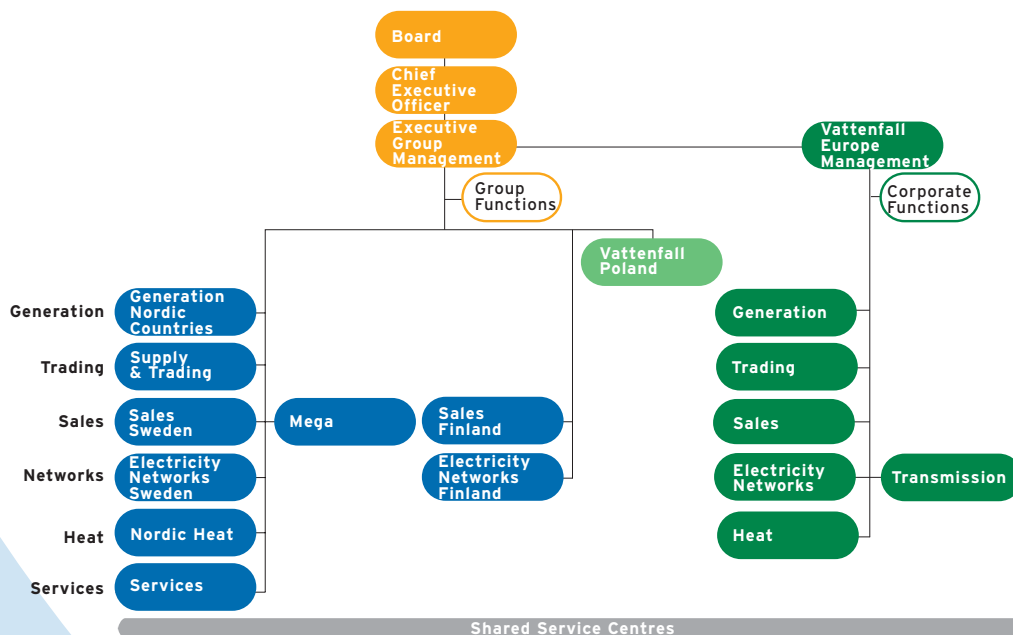
Supply & Trading co-ordinates the Group's financial trading in electricity and other energy related products in the Nordic countries, including eco-labelled electricity and electricity with environmental declarations. In addition, Supply & Trading manages portfolios for the sales units.

Nordic Heat is responsible for heat sales and owns and operates facilities for thermal energy, district-heating and Ready Therm in the Nordic and Baltic countries.

Services conducts consulting, contracting and R&D activities in energy, infrastructure and the industrial sector.

In Germany, *Vattenfall Europe AG* is currently in the process of being formed. All of Vattenfall's German units will be integrated in this business. In 2002, operational control will be based on the value chain while the legal structure will be maintained unchanged.

The *Vattenfall Poland* business unit has the overall responsibility for all of Vattenfall's business in Poland.



Generation Nordic Countries

In 2001, electricity generation in Generation Nordic Countries amounted to 91.3 TWh (80.2). Of the power generated, 75.2 TWh was available to Vattenfall, whereas the remainder was allocated to minority shareholders. Sales on the spot market amounted to 26.0 TWh (13.0). Vattenfall's electricity generation in the Nordic countries, including electricity from combined heat and power plants, amounted to 91.8 TWh (81.0).

During 2001, Generation Nordic Countries has focused on asset management. It has been necessary to renovate and maintain existing facilities at the same time as the cost structure has been adapted to strengthen competitiveness. A rationalisation programme involving a raft of measures has therefore been conducted. The renewal of hydro power is important. Vattenfall has prepared a plan of action for the renovation of a number of plants and for increased investment in reservoir safety. SEK 1,410 million has been allocated to this work for the period of 2002 to 2007. Vattenfall has maintained high availability and efficient generation while keeping down capital and operating costs.

A long-term solution to the question of how power reserves are to be safeguarded for extreme loads which can occur during winter periods of severe cold has not yet been found. Vattenfall advocates a market solution.

Vattenfall's growing size is a strength for the operations in the Nordic countries. With the new units that have joined the Group, fuel purchases can be co-ordinated. Operations and maintenance can be developed by comparing work procedures and by developing solutions on the basis of the unit that demonstrates the highest efficiency. Correspondingly, operations in new markets can benefit from analysis and production control expertise from the Nordic market.

As a Group, Vattenfall has a very strong position at the generation stage, with a good risk spread, comprising about one-third each of nuclear power, hydro power and fossil-based gener-

ation (including electricity generation in Germany). Fossil-fired power facilities are located outside the Nordic countries but are an important part of the risk spread for the Group as a whole.

Consequences of Nuclear Power Taxes

Swedish nuclear power taxation represents a significant cost for nuclear power production. Over the year Vattenfall's nuclear power production tax amounted to SEK 1,433 million (1,291). This means that, by and large, the profit margin in nuclear power that, under normal circumstances, would be used for the maintenance and upgrading of the nuclear power facilities is consumed by taxes. In the short term, income from hydro power can be used for the necessary nuclear facility renewal, but in the long run this will not be a sustainable solution. Each facility must bear its own costs. Generation facilities that are not profitable, due to high costs regardless of cause, will be shut down.

Nuclear Waste Management

Vattenfall owns a 56 per cent stake in Svensk Kärnbränslehantering AB (SKB). The company is responsible for the management of spent nuclear fuel and other radioactive waste. In 2001, SKB made considerable progress towards the construction of a site for a deep repository in Sweden. At the beginning of December, the Municipality of Östhammar approved SKB's application to conduct a site investigation at Forsmark. The purpose of these investigations is to gain further knowledge about the suitability of the site for a deep repository for spent nuclear fuel. Work is expected to start in 2002. SKB has proposed carrying out site investigations in two additional Swedish municipalities, Oskarshamn and Tierp. Site investigations in these municipalities can only start when the municipalities concerned have reached a decision on the issue. A decision on the siting of the deep repository will be made by 2007 at the earliest.

Electricity Generation Nordic Countries

SEK m	2001	2000
Net sales	22,266	15,934
– of which, intragroup	12,163	9,716
Operating profit	6,099	4,930
Net assets	29,672	34,806
Number of employees, Dec. 31	2,722	2,999

Output, Generation Nordic Countries, TWh

Type of power	2001	2000
Hydro	38.9	39.6
Nuclear	52.3	40.6

Generation Capacity in Generation Nordic Countries, 2001

Type of power	MW
Hydro	8,326
Nuclear	5,122
Other	372
Total	13,820

Market Nordic Countries

Market Nordic Countries

SEK m	2001	2000
Net sales	19,492	16,503
– of which, intragroup	4,677	10,438
Operating profit	-511	634
Net assets	2,785	2,690
Number of employees, employee years, Dec. 31	865	735



In Umeå, Vattenfall has established a new Customer Service Centre to handle both electricity and network queries.

Market Nordic Countries

Sales Sweden
Sales Finland
Sales Norway (up to 2001)
Mega
Supply & Trading

Market Nordic Countries comprises the following business units: Sales Sweden, Sales Finland, Mega and Supply & Trading. During 2001, the Sales Norway business unit, which was closed down at the end of the year, was also included.

On June 15, Vattenfall, through its subsidiary Vattenfall Norge AS increased its ownership stake in Oslo Energi AS to 100 per cent. The acquisition was conducted in accordance with the put option signed when Vattenfall purchased 49 per cent of the shares in the company in 1999. At year-end, Vattenfall Norge, along with the subsidiary Oslo Energi, was sold to Hafslund ASA. The result of the write-down, capital loss and depreciation of Vattenfall's Norwegian business was SEK -803 million. Vattenfall is still a player on the Norwegian power market, primarily through long-term contracts for a total of 56 TWh, signed with Norwegian industrial companies.

In the late nineties, electricity trading evolved, as a result of different electricity market reforms conducted in different countries. Full market competition now exists in three of the four Nordic countries. Denmark has made considerable progress but much remains to be done before the market is fully liberalised.

Electricity Sales

Means Risk Management

Vattenfall has worked actively for increasing the efficiency at the consumer sales stage. One example, is the establishment of a Shared Customer Service Centre. The Centre is located in Umeå, and facilities have been expanded to provide service to over a million customers.

Selling electricity on a deregulated market entails considerable risk-taking. Risks must be managed so as not to jeopardise profits. Extensive measures must be taken to hedge against volume and price risks. This is particularly important taking into account the very limited trading margins currently permitted by the market (see also pages 26 and 27).

Sales Sweden works with risk optimisation and risk control. Contracts will be developed that

better illustrate the risks involved and this will also be reflected in the prices charged to customers.

In 2001, Sales Finland started to work on a model for Shared Customer Service for all retail customers within networks, electricity and heat. The rationalisation programme is continuing, at the same time as risk management products are being developed to be offered to customers, primarily within the industrial sector.

Volatility and low margins are the dominant factors that are currently driving market positioning, product development and organisation in the Nordic countries. In terms of its size, position and expertise, Vattenfall can meet the challenges of the market. It is important to utilise the economies of scale in electricity trading and in the management of a broad risk portfolio.

Other Products

Products that supplement electricity have made modest inroads into the market, although fixed telecommunications is an important exception where Vattenfall has achieved considerable success in Sweden. At the end of the year, the number of telecommunications customers amounted to 100,000. Vattenfall has signed partnership agreements with a number of municipal energy companies. The partnership involves electricity supply as well as a close and mutual co-operation in marketing, product development and other areas.

Mega for Major Industrial Customers

Mega markets and delivers complex, customised solutions to selected major industrial companies with operations in Europe. Customers primarily comprise groups with advanced energy systems and are mainly from energy-intensive industries such as pulp and paper, metals and mining. These customers have developed their own considerable expertise in the energy area. Vattenfall's role is to supplement and supply electricity and other energy solutions tailored to each customer's unique needs. The business is based on close cus-

customer relations and a sound knowledge of the electricity market as well as of the customer's own energy processes.

Mega is based in Sweden and in the Nordic market and has started to expand into Europe.

With its business focus, Mega adapts and develops unique solutions that can be applied to several of Mega customers' sites. One example is SCA's pulp and paper mill in Mannheim and SCA's kraft liner mill in Munksund. At these sites, in close co-operation, with the customer, Mega has identified a number of efficiency measures that have subsequently been implemented. Another noteworthy joint project is the optimisation of the recovery boiler at Domsjö Fabriker AB in Örnsköldsvik. Mega is also very actively involved in the outsourcing of the customer's energy supply. Mega is responsible for the production and supply of the customer's need for steam, electricity, compressed air etc. One example is Myllykoski Paper Oy in Finland, where a power plant was commissioned in 2001.

Trading

Portfolio management services are provided for Vattenfall's major electricity customers. Supply & Trading manages the service for the Group's Mega customers and for the Swedish and Finnish sales organisations.

Cross-border electricity trading via international cables has been satisfactory. The 600 MW link between Poland and Sweden, SwePol Link, is operating smoothly after some initial problems.

Through a contract, Vattenfall has access to 200 MW of transmission capacity in the Kontek cable between Zealand and northern Germany. Through its access to the transmission capacity, Vattenfall has developed trade in eco-labelled electricity on the Dutch market. Vattenfall sold its stake in Baltic Cable AB during the year.

Vattenfall's German trading company, Nordic Powerhouse, is now established on the market. So far, the German market has been characterised by substantial liquidity in short-term forward contracts while the sale of instruments with longer maturities has been comparatively limited.

In Great Britain, Vattenfall provides trading and risk management services, primarily focusing on independent electricity sales companies. In the Netherlands, Vattenfall Nederland BV has signed a two-year contract with Dutch Shell to deliver green electricity. The green electricity, which is a new product for Shell, will in turn be sold to household customers.

Electricity Sales to Customers in the Nordic Countries, 2001

SEK m	TWh, physical electricity trade	
	2001	2000
Bilateral agreements:		
- Sweden	46.6	53.1
- Finland	6.0	9.3
- Norway	5.4	0.8
- Denmark	0.6	0.6
Total	58.6	63.8

Heat Nordic Countries

Heat Nordic Countries (business unit Nordic Heat) provides thermal energy, district-heating and Ready Therm to the Nordic and Baltic countries. In 2001, 6.3 TWh of heat and 0.5 TWh of electricity were generated.

To maintain and increase cost-efficiency, it is essential to analyse each individual facility. Continuous development work is now under way where all underperforming assets will gradually be improved, closed down or sold off.

The heat sector is a growth area and, consequently offers significant opportunities to expand business. Heat generation in large facilities is

environmentally and economically efficient and this is a good basis upon which to offer customers competitive prices. More than 50 per cent of the fuel comprises biofuels. In addition, different types of waste are an important complement. Although the trend is towards the greater use of biofuels, taxes and charges could rapidly alter the situation. In the case of the heat business, it is very important that the decisions that are made to discourage or promote the use of certain fuels through tax controls should be sustainable decisions.

Heat Nordic Countries

SEK m	2001	2000
Net sales	2,590	1,951
- of which, intragroup	123	717
Operating profit	162	-63
Net assets	4,774	4,003
Number of employees, employee years, Dec. 31	575	525

Electricity Networks Nordic Countries

Electricity Networks Nordic Countries

SEK m	2001	2000
Net sales	7,924	7,551
– of which, intragroup	797	3 205
Operating profit	1,816	1,619
Net assets	15,889	19,291
Number of employees, employee years, Dec. 31	1,138	1,483



After the snowstorms at the beginning of the year, extensive work was conducted by all members of Vattenfall's network organisation.

Electricity Networks Nordic Countries comprises the Electricity Networks Sweden and Electricity Networks Finland business units. The business units have 903,000 and 354,000 network customers, respectively. In Sweden electricity networks comprise 16,000 km of regional networks (40-130 kV) and 154,000 km of local networks. In Finland, there are 1,400 km of regional networks and 56,500 km of local networks.

Sweden

The year 2001 started with a major interruption in parts of Vattenfall's Swedish network operations. 40,000 customers from western to eastern Sweden were without electricity supply for more than 8 hours. Following a similar major interruption the previous year, Vattenfall had already intensified work on improving both the quality of the networks as well as the level of customer service. During the year, Vattenfall was the first company in the industry to provide financial compensation to almost 5,000 customers who were without electricity for more than 24 hours in accordance with the terms of Vattenfall's service interruption guarantee.

After the power interruption at the beginning of 2001, even greater priority and added resources were given to work on improving vulnerable parts of the electricity network. The investment amounts to SEK 200 million per year, for a planning period of a number of years. Vattenfall in Sweden currently has a reliability rate of more than 99 per cent for the average Swedish customer. The ambitious long-term objective is to improve reliability even further.

The electricity network is most vulnerable in local rural areas. In Sweden, Vattenfall has about 110,000 km of power lines in rural networks and 60 per cent of these are surrounded by forest. With the plan of action currently underway, power line tracks are being broadened, clearing services are being improved and old plant is being replaced. Although the situation has already improved after the work conducted, it will take a couple of years until the programme is completed throughout Vattenfall's networks.

A major question for network operations is how regulatory supervision of the financial return on business should be organised. In Sweden,

the Swedish Energy Agency has presented a proposal for the introduction of a "grid value model" for the supervision of network companies. The purpose of the model is to objectively assess the extent to which the network tariffs are reasonable and to give companies a good incentive to operate networks as efficiently as possible. The model allows for investment in networks and for a return on network business as well as placing demands on supply performance. Based on the proposal, the government has submitted a bill to parliament concerning the introduction of the model.

Finland

Vattenfall is Finland's second largest network operators with 13 per cent of the customer base. In 2001, efficiency improvement continued with decisions made to merge activities into a single network company, Vattenfall Verkko Oy. One common network control centre (as opposed to the previous six) has been introduced for all of Vattenfall's network operations in Finland.

In November, severe snowstorms and autumn storms caused major service interruptions on two occasions, affecting many customers in Finland. Vattenfall's entire Finnish organisation was mobilised in the work of providing the customers with the best possible service and information on the situation.

Environment and Development

Within electricity network operations, R&D primarily aims at reducing the environmental hazards in the network. This includes the handling of oils in transformer stations and similar work.

The geographical distribution of the networks provides Vattenfall with business opportunities; for example, the installation of antennae for new mobile telecommunications systems such as the 3G networks.

Vattenfall's expanding network operations in Sweden, Finland, Germany and Poland provide good opportunities for mutual learning and the comparison of solutions. For Vattenfall, it is also important to pursue structural development work.

Services

In 2001, contracting services were re-organised in Sweden. Five companies merged into two – Vattenfall Service Nord and Vattenfall Service Syd. The consulting work has also been re-organised and all operational work is now being conducted within SwedPower AB. SwedPower International has been transformed into a marketing company for the international market.

The aim is to increase external customer contracts for both contracting and consulting. In 2001, external contracts in these areas accounted for 19 and 52 per cent, respectively, of net sales.

Vattenfall Utveckling AB has concentrated on supporting Vattenfall's R&D in the core business.

In Finland, Vattenfall has formed a joint contracting company with Finnish PVO. The company is called Empower and has about 1,600

employees. Vattenfall's stake in the company is 35 per cent.

Services aims to maintain long-term relationships with a number of important customers. This makes it possible to develop concepts and solutions in partnership with the customer. Business has developed favourably, but operations must meet tough demands on efficiency and cost-efficiency. In 2001 the personnel force, primarily within administration, was reduced to a certain extent.

Within Services, a trainee programme for installation technicians has been launched in order to provide for future employee resourcing needs in this area.

In the future, Services will also participate in the development of IT and communications services.

