

Organization number 556006-8420

REPORT ON OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999

- *Slightly lower earnings*
- *Tough price competition*
- *Lower hydroelectric and nuclear power production*
- *Significant acquisitions*

COMMENTS BY GROUP CEO

Today, Sydkraft has approximately 800 000 customers. This year, we have grown by more than 50 000 customers and, if we include the 49% holding in Norrköpings Miljö & Energi acquired on September 1, approximately 50 000 more can be added. On December 2, Østfold Energi in southern Norway will decide whether it will sell 49% of the shares in its subsidiaries, Østfold Energi Kraftsalg and Østfold Energi Nett, to Sydkraft. Østfold Energi has 90 000-100 000 customers in the most expansive region of Norway.

In Denmark, the electricity market is slowly but surely opening up. Sydkraft is established there through its interest in the energy trading company Elektra Energihandel A/S, which it owns jointly with three major energy distributors on the island of Sjaelland.

In Poland, we have a couple of cooperation agreements and have also made an offer for the majority of the shares in a listed Polish co-generation (CHP) plant north of Katowice.

The restructuring of the energy market in Europe is continuing at an undiminished pace. Currently, the most active measures are being implemented in Germany. The largest energy companies are planning to merge and form various alliances. Competition is increasing significantly and electricity prices are declining drastically.

In the Swedish market, electricity prices have reached their lowest level as a result of full deregulation having been implemented on November 1. The Swedish energy companies can hardly be said to compete on price any more – price levels are approximately the same throughout Sweden – instead it is becoming increasingly clear that it is the strong brands that will survive. Sydkraft is a strong brand.

Our Consulting and Contracting business area is developing favorably, with several new acquisitions. Following our acquisition of Tellus Miljöteknik, with about a hundred of highly qualified environmental consultants, we purchased El & Trafikteknik in Gothenburg, the consulting company Picon in Skövde and parts of EPS Consulting in Vänersborg.

The Government's decision to withdraw the permit to operate the B1 reactor at the Barsebäck nuclear power plant will become effective at midnight on November 30, 1999.

No inhibition order to prevent the execution of the Government's decision has been received.

Sydkraft will receive compensation for the loss of electricity production, either through a voluntary settlement with the Government, or through the application of the Decommissioning Act.

Earnings for the first nine months of the year were satisfactory, given the background of lower hydroelectric and nuclear power production plus the pressure on energy prices, particularly in the electricity market.

Lars Frithiof

SALES AND EARNINGS

The Group's net sales for the first nine months of 1999 totaled SEK 10 653 M (10 835), down approximately 2% compared with the corresponding period of 1998.

Electricity sales totaled 21 559 GWh (24 058), of which the Nordic Electricity Exchange accounted for 2 738 GWh (4 020). The 10% decrease was mainly due to reduced sales to the Exchange as a result of lower hydroelectric and nuclear power production. Purchases from the Exchange totaled 2 504 GWh (990).

Gas sales increased 3% to 5 577 GWh (5 419). Sales of heat rose 4% to 2 819 GWh (2 714). Sales of consulting and contracting services to customers outside the Group rose by SEK 348 M.

Operating profit amounted to SEK 2 696 M (2 895). The decline was principally due to lower hydroelectric and nuclear power production and lower prices in the electricity market.

Depreciation and writedowns totaled SEK 1 280 M (1 167). The increase was due mainly to the acquisitions made in the past year. Earnings for the period were also charged with writedowns amounting to SEK 44 M, including SEK 32 M related to production facilities at the oil-fueled Karlshamn plant.

Results from participations in subsidiaries, primarily related to Graninge-verken and HEW, amounted to SEK 339 M (271).

Despite increased net loan indebtedness compared with the year-earlier period, the financial net improved to an expense of SEK 574 M (expense: 666), mainly as a result of lower interest-rate levels.

Profit after net financial items totaled SEK 2 122 M (2 229).

Net sales and earnings per business sector

<i>SEK M</i>	<i>Net sales</i>		<i>Of which, external</i>		<i>Earnings</i>	
	<i>Q3 99</i>	<i>Q3 98</i>	<i>Q3 99</i>	<i>Q3 98</i>	<i>Q3 99</i>	<i>Q3 98</i>
Marketing and Sales	4 216	5 180	3 948	4 913	94	156
Production	5 010	5 867	443	409	1 174	1 551
Distribution	3 241	3 280	2 950	2 831	920	874
Consulting and Contracting	1 819	1 425	977	629	79	106
Energy trading	4 962	5 491	2 315	2 044	195	56
Result from participations in associated companies	-	-	-	-	339	271
Group eliminations, etc.	- 8 595	- 10 408	20	9	- 105	- 119
Net sales	10 653	10 835	10 653	10 835		
Operating profit					2 696	2 895
Net financial items					- 574	- 666
Profit after net financial items					2 122	2 229

The 1998 financial accounts for the business sectors have been prepared on a pro forma basis.