Services

SEK m	2001	2000
Net sales	2,938	2,832
– of which, intragroup	2,196	2,252
Operating profit	187	72
Net assets	228	131
Number of employees, employee years, Dec. 31	2,294	2,457

Other Business

In 2001, other business comprised non-core business as well as New Business. Arrowhead AB and Vattenfall Connection AB, service companies with certain external sales functions as well as companies in the Netherlands and Lithuania are included.

New Business was closed down in 2001. As a result of the low demand for “intelligent house” services, the business in Sensel AB was terminated in 2001. Within the area of broadband services Vattenfall operated through two companies, Arrowhead AB and Vattenfall Connection AB, in 2001. In view of the uncertain outlook, write-downs and provisions have been made in the accounts.

Product and business development have been restructured during the year and transferred to the sales units.

The policy of concentrating on core business in the Nordic countries, Germany and Poland has resulted in the divestment of certain businesses. Vattenfall's 51 per cent ownership stake in Nova Naturgas AB (previously Vattenfall Naturgas AB) was sold at mid-year to the other shareholders.

Vattenfall further divested its commitments and shareholdings in power expansion projects in South America and South-East Asia. The remaining businesses that are not included in the business units are the subsidiaries in the Netherlands, the Czech Republic and Lithuania.

The wholly-owned subsidiaries, Vattenfall Data and Vattenfall Support, supply services internally within the Vattenfall Group but also conduct certain sales externally. This applies to IT services and services for office operations, business administration and salary administration as well as consulting on communications and development. Other Business also includes the wholly-owned Vattenfall Fastigheter. Premises are rented out externally to achieve an efficient utilisation of resources. A number of properties, including the office property in Räcksta, were sold in 2001.

In total, the operating result for Other Business was SEK –1,730 million. The loss in New Business comprised SEK 1,316 million of this amount, mostly in the form of write-downs and liquidation costs.

Other Business

SEK m	2001	2000
Net sales	2,903	2,457
– of which, intragroup	1,122	811
Operating profit	–1,730	–880
Net assets	2,400	7,064
Number of employees, employee years, Dec. 31	1,033	1,244

Germany and Poland

Germany and Poland

SEK m	2001	2000
Net sales	32,752	2,495
– of which, intragroup	497	10
Operating profit	3,983	418
Net assets	49,733	11,460
Number of employees, employee years, Dec. 31	19,703	4,077

Vattenfall Europe

The extensive restructuring of the German energy market continued in 2001. Vattenfall made a major breakthrough on the German market during the year and has now established itself as a powerful competitor to the major players, E.ON and RWE. In 2001 Vattenfall acquired, directly and via its subsidiary, HEW, through a number of deals with E.ON and RWE, a majority shareholding in the three German companies, HEW (73.8 per cent), VEAG (through HEW, 81.3 per cent) and LAUBAG (through HEW, 92.5 per cent) and a minority stake in Bewag (through HEW, 44.8 per cent). In December 2001, an agreement was reached with Mirant enabling Vattenfall to acquire a further 44.8 per cent of Bewag. The acquisition was completed in February 2002, thereby giving the Vattenfall Group the majority ownership in all four companies.

Through these acquisitions, Vattenfall has laid the foundation for the development of the third largest energy group on the German market, Vattenfall Europe. This is an important milestone in Vattenfall's efforts to realise its vision of becoming a leading energy company in Europe.

Vattenfall Europe will initially have a generation capacity of just under 17,000 MW of electricity and just under 8,000 MW of heat. Electricity generation is expected to reach about 82 TWh and heat generation, 16 TWh per year. The number of electricity customers, primarily in Berlin and Hamburg, will be just over 3 million and the number of employees will be about 20,000. Net sales are estimated at just over EUR 7 billion (about SEK 60 billion). This corresponds to 60 per cent of the estimated net sales for the Group for 2002. The business in Germany will correspond to a half of the Group's electricity sales volume and just over 60 per cent of the personnel.

The process of integrating the acquired four companies into Vattenfall Europe was started during the second half of 2001.

In 2002 a new corporate, organisational and management structure will be introduced and Vattenfall Europe will be fully operative by the beginning of 2003. When the full effects of synergies and improvements in efficiency have been realised, cost reductions of approximately EUR 400–500 million per year are anticipated.

The organisation will comprise the holding company, Vattenfall Europe, with business units for generation, transmission, electricity networks, sales, trading and heat.

Vattenfall Europe will have the organisation and the financial strength required to meet the challenges and dynamism of the ongoing deregulation in order to provide a stable platform for Vattenfall's continued expansion.

Business 2001

In 2001, HEW, VEAG and LAUBAG were consolidated into the Group – HEW from the beginning of the year, VEAG from the middle of May and LAUBAG from mid-year.

During the year, the German market was characterised by low prices. In spite of the tough competition, only a few per cent of the end-customers changed electricity supplier.

HEW 2001

The Market

HEW has customers primarily in Hamburg as well as in other parts of Germany and Europe. The main products are electricity, district-heating and services.

In 2001, HEW's strategy was to retain its customers in Hamburg and to focus on new customers outside the city. Measures within the customer loyalty programme were successful. The most important of these is the HEW customer loyalty card, which has 460,000 cardholders. Only three per cent of the customers in Hamburg have changed from HEW to another electricity supplier.

For the third year in a row, HEW ranked first among the German energy companies in a customer friendliness survey.

Sales

In 2001, electricity sales comprised 16 TWh in physical supply. Financial contracts with industrial and corporate customers must be added to this amount. These contracts currently amount to 46 TWh, which is an increase from 14 TWh the previous year. The contracts are mainly managed by Nordic Powerhouse. HEW sells about 1.3 TWh of electricity per year in France. The number of household customers is about 1.1 million, of which just over a million are located in Hamburg. District-heating sales amounted to 4.1 TWh, which is an increase of 5 per cent. District-heating was delivered to 380,000 customers.

Generation

Electricity generation, including generation in partly-owned power plants, amounted to 14.8 TWh, of which 1.3 TWh comprised backpressure power. Electricity is generated in partly-owned nuclear power plants as well as coal-fired condensing and backpressure power plants. The installed capacity is 3,727 MW.

HEW has ownership stakes in four nuclear power plants, Brunsbüttel, Krümmel, Stade and Brokdorf. HEW's stake in the output of the nuclear power plants was 11.4 TWh in 2001, of which 5.8 TWh was in its subsidiary, Brunsbüttel. The remaining nuclear power generation is reported in the power balance shown on page 10 as bilateral purchases.

Personnel

At year-end, HEW had about 6,300 employees.

Environmental Responsibility and Development

HEW is supporting the development of new energy technology in Hamburg and is developing new business concepts in order to meet environment-related challenges. One example of a pilot project is the world's first combined heat and

power (CHP) application based on hydrogen-gas driven fuel cells. Within the scope of its development work, HEW is also engaged in trading in green certificates. HEW was the first European company to sell greenhouse gas reductions to a Canadian power company.

VEAG 2001

Generation and Sales

Electricity generation in VEAG amounted to just over 55 TWh (51) in 2001 and heat generation to about 5 TWh (3). The electricity generation included in the power balance for the Vattenfall Group applies to the period from May 16 – December 31, 2001 and amounts to 34 TWh.

In 2001 VEAG asserted its role as a leading electricity company in eastern Germany. The largest production facilities are the lignite power plants in Jänschwalde, Boxberg, Schwarze Pumpe and Lippendorf. Furthermore, VEAG operates nine hydro power plants and two gas turbines. In addition, the coal-fired power plant in Rostock feeds its production into VEAG's grid. The total power capacity is 10,166 MW.

Transmission

VEAG is the high-voltage grid operator in the five eastern states, with 10,570 km of power lines, of which 6,310 km are 380 kV and 4,260 km are 220 kV.

Personnel

In 2001, the work force totalled 5,700, which is a 3 per cent reduction from the previous year.

VEAG has extensive training programmes for apprentices and is the largest training institution in eastern Germany.

Investment Programme for an Improved Environment

An extensive investment programme has been under way since 1992 to upgrade VEAG's power plants and grid and make them the most modern in Europe. Of the programme's budgeted EUR 10 billion up to 2005, EUR 8 billion have so far been invested in power plants to improve efficiency and environmental data.

Vattenfall's Electricity Generation Capacity in Germany 2001*

Type of Power	Available power, MW electricity
Condensing, lignite	7,440
Condensing, coal	553
Condensing, oil/gas	1,000
Total fossil-fired condensing	8,993
Backpressure, coal	449
Gas turbines	962
Other (gas engines)	6
Total fossil-fired	10,410
Nuclear	1,622
Pump, hydro	1,861
Total	13,893

* Including participations in associated companies. Corresponding electricity generation is shown as purchases. From 2002, Bewag is included with an additional capacity of 3,000 MW of electricity.

The most important investment project now is the pump power plant, Goldistahl, in south-eastern Germany. With its 1,060 MW, Goldistahl will be the largest power facility of its kind in Germany.

LAUBAG 2001

Production

The Jänschwalde, Cottbus-Nord, Welzow-Süd, Reichwalde and Nochten open-cast mines produced 29.2 million tonnes of lignite in the second half of 2001, which is an increase of 3 per cent. Although most of the output goes to VEAG, about one million tonnes were sold to local power and heat companies. The production of briquettes etc. amounted to 0.7 million tonnes, which is on a par with yield for the same period the previous year.

Personnel

At year-end, LAUBAG had about 5,700 employees. According to an agreement between the management and the trade union organisations, redundancies will be implemented under socially acceptable forms.

Environmental Responsibility and Corporate Social Responsibility

As a mining company, LAUBAG has a particular responsibility for the environment. The aim is to reduce the environmental impact to a minimum. The lignite deposits shall be fully utilised within the limits that apply to coal mining so that mining is restricted to relatively small areas. Other raw materials such as silicon, sand, clay and boulders are also used for commercial purposes. Mining entails commercial and ecological water management. Once mining has ceased, areas are restored to cultivatable landscapes.



LAUBAG helps to build new villages when the local population must move as a result of the mining operations. The picture shows the Neu Geisendorf village under construction.

LAUBAG assumes social responsibility for those who must move due to the mining operations. LAUBAG conducts these relocations on the basis of legislative requirements, through political agreements and in consultation with the inhabitants of the villages concerned. Horno is one such village where all property-owners, except for one, have signed preliminary agreements with LAUBAG. A number of families live in Horno who belong to the Sorb ethnic group. Since this is a relatively small ethnic group, a total of about 60,000 individuals in south-eastern Germany, the Sorbs are considered to be particularly vulnerable in conjunction with the relocations. Several factors are taken into account in the relocations. Not only is the financial compensation which has to be paid according to law taken into consideration but above all the feasibility of preserving traditional societal structures and cultural capital, such as folklore, tradition and community identity, including the Sorb culture.

Bewag 2000/2001

From 2002, Bewag AG was consolidated into the Vattenfall Group.

Bewag, located in Berlin, owns 29 CHP plants which generate about 3,000 MW of electricity and 6,000 MW of heat. Electricity is distributed to some 2.2 million electricity customers via about 40,000 km of cable – most of it underground. Bewag's net sales for the financial year of 2000/2001 were just under EUR 2 billion (about SEK 18 billion). Electricity generation amounted to 11 TWh, heat generation to 9 TWh and physical electricity sales to 14 TWh. Bewag also conducts trading activities.

Vattenfall Poland

Vattenfall is the largest foreign player in Poland in the electricity and energy industries.

Vattenfall owns 55 per cent of Elektrociepłownia Warszawskie S.A. (EW). The employees have an option to sell their 15 per cent of the shares to Vattenfall. The remaining shares are owned by the Polish state. EW stands for 90 per cent of the district-heating production in Warsaw (25 per cent of the district-heating produced in Poland), or about 13 TWh per year and produces in addition, 3–4 TWh of electricity per year.

Vattenfall also owns 31.8 per cent of Poland's largest electricity distribution company, Gornoslaski Zakład Elektroenergetyczny S.A. (GZE) in Upper Silesia, south-western Poland. GZE has 1.1 million customers. The company sells and distributes about 11 TWh of electricity most of which is destined for use in heavy industry. The personnel have an option to sell their 15 per cent shareholding which, together with a new issue, could lead to Vattenfall's shareholding exceeding 50 per cent in 2003.

Vattenfall leads and manages the business in Poland through Vattenfall Poland which, since 2002, is a representative office in Warsaw.

In 2001, work started on the integration of the Polish companies into the Vattenfall Group. Major reconstruction programmes are underway in both EW and GZE and the co-operation between the two Polish companies has potential.

The market for major electricity consumers has been opened up to competition and GZE has managed to attract industrial customers outside its own geographical area.

Vattenfall's development in Poland is not progressing as planned, for three reasons: the

financial, legislative and regulatory situation. The Polish economy is in great difficulty. The electricity market is not effective as a result of regulatory application of the existing legislation and the deficiencies in this legislation. Authorities do not allow the price levels that are required for investors to achieve a reasonable return. A further problem is the lack of willingness to pay and the questionable solvency of certain customers.

Personnel

Considerable opportunities exist to rationalise operations since the personnel is generally well-educated, with many individuals possessing university degrees. Together, EW and GZE had about 7,000 employees in 2001, of which about 4,000 were with EW. As part of the ongoing process of reconstruction, efficiency must be improved through personnel reductions and relocations. This work is being achieved with the help of voluntary redundancy packages.

Environment and Responsibility

An investment programme to improve combustion methods which would reduce environmental impact is underway. Over the past few years, the total particle emissions in Warsaw has been reduced by 40 per cent as a result of investments in EW. One facility located in the centre of Warsaw with a poor environmental performance was closed down in 2001. The capacity of the remaining five will be upgraded through investment and will result in lower emissions in relation to production. Investments are also being made in GZE's electricity network.

ANNUAL ACCOUNTS 2001



Internationalisation was the theme of this year's Vattenfall symposium - the eighteenth held so far. The guest speakers were EU Commissioner Margot Wallström, Professor Bodil Jönsson and Chairman of the insurance and fund management company CGNU, P. G. Gyllenhammar.

Administration Report

The Board of Directors and President of Vattenfall AB (publ) (556036-2138) hereby submit the annual accounts and consolidated accounts for 2001 (pages 22–61).

GROUP

Net sales more than doubled to SEK 69 billion after acquisitions in Germany.

Operating profit increased by a total of about SEK 3.3 billion to SEK 10.0 billion. Operating profit excluding items affecting comparability improved by 78 per cent to SEK 8.8 billion. Items affecting comparability amounted to SEK 1.1 billion (1.7).

Profit before tax and minority interest increased by SEK 2.3 billion to SEK 7.5 billion, of which items affecting comparability comprised SEK 1.1 billion net (1.9).

Vattenfall's electricity generation in the Nordic countries increased by 13 per cent to 91.8 TWh (81.0). The improvement was mainly attributable to greater nuclear power generation. A total of 140.9 TWh was generated.

Essential Structural Changes

In 2001, through acquisitions and divestments, Vattenfall concentrated its business within the core geographical areas of the Nordic countries, Germany and Poland.

In Germany, through acquisitions, the Group has created a solid basis for becoming one of the leading players. The four companies now being integrated are Hamburgische Electricitäts-Werke AG (HEW), VEAG Vereinigte Energiewerke AG (VEAG), Lausitzer Braunkohle AG (LAUBAG) and Bewag AG. The majority stake in Bewag was acquired in February 2002.

Structural Transactions for Vattenfall's German Operations

In May, agreements were concluded with Sydkraft and E.ON Energie concerning the

acquisition of their stakes in HEW, corresponding to 21.8 per cent and 15.4 per cent, respectively, of the share capital. In exchange, in addition to about SEK 4.4 billion in cash, Vattenfall handed over the following assets, valued at SEK 4.7 billion: Shares in Forsmarks Kraftgrupp AB (8.5 per cent of the share capital), network operations in Östergötland, Vattenfall's ownership stake in the Norwegian companies, Hafslund ASA (21 per cent), Fredrikstad Energiverk (49 per cent), Fredrikstad Fjernvarme (35 per cent) and Fredrikstad Energinett (35 per cent) as well as Vattenfall's stake in Baltic Cable AB (33.3 per cent), LPC in Lithuania (11 per cent) and VCE in the Czech Republic (42 per cent). Vattenfall thereby became the majority shareholder in HEW.

In 2001, Vattenfall acquired, from external shareholders, additional shares in HEW, partly through a public offer in July-August. At year-end, Vattenfall's stake in HEW amounted to 73.8 per cent of the share capital. In addition to the shares owned by the City of Hamburg (25.1 per cent), 1.1 per cent of the share capital was on the free market at year-end.

In turn, in May 2001, HEW acquired 75 per cent in the production company, VEAG, situated in eastern Germany and 90 per cent of the mining company, LAUBAG, in July from the E.ON Energie and RWE power companies. At year end, HEW's direct and indirect ownership stakes in these companies were 81.3 and 92.5 per cent, respectively.

In August 2000, HEW signed an agreement to purchase E.ON Energie's shares in the Bewag AG energy company in Berlin. Certain divestments from HEW were part of the transaction, including its 17.5 per cent in Sydkraft AB and 61.9 per cent in the Hein-Gas company. The transaction was called into question by Bewag's US shareholder, Mirant Corporation (Mirant). In April 2001, Vattenfall, Mirant and HEW reached an agreement concerning the future

ownership of Bewag and agreed to integrate Bewag with HEW, VEAG and LAUBAG.

The agreement meant that Vattenfall (through HEW) and Mirant would hold stakes of equivalent size in Bewag.

In December, Vattenfall reached an agreement with Mirant's parent company to take over Mirant's shares in Bewag. The transaction was conducted in February 2002 and Vattenfall's stake is now 89.5 per cent of the shares with a voting power of 92.1 per cent.

In February 2002, an agreement was reached with the German authority, BvS, concerning an early final settlement of all currently valid demands for payment from the German state in connection with the agreement concerning the privatisation of VEAG and LAUBAG.

Other Structural Changes 2001

The hydro power plants that Vattenfall owned in the Motala river were sold at the beginning of 2001 to Tekniska verken i Linköping.

In February, Vattenfall acquired 31.8 per cent of the shares in the Polish distribution company, Gornoslaski Zaklad Elektroenergetyczny (GZE). The employees have a put option for their 15 per cent of the shares which, together with a new share issue, could bring Vattenfall's stake to over 50 per cent by 2003.

In March, Vattenfall made a public offer to the remaining shareholders in Arrowhead AB to acquire their shares. Vattenfall's ownership stake in Arrowhead increased during the year by 41 per cent to 94 per cent. Compulsory redemption of the outstanding shares is still underway. Vattenfall has preferential rights to all of the shares. Due to the uncertain outlook of the broadband segment, the value of the shares have been written down in the parent company's balance sheet.

In Sweden, in July, Vattenfall sold its 63 per cent in AB Ryssa Elverk in exchange for Birka Energi's wholly-owned AB Kallströmmen with its subsidiary AB Avesta Elnät, which has 14,200 customers.

At the beginning of July, Vattenfall also sold its 51 per cent stake in Nova Naturgas AB (previously Vattenfall Naturgas AB) to the other shareholders.

As a part of Vattenfall's strategy of focusing on its core business and concentrating on the northern European market, the Group sold its assets in South-East Asia and South America in 2001.

In Finland, during the year, Vattenfall sold its stake in the production companies, Etelä-Pohjanmaan Voima (11 per cent) and Päijät-Hämeen Voima (29 per cent).

In Norway, at the beginning of the year, Vattenfall owned 49 per cent of the sales company, Oslo Energi AS, via its subsidiary Vattenfall Norge AS. In June 2001, Vattenfall Norge AS acquired the remaining 51 per cent from E-CO Energi AS (previously Oslo Energi Holding) which held a put option. In December, Vattenfall Norge AS and the subsidiary, Oslo Energi AS, were sold to Hafslund ASA. At the same time, Vattenfall became a shareholder in Hafslund ASA. An agreement concerning the sale of these shares was reached in February 2002.

In December, the electricity sales company, Plusenergi AB, in which Vattenfall has a 50 per cent stake, reached an agreement to purchase the electricity sales part of Borås Energi AB.

Personnel

The average number of employees amounted to 23,814 (13,123). Salaries and remuneration amounted to SEK 8,842 million (3,551). At year-end, the number of employees, expressed in terms of full-year employees, was 28,657, of which 7,989 were in Sweden. Additional information concerning the average number of employees, salary costs as well as remuneration to senior management is provided in Note 32.

Research and Development (R&D)

Vattenfall's business units conduct R&D as an integral part of their operations. As a supplement

to these activities, a long-term R&D work programme is also being carried out for the Group. The Group Function Strategies is responsible for this programme and for co-ordinating all R&D for the Group.

In 2001, R&D work corresponded to SEK 564 million (481), of which SEK 357 million (273) was conducted within Svensk Kärnbränslehantering AB. R&D costs represented 0.9 per cent (1.5) of net sales.

Environmental Impact within the Group and Parent Company

Operations conducted by the Group in Sweden requiring a permit mainly concern nuclear power plants used for electricity generation, combustion facilities used for electricity and heat generation and wind power plants used for electricity generation. The main environmental impact from nuclear power plants is the generation of radioactive waste. The main impact of the combustion facilities is emissions of carbon dioxide and acidifying substances.

In Sweden, the Group also conducts water operations, hydro power generation, that require a permit under the Environmental Code. The Group conducts network operations for the distribution and transmission of electricity under concession. The main environmental impact from hydro power and network activities as well as peat extraction is land use.

As with network operations, the generation of electricity in nuclear and hydro power plants is an essential part of operations unlike other operations requiring a permit.

Operations conducted by the Group in Sweden requiring a permit is carried out in the parent company as well as subsidiaries. The parent company has just over 100 activities requiring a permit and more than 50 activities which must be reported under the Environmental Code. The parent company also has several of the Group's facilities that, under the Environmental Code, are water operations requiring a permit.

There is nothing to indicate that the Group's and parent company's operations could be subjected to a re-evaluation which would have a material impact on business.

During the year, no major accidents resulting in an environmental impact occurred within the Group. On a few occasions, minor incidents led to a limited environmental impact.

The Group conducts operations outside Sweden which require a permit under non-Swedish national legislation. Heat and power generation in combustion facilities in Poland and Germany, as well as in the case of Germany, electricity generation in nuclear power plant and lignite mining are significant operations of this type.

PARENT COMPANY

Net sales for the parent company amounted to SEK 21,875 million (17,405). Net profit for the year amounted to SEK 2,002 million (3,362). Investments amounted to SEK 19,275 million (14,865). Liquid assets were SEK 124 million (123) while funds in the group account managed by Vattenfall Treasury AB, amounted to SEK 6,978 million (5,115).

Vattenfall AB is wholly owned by the Swedish state.

BOARD OF DIRECTORS

Vattenfall AB's Board of Directors comprises ten members and five alternates, of which three members and three alternates are appointed by the trade unions. The President has been a member of the Board since April 26. The secretary of the Board is employed by Vattenfall AB.

In 2001, the Board held 11 meetings, of which 7 were scheduled, 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. Work is also influenced by the rules of procedure. The Board meets with the company's auditors every year.

Risk Management

The Group's risk management and reporting are co-ordinated by a risk management committee, led by the Chief Financial Officer.

FINANCIAL RISK MANAGEMENT

In its day-to-day work, the Vattenfall Group is exposed to risk, mainly due to market price fluctuations, which can have an impact on the income statement and balance sheet. This primarily applies to electricity and fuel prices as well as to interest and foreign exchange rates. The 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 the criteria set for counterparties, liquidity and availability of funds.

As a result of the acquisitions in Germany and Poland, projects are underway to implement Vattenfall's control model and to co-ordinate risk management and limits throughout the Group.

Risk Control

Timely identification, reporting, follow-up and monitoring are essential to all risk management. The risk control unit participates in the work on establishing frameworks and guidelines, formulating risk policies and determining methods for the evaluation and measurement of risk. Internal security and control are given high priority. Trading portfolios are controlled on a daily basis with respect to risk and profit. The risk control unit reports on a continuous basis to the Executive Group Management concerning the Group's risks and exposures.

Measurement Methods for Risks

In 2001, risk management work was further

developed. Models and methods are to be harmonised throughout the Group. The focus is on applying monetary risk measures that are in accordance with practice on the financial market. Since no single measure can capture all of the risks, several models are used. One of these models is Value at Risk.

Energy Trading Risk

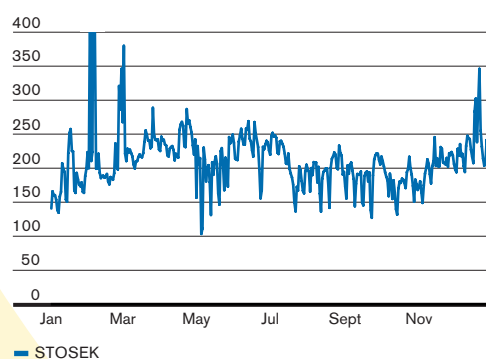
The electricity price is a critical factor in Vattenfall's financial development. To manage the risks that naturally result from Vattenfall's dependency on the electricity price, a risk policy has been formulated that clearly defines which Vattenfall unit is responsible for each specific type of risk. The management of the Group's energy trading risks with respect to the external market is the task of the energy trading centres that are represented in Stockholm and in Hamburg (Nordic Powerhouse). These centres provide all of Vattenfall's operational units with an efficient service for hedging their risk exposures, thereby allowing the units to focus on their core business.

Electricity Price Risk

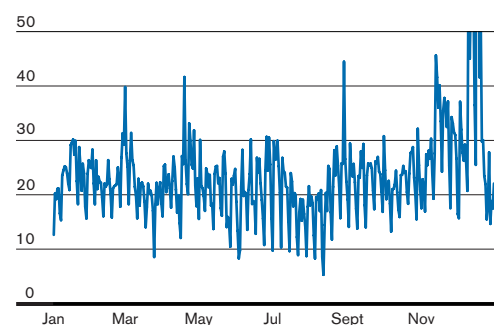
The price on the electricity market is determined on the basis of supply and demand, and this leads to fluctuations in the price. The electricity price risk is managed through different types of derivatives, with maturities from one day to one year. These are traded bilaterally between different participants, via brokers or power exchanges.

The price of electricity in the Nordic region is highly dependent on the weather and largely dependent on precipitation and on the supply of water in the reservoirs. In continental Europe, on the other hand, the electricity price is largely determined by fuel prices (gas and oil).

Spot Price, Price Area Sweden 2001, SEK/MWh



Spot Price, Germany, Area DE 2001, EUR/MWh



Volume Risk

Volume risk arises when Vattenfall's customers consume more or less electricity on a given occasion, compared with the forecasted demand. This risk is managed by developing and refining methods for the calculation of customers' electricity needs.

Area Risk

Area risk arises when there is insufficient capacity to deliver electricity between different geographical areas. This can lead to a deviation between the price area and the system price. Area risk is managed through area swaps.

Refinancing 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. To minimise the refinancing risk, the aim is to achieve an even spread of maturities and a long average maturity in the loan portfolio. Long-term availability of funds is measured in terms of the average remaining maturity of the portfolio. The aim is for the average remaining maturity to exceed 5 years. At December 31, the average remaining maturity was 3.9 years (5.2). The maturity profile of Vattenfall's loans is shown in the diagram to the right.

To safeguard the availability of funds, three commercial paper programmes, one Polish bond programme and two Medium Term Notes (MTN) programmes have been established. Together, these provide considerable flexibility in the selection of financing forms and loan markets. The distribution of the total loan debt per type of loan is shown in the diagram to the

right. At year-end, Vattenfall had about SEK 23.4 billion in available funds in different types of confirmed credit lines, of which about SEK 2.6 billion were utilised.

Rating

After Vattenfall's ratings were placed on "Credit Watch" and "Review" respectively, both Standard & Poor's and Moody's confirmed in February 2002 Vattenfall's previous single A rating but with "Outlook negative". For long-term and short-term borrowing, Vattenfall has A-/A-2 from Standard & Poor's and A3/P-2 from Moody's.

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 2.5 years. At December 31, 2001, the average fixed interest rate term was 1.6 years.

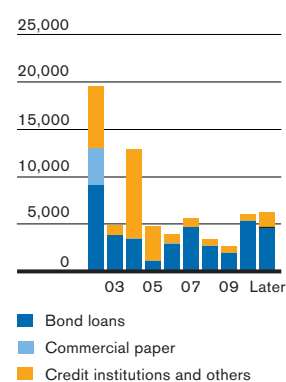
Liquid assets and investment assets amounted to SEK 33.0 billion. The investment assets are in the German companies.

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 the value of the net assets of foreign subsidiaries (translation exposure).

The Group's receipts and payments are mainly in local currencies which means that the transaction exposure is limited. In operations in the Nordic countries, currency risk exposure mainly arises in connection with the hedging of electricity prices on Nord Pool and with other counterparties. This exposure is primarily in NOK although DKK and EUR also occur. Other trans-

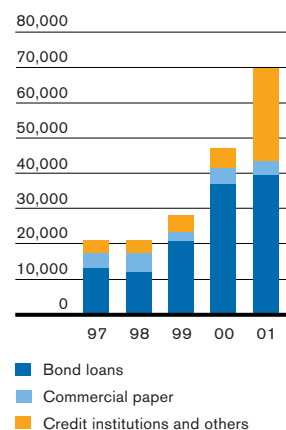
Maturity profile, SEK m *



Loans maturing in 2002 include SEK 966 million in arbitrage.

* Excl. loans from minority shareholders.

Total borrowings, SEK m *

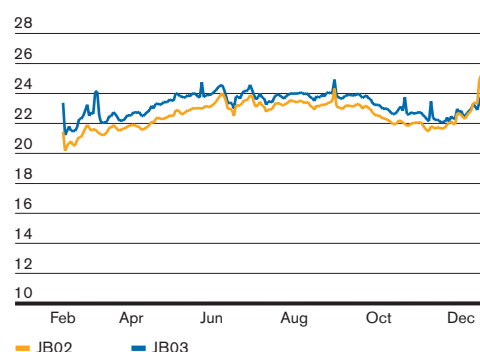


* Excl. loans from minority shareholders.

Forward Contract Prices in Sweden for Annual Contracts 02 and 03, SEK/MW



Forward Contract Prices in Germany for Annual Contracts 02 and 03, EUR/MW



action exposure is primarily attributable to fuel purchases in USD. 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.

Transaction exposure in the Group's units is hedged by or through Vattenfall Treasury's services. In turn, Vattenfall Treasury manages the currency risk exposure within a fixed risk limit for interest rates and currencies. Translation risk exposure in the balance sheet comprises the foreign subsidiaries' assets minus the liabilities and, through acquisitions in Germany and Poland, it has increased during the year. The Group's policy is that translation risk exposure should not be hedged as a rule. Accumulated translation differences in equity amount to SEK 1,329 million (324).

**Consolidated Operating
Income/Expenses per Currency
(%)**

Currency	Income	Expenses
EUR	46	47
SEK	44	37
PLN	5	6
NOK	3	6
Other	2	4
Total	100	100

The figures were calculated on the basis of a statistical compilation of external operating income/expenses. Changes in inventory and investment are not included.

Counterparty Risk

Counterparty risks associated with electricity trading, investments, derivative contracts etc. are managed within the limits set on the basis of external credit ratings. Furthermore, before entering into long-term swap agreements, an International Swaps and Derivatives Association, Inc. (ISDA) agreement or equivalent must be signed with the counterparty (see Glossary, page 64). Counterparty risks in derivatives are constantly quantified through mark-to-market valuations as well as a standard mark-up for future value changes.

OPERATIONAL RISK

Operational risk is defined as the risk of incurring damage or loss due to deficiencies in the company's administrative procedures or systems that support them. Examples may include unreliable IT systems, deficiencies in internal reporting systems or lack of transparency in the allocation of responsibilities.

Each business unit is responsible for limiting and managing operational risk through well-documented procedures, reliable IT systems and satisfactory internal controls.

PLANT RISK

The Group's safety policy emphasises that the Group must have an adequately balanced safety level in relation to the threats and risks in its

business activities. Units and companies must conduct active safety-related work to protect the employees, property, business and profit.

The plant risks are mainly associated with power and heat generation as well as network operations and primarily concern dam safety in connection with hydro power plant operation in Sweden and Finland, nuclear power plant operation in Sweden and Germany and the operation of conventional thermal power plants in Germany and Poland.

During periods of very high water flows, dams and power plants are exposed to extra stresses. Swedish dams are built to withstand these stresses. A special dam safety organisation in Vattenfall works continuously with risk assessment.

Dam spillways have so far been designed for the highest measured floods in rivers with a margin of 10-20 per cent, the so-called 100-year flood. A proposal from Flödeskommittén (Swedish design flood committee), of which Vattenfall is a member, states that all spillways and dams over the next few years should be designed for considerably higher floods, the 10,000-year flood.

A special organisation also exists for nuclear power plant safety. Since the commissioning of the nuclear power plants, risks have been systematically analysed and improvements are continuously introduced under the supervision of the Swedish Nuclear Power Inspectorate and the Swedish Radiation Protection Authority.

Insurance

The European nuclear power companies have formed a mutual insurance company, EMANI, in which Vattenfall has been a member since 1993. The corresponding organisation for the US nuclear power operators is NEIL with its European subsidiary ONEIL. Cover for the cost of the decontamination of plant property as well as other property damage including events leading to business interruption is provided via a joint insurance policy through EMANI and ONEIL.

Third party insurance cover for fixed amounts is provided, in accordance with the Swedish Nuclear Liability Act, by a consortium comprising EMANI, ONEIL and others.

In Sweden, the liability for damage to third parties as a result of dam accidents is strictly unlimited. Vattenfall, and other hydro power producers, have therefore taken out dam liability insurance for damage for up to NOK 5 billion.

Insurance against normal business interruption and property damage in Sweden is provided by Vattenfall Insurance (see below).

Cover for corresponding risks in Finland, Germany and Poland is provided locally through conventional company insurance.

ENVIRONMENTAL RISK

With the companies acquired in Germany and Poland, operations with new environmental profiles are now included in the Vattenfall Group. Consequently, work was started in 2001 to review the environmental risk situation within the Group.

Vattenfall owns contaminated property which must be remediated after previous activities. In the German companies, provisions have been made for this purpose. In Poland, site remediation is included in the investment programme to which Vattenfall made a commitment in connection with the acquisition. In Sweden, sites exist that were contaminated in connection with the expansion of hydro power in the 1950's and 1960's. The remediation programme is expected to be completed by 2010.

Vattenfall is actively following new findings in environmental research in order to be able to incorporate suitable measures in advance into its planning. For several years, a number of employees have been working on issues relating to climate effects.

POLITICAL RISK

The generation and distribution of electricity and heat is a capital-intensive business with long depreciation periods. Consequently, it is vital that political decisions taken to promote or discourage certain activities or the use of certain types of fuel, through tax control etc, should be sustainable. Otherwise, in spite of sound calculations, it may be difficult to justify an investment in new facilities.