PROFITABILITY

During the most recent 12-month period, the operating margin was 21.8% (24.1) and the profit margin 19.7% (20.6).

The return on equity after tax during the most recent 12-month period was 10.1% (10.5) and the return on capital employed before tax was 9.8% (11.1).

Earnings per share for the first nine months of the year totaled SEK 7.30 (7.74). For 1998 as a whole, earnings per share amounted to SEK 10.76.

MARKETING AND SALES BUSINESS SECTOR

The Group's marketing and sales resources, with expertise throughout the energy area, are being assembled in the Marketing and Sales business sector to increase the efficiency of sales efforts and reduce costs for both IT and administrative systems.

The new structure is still not fully implemented. Sales of products linked to natural gas are reported under the Distribution business sector, while LPG

sales are reported under the Marketing and Sales business sector as of the third quarter.

The business sector's net sales totaled SEK 4 216 M (5 180), of which sales to customers outside the Group totaled SEK 3 948 M (4 913). Operating profit amounted to SEK 94 M (156).

The decline in sales was mainly due to the gradual transfer of a number of electricity distribution agreements to Sydkraft Energy Trading during the period.

In addition to reduced electricity sales volumes, the decrease in earnings during the first nine months of 1999 was attributable to increased costs incurred in connection with the integration of acquired operations and for market cultivation activities and preparations for increased mobility in the private market segment. Increased sales of heat had a positive effect on earnings, however.

Since the hourly metering requirement was discontinued on November 1, the private market segment has also become fully exposed to competition. Sydkraft has prepared itself for this situation and will take strong actions to defend its customer portfolio and strengthen its market position.

PRODUCTION BUSINESS SECTOR

This business sector includes the production of electricity and the production and distribution of heat and cooling.

Net sales totaled SEK 5 010 M (5 867), of which sales to customers outside the Group totaled SEK 443 M (409). Operating profit amounted to SEK 1 174 M (1 551).

The decline in both sales and operating profit was primarily due to lower volumes and lower prices compared with the preceding year.

In terms of heat operations, both sales and earnings rose compared with the corresponding period of 1998. Operating earnings were also charged with writedowns totaling SEK 32 M relating to production facilities at the oil-fueled Karlshamn plant.

Electricity production totaled 19 501 GWh (22 500).

The good supply of hydroelectric power during the spring was followed by a reduced run-off and thus lower hydroelectric power production during the third quarter. Total hydroelectric power production amounted to 8 817 GWh (10 024).

Nuclear power produced 10 132 GWh (11 900). The decrease was mainly due to an extended inspection of both Barsebäck 1 and 2 and Oskarshamn 2 and to a controlled cut back of nuclear power due to the good availability of hydroelectric power during the spring.

A total of 522 GWh (576) was produced via co-generation, gas turbine, wind power and oil-based condensing power plants.

On January 1, 1999, two of the blocks at Karlshamn Kraft AB were shut down. An agreement has been signed with Svensk Kraftnät regarding compensation for reserve power from block 3 at the Karlshamn plant as of October 1 this year and through April 2002.

Heat production amounted to 2 819 GWh (2 714). The increase was due to a slightly colder winter than in the preceding year.

Work to expand the district heating system between Kumla, Hallsberg and Örebro is in progress and the first stage, between Kumla and Hallsberg, has now been placed in operation.

DISTRIBUTION BUSINESS SECTOR

All electricity and gas distribution plus marketing and sales operations related to natural gas are assembled in this business sector. Effective Q3, operations based on the marketing and sales of LPG were transferred from Sydkraft Gas to the Marketing and Sales business sector.

Net sales totaled SEK 3 241 M (3 280), of which sales to customers outside the Group accounted for SEK 2 950 M (2 831). Operating profit amounted to SEK 920 M (874).

During the first nine months of the year, the sector transported 22 725 GWh (22 528) of electricity.

Natural gas deliveries increased slightly, mainly as a result of lower temperatures compared with the corresponding period of 1998, which was extremely mild.

CONSULTING AND CONTRACTING BUSINESS SECTOR

Net sales totaled SEK 1 819 M (1 425), of which sales to customers outside the Group accounted for SEK 977 M (629). Operating profit amounted to SEK 79 M (106). Operating earnings were charged with writedowns of SEK 12 M related to certain properties.

Compared with the preceding year, operating profit for IT operations improved strongly. Contracting operations and energy technology-related information systems also developed favorably.

Operating earnings for consulting operations decreased, mainly as a result of lower volumes sold to the defense sector, which was formerly the dominant market sector for Sycon Teknikkonsult. Measures to significantly increase sales to the civil sector were successful, however.

Several acquisitions were made during the period, which are contributing to the strong operations of the business sector. Sycon, which in April acquired Tellus Teknik, continued its expansion by acquiring two smaller consulting firms in western Sweden, while in November ElektroSandberg acquired El & Trafikteknik AB (ETA) from Göterborg Energi. Through these acquisitions, the business sector gained approximately 200 new employees and additional sales of about SEK 200 M.

ENERGY TRADING

Net sales totaled SEK 4 962 M (5 491), of which sales to customers outside the Group amounted to SEK 2 315 M (2 044). Operating profit amounted to SEK 195 M (56).

The increase in operating earnings was mainly due to the large volume of financial hedging contracts settled during the period.

Sydskraft Energy Trading has rapidly become a large and active player in both the physical and financial energy markets. Sydkraft Energy Trading conducts portfolio management operations for external and internal customers and for its own account. As of November 1, the company is the first market player to receive full authorization from Sweden's Financial Supervisory Authority to conduct power portfolio management operations on behalf of customers.

Lower run-off levels during the third quarter, combined with prolonged inspection periods for the nuclear power plants, led to increased prices on the spot market where the average price during the period was at the same level as during the corresponding nine months of 1998.

As a result of the price hedging work conducted within the framework of the company's portfolio management, the increase in spot market prices during the third quarter did not have a full effect on the Group's earnings for the period.

INVESTMENTS AND ACQUISITIONS

Group investments during the period totaled SEK 3 261 M (2 635). Of this, SEK 1 143 M related to investments in existing operations, SEK 525 M to the acquisition of subsidiaries and SEK 1 593 M to participations in associated companies.

In April, Sydkraft acquired the consulting company Tellus, with 100 employees, through its subsidiary Sycon.

In June, Sydkraft acquired the shares outstanding in Sydgas for SEK 325 M, making this company a wholly owned Sydkraft subsidiary.

Also in June, Sydkraft AB and Birka Energi AB implemented a barter transaction within energy trading operations. The transaction resulted in Sydkraft becoming the owner of the whole of Östernärkes Kraft Försäljning AB and in Birka becoming the owner of the whole of Lidingö Energi Försäljning AB.

In August, Sydkraft acquired Osby Energi AB for SEK 76 M. The district heating operations conducted by the company are being retained by the municipality of Osby. Osby Energi delivers approximately 70 GWh of electricity to 4 200 customers within the municipality.

In September 1999, Sydkraft acquired 49% of the shares in Norrköping Miljö & Energi AB (NME) for SEK 1 350 M. The NME Group has approximately 800 employees and sales in 1998 totaled slightly more than SEK 1 100 M. Core operations focus on the electricity, district heating, water and waste-based energy development areas.

In September, Sydkraft acquired El & Trafikteknik AB (ETA) from Göteborg Energi through its subsidiary ElektroSandberg. ETA, which is primarily active within the street lighting and traffic lights areas, has 90 employees and annual sales of SEK 120 M.

In October, the Boards of Östfold Energi and Sydkraft approved the agreement in accordance with which Sydkraft is to acquire 49% of the shares in Östfold Energi Nett AS and Östfold Energi Kraftsalg AS. The acquisition, which becomes effective on January 1, 2000, is subject to the sale being approved by Östfold Energi's executive assembly and a special general meeting of the company's shareholders.

CASH FLOW AND FINANCIAL POSITION

Sydkraft's cash flow from operations during the period amounted to SEK 2 685 M (positive: 3 289). Cash flow after investments was negative and amounted to SEK -506 M (positive: 681).

Interest-bearing net liabilities totaled SEK 19 692 M (18 206). At year-end 1998, the Group had interest-bearing net liabilities of SEK 18 564 M.

At the end of the period, the Group's liquid funds, including cash investments, amounted to SEK 1 366 M (1 577). Liquid funds at year-end 1998 totaled SEK 1 159 M.

The equity/assets ratio was 40% (40), which is the same level as at year-end 1998.

REFUND OF CONSOLIDATION SURPLUS

During October, the Swedish Staff Pension Society (SPP) announced that approximately SEK 600 M had been reserved for allocation to companies in the Sydkraft Group. This sum has not been taken into account in the nine-month report. To date, no decision has been reached about when or how these funds may be used.

DECOMMISSIONING OF NUCLEAR POWER

On February 5, 1998, the Government decided to initiate the phase-out of Sweden's nuclear power with the decommissioning of the Barsebäck 1 nuclear power plant, commencing June 30, 1998 at the latest.

Following judicial review of the decision, Sweden's Supreme Administrative Court ruled on June 16, 1999 that the Government's decision be allowed to stand, but that the right to operate Barsebäck 1 would not be terminated until November 30, 1999.

Sydkraft appealed against the Sweden's Supreme Administrative Court's ruling and applied for a review by and an inhibition order from the Supreme Administrative Court. On November 19, the Supreme Administrative Court decided to deny the application for review and an inhibition order.