For an efficient electricity market, it is equally important that the harmonisation of conditions between countries should continue. Consequently, Vattenfall is directly and via trade organi-

sations, actively involved in various international organisations as are the system operators within the framework of their own co-operation organisations. One concrete problem is the Swedish tax on nuclear power which does not exist in other countries. In Vattenfall's assessment, this situation is a long-term threat to Sweden's electricity supply.

ORGANISATION

Supply & Trading

In the Nordic countries, energy market trading is conducted by the energy trading centres in Stockholm. Nordic Powerhouse in Hamburg is responsible for trading in continental Europe, focusing on the German and Dutch energy markets. The function of these trading centres is to ensure that the other operational units within the Group have continuous access to price risk hedging instruments on the energy market on the best possible terms. Vattenfall is currently a market maker on Nord Pool and LPX.

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. So far, the German and Polish companies have conducted independent financial management, although borrowing has been co-ordinated with Vattenfall Treasury. The centralised treasury function allows the units within the Group to focus on their core business.

Vattenfall Insurance

Vattenfall Insurance is a captive company which insures the Group's risks, primarily by issuing property and business interruption insurance. Vattenfall Insurance also issues certain other types of special insurance that support the business.

Vattenfall Insurance reinsures some of the risks in Vattenfall Reinsurance S.A., a captive company in Luxembourg which, in turn, obtains reinsurance on the international market. Through economies of scale and direct access to the international insurance market, the overall insurance cost can be kept at a low level.

Consolidated Income Statement

SEK million	Note	2001	2000
Net sales	1, 2	69,003	31,695
Cost of products sold	4, 5	-52,408	-23,484
Gross profit		16,595	8,211
Selling expenses		-3,564	-1,741
Administrative expenses		-5,133	-2,417
Research and development costs		-616	-574
Other operating income		5,104	3,933
Other operating expenses		-2,938	-1,382
Participations in the results of associated companies	6	511	658
Operating profit	7	9,959	6,688
Result from other long-term securities held	9	259	204
Other interest income and similar profit/loss items	10	1,973	833
Interest expense and similar profit/loss items	11	-4,737	-2,536
Profit before tax and minority interest		7,454	5,189
Tax	13	-2,167	-1,757
Minority interest in the profit for the year	14	-1,097	-462
Net profit for the year		4,190	2,970

	Q1 2001	Q1 * 2001 pro forma	Q2 2001	Q2 * 2001 pro forma	Q3 2001	Q4 2001	Q4 2000
Net sales	11,559	17,712	20,067	13,914	15,140	22,237	9,640
Cost of products sold	-7,704	-12,724	-16,415	-11,395	-12,754	-15,535	-7,449
Gross profit	3,855	4,988	3,652	2,519	2,386	6,702	2,191
Selling expenses, research and development costs and administrative expenses	-1,175	-1,809	-2,567	-1,933	-1,549	-4,022	-1,477
Other operating income-expenses, net	412	530	809	691	915	30	-784
Participations in the results of associated companies	248	96	-171	-19	-520	954	359
Operating profit	3,340	3,805	1,723	1,258	1,232	3,664	289
Financial income	253	816	1,143	580	589	247	476
Financial expenses	-779	-1,110	-1,324	-993	-1,441	-1,193	-794
Profit before tax and minority interest	2,814	3,511	1,542	845	380	2,718	-29
Tax	-844	-1,157	-463	-150	-66	-794	-296
Minority interest in the profit for the period	14	-116	-519	-389	-324	-268	84
Net profit for the period	1,984	2,238	560	306	-10	1,656	-241

* Reflects the situation that would exist if HEW had been consolidated as of January 1, 2001. The pro forma has been prepared since HEW, in the interim report for the 1st quarter, was reported in accordance with the equity method. VEAG and LAUBAG were consolidated from May 16 and July 1, 2001, respectively.

Profit Areas

SEK million	Net sales		Operating profit/loss	
	2001	2000	2001	2000
Generation Nordic Countries	22,266	15,934	6,099	4,930
Market Nordic Countries	19,492	16,503	-511	634
Heat Nordic Countries	2,590	1,951	162	-63
Electricity Networks Nordic Countries	7,924	7,551	1,816	1,619
Services	2,938	2,832	187	72
Germany and Poland	32,752	2,495	3,983	418
Other Business	2,903	2,457	-1,730	-880
Other and eliminations	-21,862 *	-18,028 *	-47	-42
Total	69,003	31,695	9,959	6,688

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

COMMENTS

Net Sales and Performance

Net sales increased by 118 per cent to SEK 69,003 million (31,695). The net sales figure does not include financial trading. The increase is mainly attributable to the net sales of the acquired companies, HEW, VEAG and LAUBAG. Together, these companies accounted for SEK 31,498 million of the increase in net sales. The share of net sales outside Sweden increased to 56 per cent (27).

Operating expenses amounted to SEK 61,721 million, which is an increase of SEK 33,505 million, mainly attributable to acquired companies. The German companies accounted for SEK 29,205 million of the increase. The cost of products sold increased by SEK 28,924 million while selling expenses, research and development costs as well as administrative expenses increased by SEK 4,581 million. Depreciation amounted to SEK 10,830 million (5,477). The dissolution of negative goodwill amounted to SEK 2,539 million.

Operating profit increased to SEK 9,959 million (6,688). Operating profit was positively affected by SEK 1,137 million (1,719) in items affecting comparability which comprised SEK 2,224 million in capital gains, SEK -1,318 million in capital losses and SEK 231 million in income from US leases in Germany. Operating profit excluding items affecting comparability therefore increased by SEK 3,853 million. Administrative expenses have increased by SEK 2,716 million, primarily as a result of acquired companies. Operating profit as a percentage of net sales (operating margin) decreased to 14.4 per cent (21.1). The operating margin, excluding items affecting comparability amounted to 12.8 per cent (15.7).

Financial income and expenses – net, amounted to SEK -2,505 million (-1,499). Interest coverage was 2.6 times (3.1).

Profit before tax and minority interest increased to SEK 7,454 million (5,189), of which items affecting comparability comprised SEK 1,127 million (1,852). Profit as a percentage of net sales (pre-tax profit margin) was 10.8 per cent (16.4). The pre-tax profit margin, excluding items affecting comparability was 9.2 per cent (10.5).

Taxes amounted to SEK -2,167 million (-1,757).

Net profit for the year increased by 41 per cent to SEK 4,190 million (2,970), resulting in a return on equity after actual tax of 11.8 per cent (8.9). Net profit for the year excluding items affecting comparability amounted to SEK 3,651 million (1,414).

Profit Areas

Generation Nordic Countries

Net sales amounted to SEK 22,266 million

(15,934). Operating profit increased by SEK 1,169 million to SEK 6,099 million. The improvement is due to increased electricity sales to the power exchange at a higher price as well as reduced costs. A total of 38.9 TWh of hydro power (39.6) and 52.3 TWh of nuclear power (40.6) was generated. Sales to the power exchange amounted to 26.0 TWh (13.0).

Market Nordic Countries

Net sales improved by SEK 2,989 million to SEK 19,492 million. Operating profit decreased by SEK 1,145 million to SEK -511 million, which is primarily attributable to the higher price of acquired electricity. The volume sold amounted to 58.6 TWh (63.8) of electricity and 1.2 TWh (1.1) of heat.

Heat Nordic Countries

Net sales amounted to SEK 2,590 million (1,951). Operating profit increased by SEK 225 million to SEK 162 million. The increase is primarily attributed to acquisitions. The volume sold amounted to 4.9 TWh of district-heating (3.1) and 1.4 TWh of Ready Therm (1.3), a total of 6.3 TWh (4.4).

Electricity Networks Nordic Countries

Net sales amounted to SEK 7,924 million (7,551). Operating profit increased to SEK 1,816 million (1,619). The transmission volume amounted to 117 TWh (114).

Services

Net sales increased by SEK 106 million to SEK 2,938 million. Operating profit improved by SEK 115 million to SEK 187 million. The improvement is mainly attributable to the restructuring of the Finnish contracting operations and the high capacity utilisation in the Swedish.

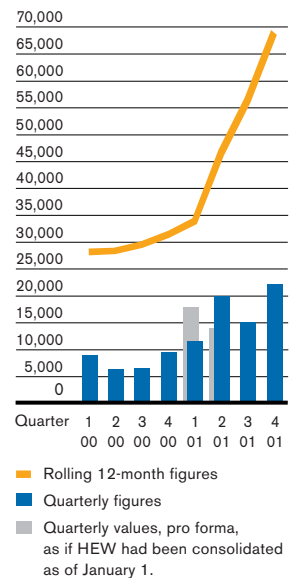
Germany and Poland

Net sales amounted to SEK 32,752 million (2,495). Operating profit increased by SEK 3,565 million to SEK 3,983 million. The improvement is mainly attributable to the acquisitions of HEW, VEAG and LAUBAG. In Germany, the volume sold amounted to 5.1 TWh of district-heating and 51.7 TWh of electricity. The volume sold in Poland amounted to 12.8 TWh of district-heating and 3.5 TWh of electricity.

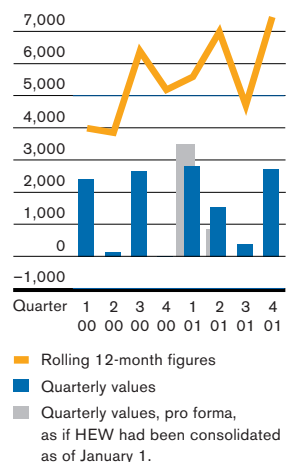
Other Business

Net sales amounted to SEK 2,903 million (2,457). Operating profit declined by SEK 850 million to SEK -1,730 million, which is mainly attributable to operating losses in Arrowhead and Sensel.

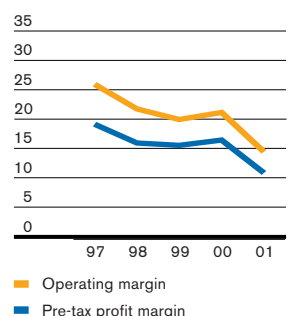
Net Sales, SEK m



Profit before Tax and Minority Interest, SEK m



Operating and Pre-tax Profit Margins, %



Consolidated Balance Sheet

SEK million	Note	Dec. 31, 2001	Dec. 31, 2000
Assets			
FIXED ASSETS			
Intangible assets			
Concessions, patents, licences, trademarks and similar rights	15	546	512
Renting and similar rights	15	1,159	1,091
Goodwill	15	973	1,390
Total intangible assets		2,678	2,993
Tangible assets			
Land and buildings	16	29,970	19,364
Plant and machinery	16	118,726	44,770
Equipment, tools, fixtures and fittings	16	1,637	937
Construction in progress	16	8,479	2,958
Advance payments for tangible assets	17	172	60
Total tangible assets		158,984	68,089
Financial assets			
Participations in associated companies	18, 19	23,021	13,267
Receivables from associated companies	17	2,184	1,654
Other securities held as fixed assets	18, 19	19,449	1,019
Other long-term receivables	17	8,681	3,173
Total financial assets		53,335	19,113
Total fixed assets		214,997	90,195
CURRENT ASSETS			
Inventories etc	20	6,567	5,558
Current receivables	21	27,139	11,963
Investments		6,202	5,176
Cash and bank balances		4,138	2,367
Total liquid assets		10,340	7,543
Total current assets		44,046	25,064
Total assets		259,043	115,259
Equity, provisions and liabilities			
Equity	23		
Restricted equity			
Share capital		6,585	6,585
Revaluation reserve		—	277
Equity method reserve		157	636
Other restricted reserves		19,154	15,979
Non-restricted equity			
Non-restricted reserves		9,492	8,927
Net profit for the year		4,190	2,970
Total equity		39,578	35,374
Minority interests in equity		19,080	4,985
Provisions	24	90,956	13,979
Long-term interest-bearing liabilities	25	58,420	41,116
Long-term non-interest-bearing liabilities	26	1,599	878
Total long-term liabilities		60,019	41,994
Current interest-bearing liabilities	27	30,113	9,551
Current non-interest-bearing liabilities	28	19,297	9,376
Total current liabilities		49,410	18,927
Total equity, provisions and liabilities		259,043	115,259
Pledged assets	29	285	709
Contingent liabilities	30	10,733	11,232
Commitments under consortium agreements	See note 31		
US Leases	See note 30		

COMMENTS

Financial Position

Assets

Tangible assets increased by SEK 90,895 million to SEK 158,984 million. The increase is largely due to the acquisitions of HEW, VEAG and LAUBAG. The investments amounted to SEK 7,454 million (4,426).

Participations in associated companies amounted to SEK 23,021 million, which is an increase of SEK 9,754 million. The increase is mainly attributable to investments in Bewag AG.

Current receivables increased by SEK 15,176 million and amount to SEK 27,139 million.

Liquid assets amounted to SEK 10,340 million (7,543), which corresponds to 15.0 per cent (23.8) of net sales. SEK 22,647 million in investment assets at HEW and LAUBAG must be added. Liquid assets comprise SEK 966 million (1,374) in interest arbitrage transactions with refinancing risk. During the year, the average volume of liquid assets was about SEK 8,600 million (6,200). Of this amount, about SEK 1,200 million (1,600) comprised investments concerning interest arbitrage transactions.

Equity, Provisions and Liabilities

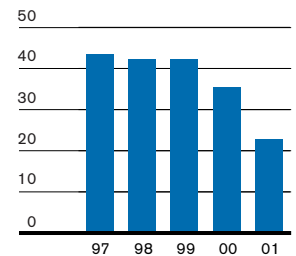
Risk capital for the Group, namely equity including minority interest amounted to SEK 58,658 million, which is an increase of SEK 18,299 million. Equity for the Group amounted to SEK 39,578 million (35,374). The equity/assets ratio was 22.7 per cent (35.4).

Provisions increased by SEK 76,977 million to SEK 90,956 million, which is primarily attributable to company acquisitions (see also Note 24).

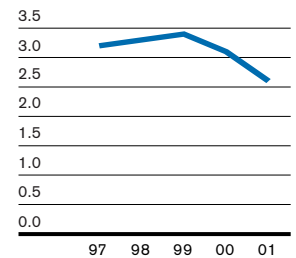
Interest-bearing liabilities increased by SEK 37,866 million to SEK 88,533 million. The increase is primarily attributable to the consolidation of HEW's and VEAG's liabilities. Of the total interest-bearing liabilities, SEK 18,148 million concern liabilities to minority shareholders and associated companies. Net borrowing for the Group amounted to SEK 55,736 million (43,311).

Current non-interest-bearing liabilities increased by SEK 9,921 million to SEK 19,297 million. The increase is largely due to company acquisitions.

Equity/assets ratio, %



Interest coverage, times



Consolidated Cash Flow Statement

SEK million	2001	2000
OPERATING ACTIVITIES		
Funds from operation (FFO) *	13,148	5,830
Cash flow from changes in operating assets and operating liabilities	-2,706	301
Cash flow from operating activities	10,442	6,131
INVESTING ACTIVITIES		
Investments **	-43,443	-23,840
Divestments ***	20,459	1,810
Cash flow from investing activities	-22,984	-22,030
Cash flow before financing activities	-12,542	-15,899
FINANCING ACTIVITIES		
Contribution from minority interest	—	331
Acquired/sold liquid assets and interest-bearing liabilities, net	2,351	1,027
Dividend paid	-1,784	-1,580
Increase in interest-bearing receivables and liabilities, net ****	14,532	18,866
Cash flow from financing activities	15,099	18,644
Translation differences	240	-62
Change in liquid assets	2,797	2,683
CHANGE IN NET BORROWING		
Net borrowing at the beginning of the year	-43,311	-27,415
Cash flow after dividend	-11,975	-16,121
Translation differences from net borrowing	-450	225
Net borrowing at the end of the year *****	-55,736	-43,311

* **Funds from operation (FFO)**, namely net profit for the year adjusted for the following non-cash items.

	2001	2000
Net profit for the year	4,190	2,970
<i>Non-cash items:</i>		
Depreciation	10,830	5,477
Dissolution of negative goodwill	-2,539	—
Compensation for Barsebäck	—	-1,979
SPP refund	—	-426
Participation in the results of associated companies	903	-388
Unrealised foreign exchange gains	-211	-3
Unrealised foreign exchange losses	171	6
Capital gains	-2,232	-583
Capital losses	1,318	461
Write-down of shares	113	209
Change in interest receivable	-53	-406
Change in interest payable	120	5
Change in provisions	179	-561
Change in income tax liability	-738	586
Minority interest in profit for the year	1,097	462
	13,148	5,830

** **Investments**

	2001	2000
Acquisition of group companies	16,675	10,035
Investments in associated companies and other long-term securities held	19,085	9,042
Investments in tangible fixed assets	7,454	4,426
Investments in intangible fixed assets	229	337
	43,443	23,840

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

*** **Divestments**

	2001	2000
Divestment of tangible and intangible fixed assets	1,938	1,145
Divestment of shares and participations	18,521	665
	20,459	1,810

Interest paid amounted to SEK 4,468 million (1,826) and interest received amounted to SEK 1,826 million (310). Taxes paid amounted to SEK 2,905 million (1,171).

COMMENTS

Operating Activities

Cash flow from operating activities before changes in operating assets and liabilities increased by SEK 7,318 million to SEK 13,148 million. Cash flow from operating activities amounted to SEK 10,442 million (6,131). The increase is due to the increase in funds from operation (FFO).

Investing Activities

The Group's investments amounted to SEK 43,443 million (23,840), of which growth investments, namely company acquisitions, and expansion investments in fixed assets amounted to SEK 38,478 million (20,759). Company acquisitions amounted to SEK 35,760 million (19,077).

Acquisitions of group companies accounted for SEK 16,675 million (10,035), associated companies SEK 18,186 million (8,880) and other long-term securities, SEK 899 million (162).

SEK 7,454 million (4,426) was invested in tangible fixed assets.

SEK 1,935 million (1,359) was invested in electricity generation facilities and in electricity network facilities, SEK 1,885 million (1,256). Within the heat area – district-heating, Ready Therm and combined heat and power – the investments amounted to SEK 2,051 million (1,308). The remaining investments primarily concerned investments in equipment, tools, fixtures and fittings. Expansion investments in fixed assets amounted to SEK 2,719 million (1,681). Germany and Heat Nordic Countries accounted for the majority.

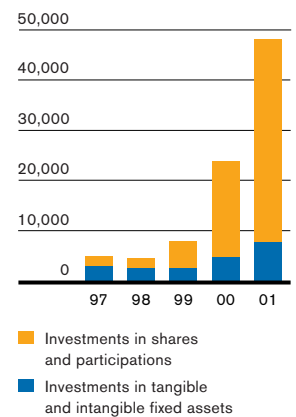
The profit areas of Market Nordic Countries, Electricity Networks Nordic Countries and Other Business mainly accounted for the divestment of tangible fixed assets.

SEK 229 million (337) was invested in intangible assets.

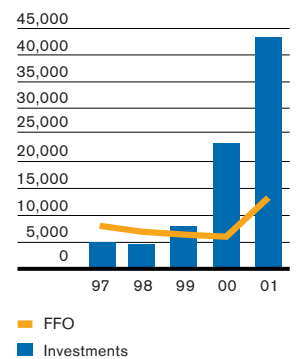
Financing Activities

The net debt, namely interest-bearing debt and provisions minus financial assets and liquid assets increased by SEK 12,425 million to SEK 55,736 million. The increase is mainly due to investments.

Investments, SEK m



Self-financing, SEK m



**** Change in interest-bearing receivables and liabilities, net

	2001	2000
Increase in borrowing	55,193	29,261
Repayment of debt	-18,014	-10,395
Increase in interest-bearing receivables	-22,647	0
	14,532	18,866

***** Net borrowing

	Dec. 31, 2001	Dec. 31, 2000
Interest-bearing liabilities and provisions	-88,723	-50,854
Long-term investment assets (see Note 19)	17,696	0
Current investment assets (see Note 21)	4,951	0
Liquid assets	10,340	7,543
	-55,736	-43,311

Parent Company Income Statement

SEK million	Note	2001	2000
Net sales	1, 3	21,875	17,405
Cost of products sold	4	-15,501	-13,970
Gross profit		6,374	3,435
Selling expenses		-772	-629
Administrative expenses		-1,257	-1,097
Research and development costs		-156	-218
Other operating income		790	552
Other operating expenses		-352	-603
Operating profit	7	4,627	1,440
Result from participations in group companies	8	-2,626	1,717
Result from participations in associated companies	6	272	173
Result from other long-term securities held	9	-32	-193
Other interest income and similar profit/loss items	10	1,152	1,067
Interest expense and similar profit/loss items	11	-2,039	-1,438
Group contributions		2,646	1,524
Profit before appropriations and tax		4,000	4,290
Appropriations	12	-874	-127
Profit before tax		3,126	4,163
Tax		-1,124	-801
Net profit for the year		2,002	3,362

Parent Company Cash Flow Statement

SEK million	2001	2000
OPERATING ACTIVITIES		
Net profit for the year	2,002	3,362
Adjustment for the effects of non-cash items	6,187	-595
Cash flow from operating activities before changes in operating assets and liabilities (funds from operation)	8,189	2,767
Cash flow from changes in operating assets and liabilities	3,701	10,319
Cash flow from operating activities	11,890	13,086
INVESTING ACTIVITIES		
Investments in group companies, associated companies and other long-term securities	-18,411	-14,122
Investments in tangible and intangible fixed assets	-809	-743
Divestment of tangible fixed assets	353	643
Divestment of shares and participations	4,565	582
Cash flow from investing activities	-14,302	-13,640
Cash flow before financing activities	-2,412	-554
FINANCING ACTIVITIES		
Proceeds from borrowings	3,403	2,129
Dividend paid	-990	-1,500
Cash flow from financing activities	2,413	629
Cash flow for the year	1	75
LIQUID ASSETS		
Liquid assets at the beginning of the year	123	48
Cash flow for the year	1	75
Liquid assets at the end of the year	124	123

Interest paid amounted to SEK 2,015 million (1,397) and interest received to SEK 1,116 million (999). Tax paid amounted to SEK 1,385 million (587).

Parent Company Balance Sheet

SEK million	Note	Dec. 31, 2001	Dec. 31, 2000
Assets			
FIXED ASSETS			
Intangible assets			
Concessions, patents, licences, trademarks and similar rights	15	96	1
Renting and similar rights	15	593	624
Goodwill	15	1	—
Total intangible assets		690	625
Tangible assets			
Land and buildings	16	11,676	11,871
Plant and machinery	16	5,798	5,858
Equipment, tools, fixtures and fittings	16	52	61
Construction in progress	16	825	560
Total tangible assets		18,351	18,350
Financial assets			
Participations in group companies	18, 19	31,659	26,481
Receivables from group companies	17	2,525	2,447
Participations in associated companies	18, 19	2,692	1,513
Receivables from associated companies	17	1,837	1,397
Other securities held as fixed assets	18, 19	802	443
Other long-term receivables	17	850	1,510
Total financial assets		40,365	33,791
Total fixed assets		59,406	52,766
CURRENT ASSETS			
Inventories etc.	20	49	88
Current receivables	21	17,029	15,270
Cash and bank balances	22	124	123
Total current assets		17,202	15,481
Total assets		76,608	68,247
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		6,367	4,982
Net profit for the year		2,002	3,362
Total equity		16,270	16,245
Untaxed reserves	12	11,065	10,192
Provisions	24	139	159
Long-term interest-bearing liabilities			
25			
Long-term non-interest-bearing liabilities	26	3,514	4,977
Total long-term liabilities		29,451	27,380
Current interest-bearing liabilities			
27			
Current non-interest-bearing liabilities	28	14,958	11,935
Total current liabilities		19,683	14,271
Total equity, provisions and liabilities		76,608	68,247
Pledged assets			
29			
Contingent liabilities	30	77,918	73,682
Commitments under consortium agreements	31		

Accounting Policies and Valuation Principles

General

The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act, with the Swedish Financial Accounting Standards Council's recommendations and with the Council's Emerging Issues Task Force's statements, unless otherwise stated below.

From the 2001 annual accounts, the following new recommendations, issued by the Swedish Financial Accounting Standards Council, are being applied for the first time: RR9 Income Taxes, RR10 Contract Work and Similar Engagements, RR11 Income, RR12 Tangible Fixed Assets, RR13 Associated Companies and RR14 Joint Ventures. The implications and impact of these new recommendations on Vattenfall's accounts are described below.

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 year-end.

The consolidated accounts have been prepared in accordance with the Swedish Financial Accounting Standards Council Recommendation, RR1:96.

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. In connection with acquisitions, a market valuation is made of the acquired company's assets and liabilities. Deferred tax is taken into account in the surplus values except for water rights which are also not amortised. Remaining differences in relation to the acquisition price are reported as goodwill or negative goodwill. Negative goodwill concerns expected future losses and expenses that cannot be reported as identifiable liabilities at the time of acquisition. Negative goodwill is reported as a provision in the consolidated balance sheet and is further treated in Note 24, below. The intention is to dissolve such negative goodwill as future losses and restructuring costs arise. A continuous assessment of future losses and expenses for restructuring will be conducted.

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 divestment.

The accounts of foreign subsidiaries are translated in accordance with the Vattenfall Group's accounting policies and valuation principles. However, pension commitments in foreign subsidiaries acquired during the year are translated and valued in accordance with IAS 19, Employee Benefits.

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 based on the Swedish Financial Accounting Standards Council's Recommendation RR13, which means that the accounting policy is unchanged compared with the previous year. In the consolidated balance sheet, the book value of the shareholding is adjusted by Vattenfall's participation in the company's result after tax minus the amortisation of surplus values.

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

Foreign Currencies

When preparing the consolidated accounts, all items in the income statements of foreign subsidiaries 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 the net profit/loss for the year, are translated at the exchange rates prevailing at year-end (closing rates). The differences arising through the translation of balance sheets are reported directly against equity. 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.

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	
		2001	2000	Dec. 31, 2001	Dec. 31, 2000
Denmark	DKK	1.2432	1.1378	1.2665	1.1870
Finland	FIM	1.5579	1.4263	1.5842	1.4890
Norway	NOK	1.1489	1.0462	1.1835	1.0715
Germany	DEM	4.7360	4.3360	4.8159	4.5285
Poland	PLN	2.5069	2.1154	2.6900	2.3000
USA	USD	10.3467	9.1844	10.6680	9.5350
Euro	EUR	9.2629	8.4805	9.4190	8.8570

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. (See also "Taxes" below).

In the parent company, Vattenfall AB, untaxed reserves are disclosed on the balance sheet as a separate item, which includes the deferred tax liability. On the parent company's 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 - Accounting for Income

Operating income is reported at the time of delivery, excluding value-added tax and excise duties, primarily energy tax. Connection fees, namely the fee paid by a customer when he or she is connected to the electricity network, are carried as revenue at the time of connection. Consulting and contracting are carried out on a cost plus and fixed price basis. Work at cost plus is recognised as revenue as invoices are issued, while the percentage of completion method is applied to the fixed price work. Provisions for probable debts are made in the accounts, valued at the company's cost price. Contract work and similar engagements are thereby accounted for in accordance with the Council's recommendation RR10 which means that the accounting policy is unchanged compared with the previous year.

Energy Derivatives

Vattenfall is an active participant on the energy derivative market in Scandinavia through its trading on Nord Pool and on the OTC market through bilateral contracts. Trading conducted for the purpose of hedging price risk in generation or sales volumes is reported in accordance with the prudence principle, namely gains are reported when realised and losses are reported when incurred. Daily valuations are conducted to monitor the value of contracts.

Research and Development

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

Depreciation and Amortisation

Depreciation is calculated on a straight-line basis over the estimated useful life of an asset. Depreciation 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 maintenance investment in nuclear power plants.

** 25–35 years for local distribution networks.

Intangible fixed assets are amortised over the estimated useful life, although no longer than the length of any underlying agreement. Goodwill acquired before 1997 is amortised over no more than 10 years, while goodwill acquired in 1997 and after is amortised over no more than 5 years with certain exceptions.

Fixed Assets

Intangible and tangible fixed assets are valued at cost (acquisition value) plus revaluation less accumulated depreciation. Revaluations are reported taking into account deferred tax. The cost of large plants, built by the Group, includes interest accrued during the construction period. The application of the Council's

recommendation RR12 has not entailed any changes in accounting policy compared with previous years.

Inventories etc

Inventories are valued at the lower of cost or net realisable 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

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. Work in progress is accounted for in accordance with the Council's recommendation RR10 which does not entail any changes in accounting policy compared with the previous year.

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. Unrealised losses are set off against unrealised 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 was 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 organised within pension plans and insurance schemes which are standard in the markets where Vattenfall operates. This applies to employees at the Swedish companies and to some employees at foreign subsidiaries. The provision reported in the balance sheet has been calculated using customary actuarial methods.

The entire Swedish pension liability 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. At year-end 2001, the Pension Fund comprised 18 group companies as participants which had dissolved their pension liabilities in accordance with the Pension Liabilities Act through payments into the Fund.

The majority of the pension commitments in the companies in Germany acquired in 2001 are commitments classified as benefits. The pension provisions for these acquired companies were calculated on an actuarial basis in accordance with the Projected Unit Credit Method, IAS 19. Consequently, a balance sheet provision is calculated for these commitments as well as an annual cost based on the present value of the future benefit earned. The interest for related annual pension costs calculated by a method other than that which is customary in Sweden, is included in operating expenses.

Other Provisions

Other provisions are liabilities where the maturity or size of the amount is uncertain. Provisions are made for known commitments or probable risks based on an assessment in each case. Provisions are made according to the estimated present value of the commitments at balance sheet date. In addition to provisions for pension commitments, provisions are made, for example, in Germany by the companies themselves for future nuclear waste management expenses. On the other hand, the Swedish power plants do not make corresponding provisions. Instead, they pay a fee to the Nuclear Waste Fund for future nuclear waste management expenses (see Note 24).

Taxes

From 2001, the Council's recommendation RR9 has been applied for income tax accounting. The application of RR9 entails a change in accounting policy in accordance with the Council's recommendation RR5. The consolidated balance sheet at December 31, 2000 has been restated to include the effects of deferred tax assets/liabilities. The effect of the restatement is reported directly against equity.

According to RR9, the temporary differences that sometimes exist with respect to the time of taxation and the measurement of certain events between tax legislation and generally accepted accounting principles must be taken into account. Temporary differences can occur between taxable profit and reported profit as well as between the value of assets and liabilities for tax assessment purposes and the reported value. A deferred tax liability is reported in cases where recovery or settle-

ment of the amount will lead to the reduction of future taxes. Deferred tax assets and tax liabilities are valued at the applicable tax rate at balance sheet date in the particular country without discounting.

Temporary differences in shares in subsidiaries have not been taken into account in the parent company financial statements since the return from these is expected to be reinvested.

The Group's tax expense is estimated as the sum of the year's current and deferred tax.

Leasing

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

Notes to the Accounts

Amounts in SEK million unless otherwise specified.

Note 1 – Net sales

	2001	Group 2000	Parent company 2001	2000
Sales including indirect taxes	71,570	33,373	22,880	18,363
Indirect taxes	-2,567	-1,678	-1,005	-958
Net sales	69,003	31,695	21,875	17,405

Net sales by profit area

	2001	Group 2000	Parent company 2001	2000
Generation Nordic Countries	22,266	15,934	19,665	13,972
Market Nordic Countries	19,492	16,503	25,596	23,205
Heat Nordic Countries	2,590	1,951	891	930
Electricity Networks Nordic Countries	7,924	7,551	24	28
Services	2,938	2,832	27	276
Germany and Poland	32,752	2,495	—	—
Other Business	2,903	2,457	855	67
Other and eliminations	-21,862	-18,028	-25,183	-21,073
Total	69,003	31,695	21,875	17,405

Sales in Sweden accounted for 44 per cent (73) of net sales, Germany/Poland for 46 per cent (10) and the rest of the world, 10 per cent (17).

Note 2 – Income from contracting

During the year, income from contract work amounted to SEK 503 million (442). The total amount of expenditure for contract work and reported gains (less deductions for reported losses) for work-in-progress at balance sheet date amounted to SEK 66 million (20).

Related advance payments amounted to SEK 17 million (0). SEK 20 million (11) in expenditure for contract work and reported gains (less deductions for reported losses) are reported as an asset on the balance sheet.

Note 3 – Intra-group transactions

Transactions with group companies accounted for 14 per cent (14) of the parent company's total income from sales and 47 per cent (68) of its total purchase costs.

Note 4 – Cost of products sold

Direct costs include SEK 3,312 million (1,996) in production taxes and duties for the Group and SEK 229 million (196) for the parent company as well as SEK 555 million (517) in property taxes for the Group and SEK 275 million (279) for the parent company. The cost also includes a total of SEK 1,400 million in interest relating to annual pension costs, nuclear power provisions and other provisions in the German companies.

Note 5 – Cost of nuclear waste management

	2001	Group 2000
Fees to Nuclear Waste Fund		
– own high-level waste *	525	453
– SVAFO **	79	57
Provisions for the future expenses of managing low and intermediate-level waste	69	50
Total	673	560

* 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 in Sweden 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 fulfil the obligations in (a) and (b).

During 2001, SEK 588 million (512) 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 20,676 million (20,079).

** 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 in Sweden 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	
	2001	2000	2001	2000
Share of profits	264	509	—	—
Dividends	—	—	15	17
Capital gains/losses on divestments	247	149	257	156
Total	511	658	272	173

Note 7 – Depreciation

	Group		Parent company	
	2001	2000	2001	2000
Cost of products sold	10,374*	5,187*	617	702
Selling expenses	179	112	10	20
Administrative expenses	271	174	2	15
Research and development costs	6	4	—	—
Total	10,830	5,477	629	737

* Of which, the amortisation of goodwill/surplus values amounts to SEK 576 million (416).

Note 8 – Result from participations in group companies

	Parent company	
	2001	2000
Dividends *	4,719	1,887
Shareholder's contribution	—	—
Write-downs *	-5,113	-266
Capital gains/losses on divestments	-2,232	96
Total	-2,626	1,717

* The amount includes a repaid shareholder's contribution of SEK 3,612 million (200), which was previously reported as an asset as well as an SEK 1,268 million write-down of shares in Arrowhead.

Note 9 – Result from other long-term securities held

	Group		Parent company	
	2001	2000	2001	2000
Dividends	227	167	10	5
Yield from German investment funds	129	—	—	—
Write-downs	-87	-208	-26	-200
Capital gains/losses on divestments	-10	245	-16	2
Total	259	204	-32	-193

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

	Group		Parent company	
	2001	2000	2001	2000
Interest income	1,880	716	1,116*	999*
Exchange gains	93	117	36	68
Total	1,973	833	1,152	1,067

* Interest income from subsidiaries amounts to SEK 481 million (639). Operations-related exchange gains for the Group amount to SEK 537 million (77).

Note 11 – Interest expense and similar profit/loss items

	Group		Parent company	
	2001	2000	2001	2000
Interest expense	4,588	2,461	2,015*	1,397*
Exchange losses	149	75	24	41
Total	4,737	2,536	2,039	1,438

See also Note 4 concerning interest relating to provisions in the German companies.