The European Commission in Brussels is continuing its review of the competition aspects of the Swedish Government's decision in accordance with the application submitted by Sydkraft on February 23, 1998. The Supreme Court has granted a review permit in the matter of the inhibition order, but finds that an inhibition order cannot be granted during the period in which the Supreme Court's review is in progress.

The EU Commission is continuing its examination of Sydkraft's application dated August 26, 1999, regarding the Supreme Administrative Court's decision not to request an advance ruling from the European Court of Justice.

Sydkraft has obtained agreements that secure the supply of physical power necessitated by the closure of Barsebäck 1. Compensation for these power supplies will be obtained through voluntary settlements entered into with the Government, or via the Decommissioning Act.

FORECAST

Earnings for the first nine months of 1999 were slightly lower than for the corresponding period of the preceding year. Correspondingly, we estimate that earnings for 1999 as a whole will be slightly lower than for 1998, assuming normal weather and operating conditions.

Given the current market situation and the fact that 1998 was an unusually good year for hydroelectric power, Sydkraft's earnings must be regarded as satisfactory.

KEY FIGURES

	<i>Q3 99</i>	<i>Q3 98</i>	<i>Q3 97</i>
Net sales, SEK M	10 653	10 835	10 472
Operating profit, SEK M	2 696	2 895	2 868
Profit after financial items, SEK M	2 122	2 229	4 348/2 045 *
Operating margin, % **) (most recent 12-month period)	21.8	24.1	25.9
Profit margin, % (most recent 12-month period)	19.7	20.6	36.0/20.4 *
Return on equity, % (most recent 12-month period)	10.1	10.5	21.4/11.6 *
Return on capital employed, % (most recent 12-month period)	9.8	11.1	18.8/12.1 *
Equity/assets ratio, %	40	40	40
Earnings per share, SEK (No. of shares 191 000 332)	7.30	7.74	15.64/6.96 *
Sales of electricity, GWh	21 559	24 058	23 592
Sales of gas, GWh	5 577	5 419	5 362
Sales of heat, GWh	2 819	2 714	2 880

*) To facilitate comparisons between the years, the figures for 1997 have been shown including and excluding the capital gain on the sale of VEBA-share, while the capital base remains unchanged.

**) The operating margin does not include participations in the results of associated companies.

CONSOLIDATED STATEMENT OF INCOME*Amounts in SEK M*

	<i>January 1999</i>	<i>-September - 1998</i>	<i>Full-year 1998</i>
Net sales	10 653	10 835	15 283
Operating expense	- 7 055	- 7 109	- 9 954
Depreciation and write-downs of fixed assets	- 1 280	- 1 167	- 1 789
Other operating revenue/expense	39	65	17
Result from participations in associated companies	339	271	431
Operating profit	2 696	2 895	3 988
Financial income	117	139	187
Profit before financial expense	2 813	3 034	4 175
Financial expense	- 691	- 805	- 1 089
Profit after financial income and expense	2 122	2 229	3 086
Taxes	- 722	- 737	- 1 010
Minority interest	- 6	- 14	- 21
Net profit for the period	1 394	1 478	2 055

CONSOLIDATED BALANCE SHEET

Amounts in SEK M

	September 30, 1999	September 30, 1998	December 31, 1998
<hr/>			
Assets			
Fixed assets	44 305	42 572	42 627
Current assets	4 715	4 486	5 236
Liquid funds	1 366	1 577	1 159
	<hr/>		
Total assets	50 386	48 635	49 022
Equity and liabilities			
Equity	20 239	19 230	19 814
Provisions for deferred tax	5 076	4 868	4 861
Interest-bearing liabilities	21 058	19 783	19 723
Non interest-bearing liabilities	4 013	4 754	4 624
	<hr/>		
Total equity and liabilities	50 386	48 635	49 022

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in SEK M

	Januari 1999	-September 1998	Full-year 1998
Cash flow before change in working capital	2 311	2 720	3 768
Change in working capital	374	569	- 232
Cash flow from operations	2 685	3 289	3 536
Fixed assets sold, including shares	41	- 522 ¹⁾	- 436 ¹⁾
Acquisitions of Group companies	- 2 089	- 725	- 665
Investments in plants	- 1 143	- 1 361	-1 956
Cash flow after investments	- 506	681	479
Net-borrowing	1 633	855	646
Dividends paid	- 920	- 1 146	- 1 153
Change in liquid funds	207	390	- 28

¹⁾ Of which tax in connection with sale of shares -645

Malmö, November 29, 1999

Lars Frithiof
Group CEO

Financial information from Sydkraft 1999	
Year-end report, 1999	February 24, 2000
Annual report, 1999	Mid April 2000
Annual General Meeting	May 8, 2000

This report has not been subject to special examination by Sydkraft AB's auditors.