* Interest expense to subsidiaries amounts to SEK 1,848 million (1,322). Operations-related exchange losses for the Group amount to SEK 348 million (32).

Note 12 – Appropriations and untaxed reserves

Parent company 2001	Transfer to/ from (-)		
	Jan. 1		Dec. 31
Accelerated depreciation	6,496	-128	6,368
1996 tax allocation reserve	363	-363	0
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
2002 tax allocation reserve	—	1,365	1,365
Total	10,191	874	11,065

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 2000: SEK -336 million in accelerated depreciation was dissolved, SEK 463 million was transferred to the 2001 tax allocation.

Note 13 – Taxes

Profit before taxes and minority interests in profit for the year amounted to:

	2001	Group 2000
Sweden, group companies	3,889	4,446
Sweden, associated companies	-289	215
Other countries, group companies	3,054	86
Other countries, associated companies	800	442
Total	7,454	5,189

The reported tax expense is allocated as follows:

	2001	Group 2000
Current tax		
Sweden	1,221	889
Other countries	1,881	616
Deferred tax		
Sweden	-373	218
Other countries	-562	34
Total	2,167	1,757

The year's tax expense attributable to profit for previous years as well as deferred tax reported directly against equity is allocated as follows:

	2001	Group 2000
Tax attributable to previous years	-138	63
Tax reported directly against equity	—	-254

The difference between the nominal Swedish tax rate and the effective tax rate is explained as follows:

Per cent	2001	Group 2000
Swedish income tax rate	28.0	28.0
Difference in tax rate in non-Swedish operations	12.1	8.5
Value adjustment of loss carry-forwards	5.8	2.6
Non-deductible expenses and non-deductible income, net	-14.9	-6.3
Other	-1.9	1.1
Tax in accordance with the income statement	29.1	33.9
Tax reported directly against equity	—	-4.9
Effective tax rate *	29.1	29.0
<i>Tax rate, current tax **</i>	<i>41.6</i>	<i>29.0</i>

* Tax expense in accordance with the consolidated income statement in relation to profit before tax and minority interest.

** Tax expense in accordance with the consolidated income statement excluding reported deferred tax in relation to profit before tax and minority interest.

Accumulated tax loss carry-forwards are allocated as follows:

	2001	Group 2000
Sweden	1,000	95
Other countries	7,016	—
Total	8,016	95

Deferred tax liability and deferred tax asset refer to the following balance sheet items:

Deferred tax liability	2001	Group 2000
Fixed assets	27,819	13,180
Current receivables	11	12
Provisions and long-term liabilities	1,115	8
Current liabilities	-20	—
Loss carry-forwards etc.	-33	—
Total	28,892	13,200

Deferred tax assets	2001	Group 2000
Fixed assets	864	97
Current receivables	153	—
Provisions and long-term liabilities	2,079	25
Current liabilities	124	10
Loss carry-forwards etc.	2,915	122
Total	6,135	254

Note 14 – Minority interest in profit for the year

	2001	Group 2000
Minority interest in profit before tax	1,375	508
Minority interest in tax	-278	-46
Total	1,097	462

Note 15 – Intangible fixed assets

	Concessions and similar rights		Renting and similar rights		Goodwill		Total 2000	
	2001	2000	2001	2000	2001	2000		
GROUP								
Acquisition values								
Acquisition values brought forward	1,050	909	1,688	952	2,389	947	5,127	2,808
Companies acquired	1,447	135	183	753	1,215	1,334	2,845	2,222
Investments	62	3	76	6	90	328	228	337
Sales/Disposals	-92	—	-2	-28	-188	-284	-282	-311
Reclassifications	-4	—	-9	—	140	—	127	—
Companies sold	—	-4	-69	—	-1,497	—	-1,566	-4
Translation difference	26	7	11	5	115	64	152	75
Accumulated acquisition values carried forward	2,489	1,050	1,878	1,688	2,264	2,389	6,631	5,127
Accumulated depreciation according to plan								
Depreciation brought forward	-538	-415	-597	-197	-999	-643	-2,134	-1,255
Companies acquired	-373	-14	-44	-25	-32	-142	-449	-181
Depreciation for the year	-1,038 *	-107	-86**	-378**	-492	-484***	-1,616	-969
Sales/Disposals	13	—	—	6	162	284	175	290
Companies sold	—	1	3	—	105	—	108	1
Translation differences	-7	-3	5	-3	-35	-14	-37	-20
Accumulated acquisition values carried forward	-1,943	-538	-719	-597	-1,291	-999	-3,953	-2,134
Residual value according to plan carried forward	546	512	1,159	1,091	973	1,390	2,678	2,993
PARENT COMPANY								
Acquisition values								
Acquisition values brought forward	198	198	789	817	—	—	987	1,015
Investments	142	—	—	—	13	—	155	—
Sales/Disposals	—	—	—	-28	—	—	—	-28
Accumulated acquisition values carried forward	340	198	789	789	13	—	1,142	987
Accumulated depreciation according to plan								
Depreciation brought forward	-197	-192	-165	-139	—	—	-362	-331
Accumulated depreciation on fixed assets purchased from group companies	-44	—	—	—	-11	—	-55	—
Depreciation for the year	-3	-5	-31	-34	-1	—	-35	-39
Sales/Disposals	—	—	—	8	—	—	—	8
Accumulated depreciation carried forward	-244	-197	-196	-165	-12	—	-452	-362
Residual value carried forward	96	1	593	624	1	—	690	625
Accumulated accelerated depreciation	—	—	-590	-620	—	—	-590	-620
Book value	96	1	3	4	1	—	100	5

* Including an SEK 587 million write-down.

** Including an SEK 2 million (302) 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	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
GROUP										
Acquisition values										
Acquisition values brought forward **	30,964	27,827	92,676	71,945	4,085	3,521	2,958	1,632	130,683	104,925
Companies acquired	19,417	4,179	148,746	18,672	4,588	813	5,331	539	178,082	24,203
Investments ***	207	156	1,023	365	383	269	5,122	3,358	6,735	4,148
Transfer from construction in progress	417	241	4,660	2,660	70	12	-5,147	-2,913	—	—
Sales/Disposals	-1,113	-1,134	-3,219	-1,008	-612	-516	-39	-14	-4,983	-2,672
Reclassifications	-295	-57	50	-210	-1	-25	117	323	-129	31
Companies sold	-40	-542	-1,802	-720	-46	-20	-39	-25	-1,927	-1,307
Translation differences	384	294	4,753	972	-212	31	190	58	5,115	1,355
Accumulated acquisition values carried forward	49,941 *	30,964 *	246,887	92,676	8,255	4,085	8,493	2,958	313,576	130,683
Accumulated depreciation according to plan										
Depreciation brought forward	-11,750	-9,569	-48,701	-36,668	-3,148	-2,630	—	—	-63,599	-48,867
Companies acquired	-6,124	-1,832	-71,161	-9,004	-3,551	-607	—	—	-80,836	-11,443
Depreciation for the year	-1,105	-641	-7,377	-3,449	-596	-366	—	—	-9,078	-4,456
Sales/Disposals	370	279	1,781	659	530	482	—	—	2,681	1,420
Reclassifications	13	-4	-127	115	4	-12	—	—	-110	99
Companies sold	14	162	1,399	241	28	8	—	—	1,441	411
Translation differences	-405	-145	-2,644	-595	152	-23	—	—	-2,897	-763
Accumulated depreciation carried forward	-18,987	-11,750	-126,830	-48,701	-6,581	-3,148	—	—	-152,398	-63,599
Revaluations										
Revaluations brought forward	150	65	795	846	—	—	—	—	945	911
Companies acquired	—	80	—	—	—	—	—	—	—	80
Write-downs for the year of previous revaluations	-1	-1	-26	-51	—	—	—	—	-27	-52
Other changes	-4	—	1	—	—	—	—	—	-3	—
Companies sold	—	—	-756	—	—	—	—	—	-756	—
Translation differences	9	6	—	—	—	—	—	—	9	6
Accumulated revaluations carried forward, net	154	150	14	795	—	—	—	—	168	945
Write-downs										
New companies	-1,024	—	-964	—	-36	—	-1	—	-2,025	—
Write-downs for the year	-162	—	-369	—	-1	—	-12	—	-544	—
Sales/Disposals	70	—	8	—	—	—	—	—	78	—
Other changes	—	—	—	—	—	—	-1	—	-1	—
Translation differences	-22	—	-20	—	—	—	—	—	-42	—
Write-downs carried forward	-1,138	—	-1,345	—	-37	—	-14	—	-2,534	—
Residual value according to plan carried forward	29,970	19,364	118,726	44,770	1,637	937	8,479	2,958	158,812	68,029

* Includes a non-depreciable cost of land and water rights amounting to SEK 13,032 million (9,525).

** Government grants received at Jan. 1: SEK 3,416 million (2,968).

*** Government grants received during the year: SEK 1,009 million (448).

Cont'd

	Land and buildings		Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
PARENT COMPANY										
Acquisition values										
Acquisition values brought forward **	16,447	16,936	11,117	11,086	230	293	560	411	28,354	28,726
Investments	2	96	16	12	13	19	678	616	709	743
Transfer from construction in progress	88	115	325	334	—	—	-413	-449	—	—
Sales/Disposals	-103	-700	-196	-315	-45	-82	—	-18	-344	-1,115
Accumulated acquisition values carried forward	16,434*	16,447*	11,262	11,117	198	230	825	560	28,719	28,354
Accumulated depreciation according to plan										
Depreciation brought forward	-4,576	-4,440	-5,259	-4,977	-169	-206	—	—	-10,004	-9,623
Depreciation for the year	-239	-256	-339	-403	-16	-39	—	—	-594	-698
Sales/Disposals	57	120	134	121	39	76	—	—	230	317
Accumulated depreciation carried forward	-4,758	-4,576	-5,464	-5,259	-146	-169	—	—	-10,368	-10,004
Residual value according to plan carried forward	11,676	11,871	5,798	5,858	52	61	825	560	18,351	18,350
Accumulated accelerated depreciation	—	—	-5,726	-5,816	-52	-61	—	—	-5,778	-5,877
Book value	11,676	11,871	72	42	0	0	825	560	12,573	12,473

* Includes a non-depreciable cost of land and water rights amounting to SEK 6,773 million (6,787).

** Government grants received, at Jan. 1: SEK 0 million (2).

Tax assessment values (Swedish real-estate)

	Group		Parent company	
	2001	2000	2001	2000
Buildings	73,115	64,837	33,839	32,932
Land	28,147	24,301	20,676	20,263
Total	101,262	89,138	54,515	53,195

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	
	2001	2000	2001	2000	2001	2000	2001	2000
GROUP								
Balance brought forward	60	285	—	—	1,654	1,687	3,173	1,272
Acquired companies	110	28	—	—	252	—	757	134
New advances/receivables	111	40	—	—	461	1,333	111	1,419
Deferred tax asset	—	—	—	—	—	—	6,135	254
Payments received	—	—	—	—	-181	-1,372	-714	-2
Write-downs/Write-offs	—	—	—	—	—	—	-24	-2
Companies sold	—	—	—	—	—	—	-5	59
Translation differences	2	—	—	—	—	9	6	—
Reclassifications	-111	-293	—	—	-1	-3	-758	39
Balance carried forward	172	60	—	—	2,184	1,654	8,681	3,173
PARENT COMPANY								
Balance brought forward	—	57	2,447	38	1,397	909	1,510	135
New advances/receivables	—	—	28	2,447	440	490	12	1,397
Payments received	—	—	-23	-38	—	—	-672	—
Reclassifications	—	-57	73	—	—	-2	—	-22
Balance carried forward	—	—	2,525	2,447	1,837	1,397	850	1,510

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	
	2001	2000	2001	2000	2001	2000
GROUP						
Balance brought forward	—	—	13,267	5,223	1,019	1,549
Acquired companies	—	—	19,029	8,011	27,972	94
Investments	—	—	3,269	154	1,524	162
New issues and shareholders' contributions	—	—	15	—	168	—
Divestments	—	—	-11,906	—	-7,839	-321
Reclassifications	—	—	-995	-324	-3,109	7
Change in value, associated companies	—	—	-297	425	—	—
Write-downs	—	—	-74	—	-266	-208
Companies sold	—	—	—	-184	-22	-262
Translation differences	—	—	713	-38	2	-2
Balance carried forward	—	—	23,021	13,267	19,449	1,019
PARENT COMPANY						
Balance brought forward	26,481	12,987	1,513	1,527	443	594
Investments	2,357	6,469	2,149	151	774	49
New issues	1,307	6	—	—	—	—
Shareholder's contributions made *	11,824	7,430	—	—	—	—
Divestments *	-5,197	-165	-970	-162	-389	—
Mergers of shareholdings	—	17	—	—	—	—
Reclassifications	—	3	—	-3	—	—
Write-downs	-5,113**	-266**	—	—	-26	-200
Balance carried forward	31,659	26,481	2,692	1,513	802	443

* Shareholder's contributions made and divestments mainly refer to restructuring within the Group.

** The amount includes a repaid shareholder's contribution of SEK 3,612 million (200), 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
Arrowhead AB (publ)	556463-7683	Östersund	94	150,531,351	0
Elektrociepownie Warszawskie S.A.	38 440	Warsaw	55	11,346,500	2,056
Energibolaget Botkyrka-Salem Försäljn. AB	556014-7406	Botkyrka	100	24,000	90
Forsaströms Kraft AB	556010-0819	Åtvidaberg	100	400,000	109
Forsmarks Kraftgrupp AB	556174-8525	Östhammar	66	198,000	198
Försäkrings AB Vattenfall Insurance	516401-8391	Stockholm	100	200,000	200
Gestrikekraft AB	556476-9858	Stockholm	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	1,256
Ringhals AB	556558-7036	Varberg	74	300,000	457
Roden Energi Försäljning AB	556497-8699	Östhammar	100	10,000	13
Sensel AB	556573-5965	Stockholm	100	300,000	30
Ström A/S	250526	Gentofte	100	80,000	17
Svensk Kärnbränslehantering AB *	556175-2014	Stockholm	36	360	0
SwedPower AB	556383-5619	Stockholm	100	12,500	15
SwedPower International AB	556192-6212	Stockholm	100	4,000	12
Säffle Årjäng Elnät AB	556499-8671	Säffle	100	8,500	189
Säffle Årjäng Energi AB	556499-8689	Säffle	100	8,000	22
VGS Hydro International AB	556417-0750	Stockholm	100	8,000	10
Vattenfall Bråviken AB	556507-8572	Nyköping	100	200	70
Vattenfall Brånse AB	556440-2609	Stockholm	100	100	96
Vattenfall Connection AB	556528-4816	Sundsvall	100	2,500	348
Vattenfall Data AB	556439-0614	Stockholm	100	100	10
Vattenfall Deutschland GmbH **	(HRB) 62659	Hamburg	100	2	10,486
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	6
Vattenfall Fastigheter AB	556438-5952	Sundsvall	100	100	120
Vattenfall Generation Services AB	556013-1574	Stockholm	100	150,000	16
Vattenfall Norrnät AB	556437-8502	Luleå	100	100	283
Vattenfall Oy	1071366-1	Helsinki	100	10,000	1,483
Vattenfall Poland Sp. zo.o.	A-7069	Warsaw	100	40	19
Vattenfall Power Management AB	556573-5940	Stockholm	100	6,570	7
Vattenfall Regionnät AB	556417-0800	Stockholm	100	8,000	11
Vattenfall Reinsurance S.A.	(B) 49528	Luxemburg	100	12,999	13
Vattenfall Service Syd AB	556417-0859	Trollhättan	100	16,000	18
Vattenfall Support AB	556438-6026	Stockholm	100	100	1
Vattenfall Sveanät AB	556438-0268	Sollentuna	100	100	1,943
Vattenfall Treasury AB (publ)	556439-0606	Stockholm	100	500	6
Vattenfall Utveckling AB	556390-5891	Älvkarleby	100	14,000	17
Vattenfall Värme Uppsala AB	556117-9929	Uppsala	100	110,000	977
Vattenfall Västrnät AB	556022-0369	Trollhättan	100	10,000	437
Vattenfall Östrnät AB	556215-7494	Linköping	100	1,000	779
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	Fagersta	51	5,566	6
Österede Kraft AB **	556362-8469	Stockholm	100	1,000	9,142
Other companies					63
Total parent company					31,659

* The Group owns a further 20 per cent via Forsmarks Kraftgrupp AB.

** The company owns shares in HEW.

Major shareholdings held by group companies

	Reg. office	% holding		Reg. office	% holding
Barsebäck Kraft AB	Malmö	100	NPI Holding AB	Stockholm	100
BBS Braunkohle Beteiligungs GmbH	Cologne	60	Pamilo Oy	Eno	100
Hamburgische Electricitäts-Werke AG	Hamburg	74	Revon Sähkö Oy	Oulainen	100
Heinola Energia Oy	Heinola	100	Vattenfall Indalsälven AB	Bispgården	74
HEW Power Venture Hanfeng GmbH	Germany	71	VEAG Kraftwerke Schwarze Pumpe GmbH	Vetschau	55
Hämeenlinnan Energia Oy	Hämeenlinnan	100	VEAG Vereinigte Energiewerke AG	Berlin	55
Keski-Suomen Valo Oy	Saarijärvi	100	WEMAG AG	Schwerin	59
LAUBAG Lausitzer Braunkohle AG	Cottbus	66			

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		14	14
Bodens Energi AB	556200-9117	Boden	40	20	52	0
Gornoslaski Zakład Elektroenergetyczny S.A.	RHB 9861	Gliwice	32	350,000	2,001	2,149
Gulsele AB	556001-1800	Sollefteå	35	84,000	332	332
Luleå Energi AB	556139-8255	Luleå	30	54,000	163	3
PiteEnergi AB	556330-9227	Piteå	50	70,000	175	7
Plusenergi AB	556572-4696	Göteborg	50	50,000	110	170
Preem Gas AB	556037-2970	Stockholm	30	750	8	7
SwePol Link AB	556530-9829	Stockholm	48	288,000	6	3
Other					8	7
Indirect holdings						
A-Train AB	556500-3745	Stockholm	20	1,000,000	14	—
Bewag AG	HRB 451	Berlin	45 *		7,881	—
Compania Electricia de Sochagota	46782	Colombia	25		176	—
EHA Energie Handels GmbH & Co KG	HRA 92729	Hamburg	50		13	—
Empower Oy	0659323-0	Helsinki	35	73,731	92	—
EBH Energie-Beteiligungs GmbH	HRB 10696	Hamburg	25		659	—
GESO Beteiligungs- und Beratungs AG	HRB 2212	Dresden	37		389	—
Kernkraftwerk Krümmel GmbH	HRB 15033	Hamburg	50		6,852	—
Kernkraftwerk Stade GmbH	HRB 12163	Hamburg	33		1,610	—
Kernkraftwerk Brokdorf GmbH	HRB 17623	Hamburg	20		1,641	—
Ostrowskie Zakłady Ciepłownicze	250017863	Kalisz	23	190,021	12	—
Päijät-Hämeen Voima Oy	1000864-7	Heinola	29	18,698	28	—
Städtische Werke Kassel AG	HRB 2150	Kassel	25		545	—
Stadtwerke Wittenberg GmbH	HB 2407	Wittenberg	23	22,700	31	—
Terki Oy	0953-041-1	Helsinki	50	500	12	—
TVF GmbH	HRB 3506	Lübbenau	50		13	—
Vasa Energy GmbH & Co KG	HRB 86274	Hamburg	74		81	—
Åtvidabergs Fjärrvärme AB	556543-1607	Åtvidaberg	50	10,000	10	—
Other					93	—
Total					23,021	2,692

* The voting power is 46 per cent.

Note 19 – Shares and participations cont'd**OTHER SECURITIES HELD AS FIXED ASSETS**

	Country	% holding	Number	Book value	
				Group	Parent company
Direct holdings					
Amsterdam Power Exchange (APX)	The Netherlands	10	680,000	12	12
Eutelia (electronic marketplace)	The Netherlands	8	7,830	29	29
Hafslund ASA	Norway	6	11,287,995	560	560
Jämtkraft AB	Sweden	20**	13,000	23	23
Leksand-Rättvik Energi AB	Sweden	8	11,763	23	23
NESA A/S	Denmark	12	155,003	151	151
Other				4	4
Indirect holdings					
Alholmens Kraft Oy	Finland	5	475,785	18	—
GNS Gesellschaft für Nuklearservice GmbH	Germany	6		24	—
HanseNet Telekommunikation GmbH	Germany	20		259	—
HHPGC China	China	16		423	—
Stadtwerke Parchim GmbH	Germany	15		28	—
Suomen Voimateknikka Oy	Finland	20	1,075	15	—
VEAG Beteiligungsgesellschaft	Germany	55		71	—
Investment assets in German companies				17,696	—
Other				113	—
Total				19,449	802

** The voting power is 16 per cent.

Note 20 – Inventories etc.

	Group		Parent company	
	2001	2000	2001	2000
Raw materials and consumables				
Nuclear fuel	3,941	4,267	—	—
Oil	168	94	40	49
Coal etc.	913	261	3	5
Materials and spare parts	1,545	936	6	34
Total	6,567	5,558	49	88

Specification of prepaid expenses and accrued income:

	Group		Parent company	
	2001	2000	2001	2000
Prepaid insurance premiums	21	18	—	—
Prepaid expenses, other	1,569	235	6	393
Prepaid expenses and accrued income, electricity	636	290	362	54
Accrued income, other	812	575	1,131	71
Total	3,038	1,118	1,499	518

Note 21 – Current receivables

	Group		Parent company	
	2001	2000	2001	2000
Accounts receivable – trade	10,654	4,576	1,642	2,215
Receivables from group companies	—	—	10,071	8,556
Receivables from associated companies	4,074	2,865	2,461	2,763
Investment assets in German companies	4,951	—	—	—
Other receivables	4,392	3,404	1,356	1,218
Prepaid expenses and accrued income	3,038	1,118	1,499	518
Total	27,139	11,963	17,029	15,270

Note 22 – Cash and bank balances

The parent company's cash and bank balances are administered by the subsidiary, Vattenfall Treasury AB. Deposits in the group account amounted to SEK 6,978 million (5,115) which are reported on the balance sheet as current receivables from group companies.

Note 23 – Equity

	Share capital	Revaluation reserve	Equity method reserve	Other restricted reserves	Non-restricted equity	Total
GROUP						
Equity at Jan. 1 in accordance with adopted balance sheet for 2000	6,585	277	636	15,979	11,643	35,120
Effect of change in accounting policy	—	—	—	—	254	254
Equity at Jan. 1 adjusted for new accounting policy	6,585	277	636	15,979	11,897	35,374
Dividend	—	—	—	—	-990	-990
Change in revaluation reserve	—	-277	—	—	277	—
Transfers between restricted and non-restricted reserves	—	—	-479	2,035	-1,556	—
Translation differences	—	—	—	1,140	-136	1,004
Net profit for the year	—	—	—	—	4,190	4,190
Dec. 31	6,585	—	157	19,154	13,682	39,578

Accumulated translation differences in equity amounted to SEK 1,329 million.

SEK 24 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				
Equity at Jan. 1 in accordance with adopted balance sheet for 2000	6,585	1,316	8,276	16,177
Effect of change in accounting policy	—	—	68	68
Equity at Jan. 1 adjusted for new accounting policy	6,585	1,316	8,344	16,245
Dividend	—	—	-990	-990
Group contribution	—	—	-1,373	-1,373
Tax effect of change in accounting policy	—	—	386	386
Net profit for the year	—	—	2,002	2,002
Dec. 31	6,585	1,316	8,369	16,270

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

Note 24 – Provisions

Provisions are made for known commitments or probable risks on the basis of individual assessment.

	Group		Parent company	
	2001	2000	2001	2000
Pension commitments	16,638	3,741	2,482	2,484
Less: Capital in pension funds	-4,109	-3,713	-2,482	-2,484
Other pension commitments	193	159	26	44
Total provisions for pensions	12,722	187	26	44
Information registered by PRI	2,447	2,099	1,225	1,126
Provisions for the future expenses of nuclear waste management	6,984	—	—	—
Provisions for the future expenses of mining operations	7,955	—	—	—
Provisions for deferred tax liability	28,892	13,200	12	12
Negative goodwill	18,132	—	—	—
Other provisions	16,271	592	101	103
Total	90,956	13,979	139	159

Pensions:

At year-end 2001, Vattenfall's Pension Fund comprised 18 group companies as participants which had dissolved their pension liabilities under the Pension Liabilities Act through payments into the Pension Fund. During the year, the return on the Pension Fund was 1.9 per cent (2.7).

During 2001, pension commitments in the acquired companies in Germany largely comprised commitments classified as benefits. The pension provisions for these acquired companies were calculated on an actuarial basis in accordance with the Projected Unit Credit Method, IAS 19.

The pension provision made in the balance sheet for employees in Sweden is calculated in accordance with acceptable actuarial methods in Sweden and amounts to SEK 3,919 million. The corresponding commitments, classified as benefits, for employees in Sweden and calculated on an actuarial basis in accordance with the Projected Unit Credit Method, IAS 19, is SEK 4,137 million.

Nuclear Power:

In Germany, provisions are made in the balance sheet by the companies themselves for the future management of nuclear waste. On the other hand, the Swedish power companies do not make corresponding provisions but, instead, pay a fee to the Nuclear Waste Fund for the future management of nuclear waste.

Mining Operations:

Provisions are made for site restoration and for other commitments associated with the Group's permission to conduct lignite mining in Germany.

Deferred Tax:

Provisions for deferred tax liabilities attributable to temporary differences are reported in accordance with the Swedish Financial Accounting Standards Council's recommendation RR9. To this must be added the provisions for deferred tax that are traditionally made when acquisition analyses are established in connection with company acquisitions.

Negative Goodwill:

The provision concerns expected future losses and expenses which have primarily been identified in Vattenfall's acquisitions in Germany, but which it has not been possible to report as identifiable liabilities at the time of acquisition. At the time of acquisition, the value amounted to SEK 20,671 million. During the year, this provision was dissolved by a gross amount of SEK 2,539 million. The intention is to dissolve this negative goodwill as future losses and restructuring costs arise.

Other Provisions:

These mainly concern provisions made in the German companies concerning personnel and environmentally-related measures/commitments as well as provisions for taxes which have been reported as an expense in previous years but which have not yet been charged to the companies.

Note 25 – Long-term interest-bearing liabilities

	Group		Parent company	
	2001	2000	2001	2000
Bond loans	30,185	33,285	—	—
Liabilities to credit institutions	19,752	3,952	—	—
Liabilities to associated companies and minority owners	4,040	3,557	—	—
Liabilities to group companies	—	—	25,936	22,401
Other liabilities	4,443	322	1	2
Total	58,420	41,116	25,937	22,403

Of the above liabilities for the Group, the following amounts fall due after more than five years: Bond loans SEK 21,630 million (20,644). Liabilities to credit institutions SEK 5,617 million (96). Liabilities to minority owners SEK 2,345 million (2,520). Other long-term borrowings SEK 194 million (263).

In respect of the parent company, SEK 619 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 26 – Long-term non-interest-bearing liabilities

	Group		Parent company	
	2001	2000	2001	2000
Liabilities to group companies	—	—	3,131	3,741
Other liabilities	1,599	878	383	1,236
Total	1,599	878	3,514	4,977

Of the above liabilities for the Group, the following amount falls due after five years: Other liabilities SEK 855 million (0). For the parent company, the following amount falls due after five years: Other liabilities SEK 124 million (220).

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, the credit is an interest-free loan in accordance with an agreement between the shareholders.

Note 27 – Current interest-bearing liabilities

	Group		Parent company	
	2001	2000	2001	2000
Bond loans	9,363	3,649	—	—
Commercial paper	3,914	4,372	—	—
Liabilities to credit institutions	6,132	929	—	—
Liabilities to minority owners	185	—	—	—
Liabilities to associated companies	9,906	5	—	—
Liabilities to group companies	—	—	4,724	2,334
Other liabilities	613	596	1	2
Total	30,113	9,551	4,725	2,336

Note 28 – Current non-interest-bearing liabilities

	Group		Parent company	
	2001	2000	2001	2000
Advance payments from customers	—	—	2	1
Accounts payable – trade	8,211	2,270	573	455
Liabilities to group companies	—	—	12,596	9,540
Liabilities to associated companies	125	236	36	107
Tax liabilities	1,463	507	403	316
Other liabilities	3,414	3,372	328	882
Accrued expenses and deferred income	6,084	2,991	1,020	634
Total	19,297	9,376	14,958	11,935

Specification of accrued expenses and deferred income:

	Group		Parent company	
	2001	2000	2001	2000
Accrued personnel costs	1,330	817	158	146
Accrued nuclear-related fees and taxes	186	55	—	—
Accrued interest expense	678	17	—	—
Other accrued expenses	2,560	1,342	816	110
Deferred income and accrued expenses, electricity	503	311	41	265
Other deferred income	827	449	5	113
Total	6,084	2,991	1,020	634

Note 29 – Pledged assets

	2001	2000
GROUP		
For own liabilities and provisions		
Liabilities to credit institutions:		
Floating charges	165	503
Real-estate mortgages	37	88
Other	83	118
Total	285	709

The parent company has no pledged assets.

Note 30 – Contingent liabilities

	2001	2000
GROUP		
Guarantees	456	5,963
Other contingent liabilities	6,329	1,199
Nuclear Waste Fund	3,948	4,070
Total	10,733	11,232
PARENT COMPANY		
Guarantees		
of which:		
for Vattenfall Treasury's lending:		
to subsidiaries	22,337	22,903
to associates	56	123
external borrowing for subsidiaries	46,555	44,459
external borrowing for other companies	215	296
subordinated guarantees	93	115
Nuclear Waste Fund	3,948	4,070
Contract guarantees	1,792	1,015
Other guarantees	2,922	701
Total	77,918	73,682
Other contingent liabilities		
Compensatory and free power supplied:		
Wholesale power supplied		
– number of commitments	14	13
– capacity, MW	226	219
– energy supplied, TWh/year	0.9	0.9

SEK 74,632 million (72,447) 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 5,000 million for this kind of loss.

As a natural part of the Group's business, and in addition to those specified above, guarantees are put up for the fulfilment of various 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

Vattenfall can terminate lease contracts after about 24 years, without cost. The present value of the lease payments that Vattenfall has undertaken to make amounted to about SEK 2,000 million at the time that the transaction was conducted.

This amount has been deposited in a bank with an AAA credit rating. On account of the structure of the contracts, Vattenfall's credit risk is assessed to be negligible. The net difference between payments received and deposits made in 1999 has been reported and the transaction gain has been reported in the profit for 1999. If Vattenfall, as a result of a force majeure event, chooses to or is incapable of fulfilling the obligations stipulated in the lease contracts, Vattenfall is liable to pay, in compensation to the investors, a maximum amount of about 20 per cent of the present value of the lease payments.

At balance sheet date, the amount was SEK 359 million, which is included in the reported contingent liabilities.

Due to Standard & Poor's downgrading of Vattenfall from "A-" to "A- CreditWatch with negative implications", Vattenfall has provided the investors with bank guarantees for corresponding amounts.

In September 2001, HEW Entsorgung GmbH, which is wholly owned by HEW, conducted two lease transactions via two majority-owned companies (lessees) with an investor in the USA. The lease transactions concerned two waste incineration facilities located in Hamburg, Germany. The lease term is 75 years and the lessees can terminate the contracts after 24 years without cost. The present value of the lease payments that Vattenfall, through a defeasance structure, has undertaken to make was about SEK 6,663 million at the time of the transaction. This amount has been deposited with financial institutions. On account of the structure of the contracts, Vattenfall's credit risk is assessed to be negligible. The net difference between payments received and deposits made in 2001 has been reported and the transaction gain has been reported in the profit for 2001.

If the lessees, as a result of a force majeure event, choose to, or are incapable of fulfilling the obligations stipulated in the lease contracts, they are liable to pay, in compensation to the investor, a maximum amount of about 18 per cent of the present value of the lease payments.

At balance-sheet date, this amount was SEK 693 million, which is included in the reported contingent liabilities.

Note 31 – 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'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 the SwePol Link up to July 2020.

Note 32 – Average number of employees and personnel costs

Average number of employees	2001			2000		
	Men	Women	Total	Men	Women	Total
GROUP						
Sweden	6,387	1,760	8,147	6,330	1,756	8,086
Finland	503	226	729	607	202	809
Poland	2,809	753	3,562	3,244	870	4,114
Norway	46	48	94	4	4	8
Germany	8,585	2,470	11,055	2	3	5
Other countries	189	38	227	81	20	101
Total	18,519	5,295	23,814	10,268	2,855	13,123
PARENT COMPANY						
Sweden	632	417	1,049	877	429	1,306
Other countries	11	—	11	9	—	9
Total	643	417	1,060	886	429	1,315
Personnel costs			Group			Parent company
			2001	2000	2001	2000
Salaries and other remuneration		8,842	3,551	474	571	
Social security expenses (of which pension costs)		3,390	1,560	352	325	
		(1,156)*	(546)*	(137)**	(161)**	
Total		12,232	5,111	826	896	

* SEK 24 million (7) of the Group's pension costs concern presidents, deputy presidents as well as former presidents and deputy vice presidents. The Group's outstanding pension commitments in respect of these officers total SEK 198 million (64).

** The parent company's pension costs include SEK 4 million (3) for existing and former presidents and deputy presidents. The company's outstanding pension commitments in respect of these officers total SEK 52 million (42).

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

Salaries and other remuneration	2001			2000		
	Board members and presidents *	Other employees	Total	Board members and presidents *	Other employees	Total
GROUP						
Sweden	47	2,968	3,015	43	2,879	2,922
Finland	7	285	292	7	218	225
Poland	13	493	506	7	367	374
Germany	45	4,915	4,960	—	—	—
Other countries	7	62	69	10	20	30
Total	119**	8,723	8,842	67**	3,484	3,551
PARENT COMPANY						
Sweden	9	462	471	8	561	569
Other countries	—	3	3	—	2	2
Total	9***	465	474	8***	563	571

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

** Includes bonuses of SEK 16 million (3).

*** Includes bonuses of SEK 0.5 million (1).

Note 32 Cont'd – Remuneration to the senior management of Vattenfall AB

In 2001, there were two chairmen of the Board of Directors. Gerhard Larsson, who was chairman until April 26, 2001, received a fixed fee of SEK 72k. Dag Klackenbergh, who is the Board's current chairman, received a fixed fee of SEK 140k.

In 2001, Lars G Josefsson, Chief Executive Officer and President of Vattenfall AB, received a salary and other emoluments, including the value of a company car, of SEK 4,640k, of which the bonus for 2000 was SEK 500k.

Bertil Tiusanen, former acting President, received SEK 1,260k up to and including July 2001.

The Chief Executive Officer, Lars G Josefsson, 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, a retirement benefit will be paid corresponding to the applicable ITP benefit plan plus 32.5 per cent of the portion of the salary exceeding 30 basic amounts (a basic amount is a standard amount used for Swedish social security purposes). The latter retirement benefit has a time limit. The bonus is not in any way a basis for the pension.

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 the Senior Executive Vice-President, a premium-based pension solution applies with a pension age of 60 years.

The other officers of the executive group management and certain heads of group functions are entitled to receive a pension from the age of 60–65 which is 70 per cent of the fixed salary. The bonus is not in any way a basis for the pension between the age of 60 and 65. The ITP plan applies from the age of 65. In the case of certain specified officers, in order to adapt pension terms to market conditions, it has been decided to reinforce the ITP pension in the form of an extension of the salary components exceeding 20 basic amounts. The extension consists of 32.5 per cent of the fixed salary upon which the pension is based.

In the case of the above-mentioned executive group management officers, if employment is 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.

Bonus and Incentive Programmes

A bonus system for managers is applied in the Swedish part of the Vattenfall Group.

Furthermore, incentive programmes or bonus programmes are applied within a number of business units and companies in the Swedish part of the Group.

Management Bonuses

Under his employment contract, the Chief Executive Officer is entitled to a special performance-related variable salary/bonus. A special agreement was concluded for 2001, resulting in an amount of SEK 1,100k.

A bonus of no more than 25 per cent of the fixed salary is applied to the executive group management and heads of group functions. In the case of certain managers/key individuals within the group functions, a maximum amount of 10–15 per cent applies.

A bonus of a maximum of 20 per cent of the fixed salary is applied to heads of business units.

Within business units, a bonus of a maximum of 15 per cent applies to the management groups, primarily presidents for large companies and managers of large operational units. A bonus of a maximum of 8–10 per cent is applied to staff personnel in management groups.

A bonus of a maximum of 15 per cent is applied to heads of service companies and a maximum of 8 per cent, to management group officers.

In 2001, management bonuses at group level were based on financial targets, growth in cash flow and return on equity. At business unit level, management bonuses were based on strategic business projects, growth in cash flow and strategic projects. At unit and company levels within business units, management bonuses were based on other business targets. Within business units, bonuses were also based on leadership targets to a smaller extent.

From 2002–2004, the bonus programme will be directly linked to value creation*. Within the programme, in addition, a long-term (3 year) component ("long-term incentive") for the executive group management and heads of group functions as well as heads of business units, will be introduced after 2004 if the Group exceeds its financial targets. The maximum size of the long-term incentive is equivalent to two years of bonuses. This long-term incentive is not a basis for the pension. With respect to other bonus components, ITP's rules for calculating pensions apply. The value creation for Vattenfall's owner is expected to be very high if the Group attains or exceeds its three-year targets.

Altogether, the management bonuses apply to about 100 individuals.

Bonuses and Incentives for Other Employees

Within the Swedish part of the Group, different types of incentives or bonus programmes exist in several business units and companies, which are designed in accordance with the particular unit's targets and needs. The maximum level is normally about SEK 15k per year.

Vattenfall's aim is to develop systems so that as many employees as possible are rewarded by incentive programmes.

The Board of Directors supports the programmes described above.

* Value creation = the positive change in operating profit minus the required return on the average of net assets, where the required return is 11 per cent.

Note 33 – 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:

	2001	2000
Acquisition value		
Equipment	8	—
Accumulated depreciation according to plan		
Equipment	1	—
Residual value according to plan	7	—

Future payment commitments within the Group at December 31, 2001, for lease contracts and rental contracts are distributed as follows:

	Group		Parent company Operating lease
	Finance lease	Operating lease	
2002	3	540	329
2003	2	396	214
2004	1	217	52
2005	—	139	—
2006	—	130	—
2007 and beyond	—	672	—
Total	6	2,094	595

The year's leasing expenses in respect of group assets amounted to SEK 395 million. For the parent company, the corresponding figure was SEK 254 million.

LEASING INCOME

Certain group companies lease equipment to customers.

At December 31, 2001, the acquisition value of assets reported under Operating leases amounted to SEK 359 million. Accumulated depreciation amounted to SEK –74 million and net investment to SEK 285 million.

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

	Group	
	Finance leasing	Operating leasing
2002	15	103
2003	14	97
2004	13	87
2005	12	77
2006	10	68
2007 and beyond	41	169
Less: Financial income	–33	
Total	72	601

Note 34 – Reimbursement of auditors (SEK '000)

	Group 2001	Parent company 2001
Audit *		
Ernst & Young	10,909	5,269
Swedish National Audit Office	253	234
Pricewaterhouse Coopers/Öhrling***	14,183	—
KPMG	1,167	—
BDO ****	6,197	—
Other	1,434	—
	34,143	5,503

Other fees **

Ernst & Young	3,356	2,383
Pricewaterhouse Coopers/Öhrling	12,028	1,672
KPMG	1,683	—
Arthur Andersen	1,609	524
Lindebergs Grant Thornton	1,518	—
Other	77	—
Total	20,271	4,579

* Concerns the audit which is legally required and other examinations.

** Other fees concern reimbursements for temporary engagements such as special projects and various issues relating to company acquisitions.

*** SEK 11,283k concerns the audits of the German sub-groups VEAG and LAUBAG.

**** Concerns the audit of the German sub-group, HEW.

Proposed Distribution of Profits

According to the consolidated balance sheet, the Group's non-restricted equity amounts to SEK 13,681,553k (11,643,824). Of this amount, SEK 24,226k is expected to be transferred to restricted reserves. Thus, the total profits at the disposal of the general meeting of shareholders is SEK 8,368,841,874. The Board of Directors and the President propose that profits be distributed as follows:

– dividend to shareholder	SEK	1,030,000,000
– transferred to the statutory reserve	SEK	948,830
– to be carried forward	SEK	7,337,893,044
	SEK	<u>8,368,841,874</u>

This is equivalent to a dividend of SEK 7.82 per share.

Stockholm, March 5, 2002

Dag Klackenborg
Chairman

Johnny Bernhardsson

Annette Brodin-Rampe

Lars Carlberg

Ronny Ekwall

Peter Fallenius

Lars Hjorth

Göran Johansson

Bo Marking

Lars G Josefsson
President and Chief Executive Officer

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 22-61, the accounting records and the administration of the Board of Directors and the President of Vattenfall AB for the financial year 2001. 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 annual accounts and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, March 11, 2002

Ernst & Young AB
Lars Träff
Authorized Public Accountant

Filip Cassel
Authorized Public Accountant
Swedish National Audit Office

Definitions and Calculations of Key Ratios

Figures for the Group in 2001 (SEK million).

Operating cash flow

EBITDA less maintenance investments plus change in working capital.	
EBITDA	18,250
Maintenance investments	-4,964
Change in working capital	-2,706
	<u>10,580</u>

Operating margin, per cent

EBIT in relation to net sales.	
EBIT	9,959
Net sales	69,003
	<u>14.4</u>

Pre-tax profit margin, per cent

Profit before tax and minority interest in relation to net sales.	
Profit before tax and minority interest	7,454
Net sales	69,003
	<u>10.8</u>

Return on equity, per cent

Net profit for the year in relation to equity at the beginning of the year.	
Net profit	4,190
Equity at the beginning of the year	35,374
	<u>11.8</u>

Return on net assets, excluding items affecting comparability, per cent

EBIT, excluding items affecting comparability (A) in relation to a weighted average of the balance sheets for the period less non-interest-bearing liabilities and provisions, financial assets and liquid assets (B).	
(A)	8,822
(B)	100,701
	<u>8.8</u>

Pre-tax interest coverage, times

EBIT plus financial income in relation to financial expenses.	
EBIT plus financial income	12,191
Financial expenses	4,737
	<u>2.6</u>

FFO interest coverage, times

FFO plus financial expenses in relation to financial expenses.	
FFO plus financial expenses	17,885
Financial expenses	4,737
	<u>3.8</u>

FFO net interest coverage, times

FFO plus net financial items in relation to net financial items	
FFO plus net financial items	15,653
Net financial items	2,505
	<u>6.3</u>

Equity/assets ratio, per cent

Equity including minority interest in equity in relation to balance sheet total at the end of the year less interest arbitrage transactions.	
Equity	58,658
Balance sheet total less interest arbitrage transactions	258,077
	<u>22.7</u>

Net debt/equity, times

Interest-bearing debt minus investment assets and liquid assets in relation to equity plus minority interest in equity.	
Interest-bearing debt minus investment assets and liquid assets	55,736
Equity plus minority interest	58,658
	<u>1.0</u>

FFO/interest-bearing debt, per cent

FFO in relation to interest-bearing debt.	
FFO	13,148
Interest-bearing debt	88,723
	<u>14.8</u>

FFO/net debt, per cent

FFO in relation to interest-bearing debt minus investment assets and liquid assets.	
FFO	13,148
Interest-bearing debt minus investment assets and liquid assets	55,736
	<u>23.6</u>

EBITDA/net financial items, times

EBITDA in relation to net financial items.	
EBITDA	18,250
Net financial items	2,505
	<u>7.3</u>

Six-year Review

SEK million	2001	2000	1999	1998	1997	1996
Income statement						
Net sales	69,003	31,695	27,754	27,957	28,458	29,030
EBITDA	18,250	12,165	9,866	9,860	11,169	11,920
EBIT	9,959	6,688	5,515	6,067	7,376	7,672
Financial income	2,232	1,037	542	288	561	746
Financial expenses	-4,737	-2,536	-1,760	-1,907	-2,498	-2,957
Profit before tax and minority interest	7,454	5,189	4,297	4,448	5,439	5,461
Net profit for the year	4,190	2,970	2,538	2,664	3,399	3,725
Cash flow items						
Operating cash flow	10,580	8,726	4,967	5,477	11,103	13,464
FFO	13,148	5,830	6,224	6,758	7,869	7,455
Balance sheet items						
Liquid assets	10,340	7,543	4,860	4,439	3,961	4,321
Equity	39,578	35,374	33,347	32,325	31,158	28,875
Minority interest in equity	19,080	4,985	2,472	2,213	2,304	1,990
Interest-bearing liabilities	88,723	50,854	32,275	27,876	26,311	28,825
Net debt	55,736	43,311	27,415	23,437	22,350	24,504
Non-interest-bearing liabilities	111,662	24,046	18,569	20,942	19,099	18,923
Net assets	100,701	74,968	60,395	57,253	54,500	46,974
Balance sheet total	259,043	115,259	86,663	83,356	78,872	78,613
Key financial ratios (in per cent unless otherwise specified)						
Operating margin	14.4	21.1	19.9	21.7	25.9	26.4
Pre-tax profit margin	10.8	16.4	15.5	15.9	19.1	18.8
Return on equity	11.8	8.9	7.9	8.5	11.8	14.2
Return on net assets, excluding items affecting comparability	8.8	6.6	9.1	10.6	13.2	16.0
Pre-tax interest coverage, times	2.6	3.1	3.4	3.3	3.2	2.8
FFO interest coverage, times	3.8	3.3	4.5	4.5	4.2	3.5
FFO net interest coverage, times	6.3	4.9	6.1	5.2	5.1	4.4
Equity/assets ratio	22.7	35.4	42.3	42.2	43.3	39.3
Net debt/equity, times	1.0	1.1	0.8	0.7	0.7	0.8
FFO/interest-bearing debt	14.8	11.5	19.3	24.2	29.9	25.9
FFO/net debt	23.6	13.5	22.7	28.8	35.2	30.4
EBITDA/net financial items, times	7.3	8.1	8.1	6.1	5.8	5.4
Other information						
Dividends	1,030*	990	1,500	1,500	1,500	1,500
Investments	43,443	23,840	7,916	4,528	4,877	5,984
Electricity sales, TWh	149.9	83.1	86.9	83.8	78.7	78.4
Average number of employees	23,814	13,123	7,991	7,996	7,847	8,263

* Proposed dividend.

BOARD OF DIRECTORS

Dag Klackenborg

Born 1948. Chairman of the Board since 2001. President of the Swedish Federation of Trade.

Johnny Bernhardsson

Born 1952. Board member since 1995. Board member of Sensel and the Pension Fund. Employee representative, Sif.

Annette Brodin-Rampe

Born 1962. Board member since 2001. President of Senea AB. Board member of Peab AB, Posten AB and Ruter Dam leadership programme for women in business.

Lars Carlberg

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

Ronny Ekwall

Born 1953. Board member since 1999. Alternate 1998. Board member of Vattenfall Service Syd AB. Employee representative, SEKO.

Peter Fallenius

Born 1951. Director. Board member since 2001. Board member of the Board of SJ AB and the European Institute for Japanese Studies and member of the Royal Swedish Academy of Engineering (IVA).

Lars Hjorth

Born 1943. Director. Board member since 1997. Chairman of Nordea, Stockholm region. Board member of Folksam Sak, Arrowhead AB and Independent Pharmaceutica AB.

Göran Johansson

Born 1945. Municipal Councillor. Board member of the public utility, 1982-91, 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.

Lars G Josefsson

Born 1950. President and Chief Executive Officer of Vattenfall AB. Board member since 2001. Board member of Böhler-Uddeholm AG, member of IVA's Industry Committee, Chairman of the Board of HEW, VEAG, LAUBAG, board member of Bewag AG.

Bo Marking

Born 1937. Director. Board member since 1996. Board member of Nordiska Investeringsbanken and SBAB.

Alternates

Lars Carlsson

Born 1951. Alternate since 1992. Employee representative, Sif.

Jan Grönlund

Born 1960. Alternate since 2000. State Secretary, Ministry of Industry, Employment and Communications since 2001.

Stig Lindberg

Born 1946. Alternate since 1998. Employee representative, Ledarna.



Dag Klackenborg



Johnny Bernhardsson



Annette Brodin-Rampe



Lars Carlberg



Ronny Ekwall



Peter Fallenius



Lars Hjorth



Göran Johansson



Lars G Josefsson



Bo Marking



Lars Carlsson



Jan Grönlund



Stig Lindberg



Per-Ove Lööv



Kent Ögren

Per-Ove Lööv

Born 1961. Alternate since 1999. Employee representative, SEKO.

Kent Ögren

Born 1955. Alternate since 1995. Municipal Councillor in Jokkmokk. Chairman of Jokkmokks Värmeverk AB. Board member of the local Police Board, Norrbotten. Member of the County Administrative Board, Norrbotten County.

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.



Matts Ekman



Lars G Josefsson



Lennart Billfalk



Alf Lindfors



Ann-Charlotte Dahlström



Mats Fagerlund



Lars Segerstolpe



Magnus Groth



Knut Leman

EXECUTIVE GROUP MANAGEMENT

Lars G Josefsson
Born 1950. President and Chief Executive Officer.

Matts Ekman
Born 1946. Senior Executive Vice President and Chief Financial Officer.

Lennart Billfalk
Born 1946. Executive Vice President, Group Function Strategies.

Mats Fagerlund
Born 1950. Executive Vice President, Group Function Legal Affairs and M&A.

Alf Lindfors
Born 1946. Executive Vice President, General Manager of the Generation Nordic Countries business unit.

Co-opted to the Executive Group Management:

Ann-Charlotte Dahlström
Born 1952. Senior Vice President, Group Function Human Resources.

Knut Leman
Born 1950. Senior Vice President, Group Function Communications.

Other Group Function Managers:

Magnus Groth
Born 1962. Senior Vice President, Business Development.

Lars Segerstolpe
Born 1941. Senior Vice President, Internal Audit.

Vattenfall Europe:

Executive Board (Vorstand) of the new Vattenfall Europe.

Klaus Rauscher
Born 1949. Chairman of the Executive Board (Vorstand).

Kurt Häge
Born 1942. Member of the Executive Board (Vorstand). Responsible for Generation.

Hans-Joachim Reh
Born 1941. Member of the Executive Board (Vorstand). Responsible for Sales.

Berndt-Olof Helzén
Born 1943. Member of the Executive Board (Vorstand). Responsible for Network Operations.

Hans-Jürgen Cramer
Born 1951. Member of the Executive Board (Vorstand). Responsible for Heat and IT.

Joachim Lubitz
Born 1943. Member of the Executive Board (Vorstand). Responsible for Finance and Trading.

Martin Martiny
Born 1942. Member of the Executive Board (Vorstand). Responsible for Human Resources.

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 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 100,000 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

Availability Actual electricity generation capability in relation to the maximum possible generation.

CHP plant Combined heat and power plant. Plant which supplies both electricity and district-heating. Often known as a backpressure 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.

Deep repository Underground facility for the final disposal of spent nuclear fuel, see also SKB's web site <http://www.skb.se>

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).

E.ON One of Germany's three largest power companies and the main shareholder of Sydkraft.

EBIT Earnings Before Interest and Tax (Operating profit).

EBITDA Earnings Before Interest, Tax, Depreciation and Amortisation of goodwill (Operating profit before depreciation).

EDF The largest power company in France and Europe.

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

Endesa Spain's largest power company.

EPD Environmental Product Declaration. A system based on Type III declarations in ISO TR 14025 and which aims at providing objective, credible and compar-

able information on the environmental impact of products and services, see www.environdec.com/eng

EW Elektrociepłownie Warszawskie S.A.

FFO Funds from Operation.

Green Certificate A tradable certificate issued for renewable energy.

GZE Gornoslaski Zaklad Elektroenergetyczny S.A.

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.

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

LPX Leipzig Power Exchange.

Nord Pool The Nordic Power Exchange.

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

RWE One of Germany's three largest power companies.

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

Spot market Short-term physical trading in electricity on an exchange.

Swap A financial derivative (exchange agreement).

Thermal power Electricity generated by a gas turbine or steam process in a coal-fired or nuclear power plant.

Tractebel Largest power company in Belgium.

Volatility A measure of the extent to which the price of a good has varied during a particular period.

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Visit Vattenfall's website at: www.vattenfall.com

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