

## *REPORT ON OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1999*

- **Slightly lower earnings**
- **Intense price competition**
- **Lower hydroelectric and nuclear power production**
- **Agreement reached on Barsebäck**
- **Significant acquisitions**

### **COMMENTS BY GROUP CEO**

Sydkraft departed the 20th century in strong style. Earnings in 1999 were very satisfactory, bearing in mind the particularly turbulent conditions in the energy market. The shift into the new millennium was achieved without any problems thanks to our meticulous Y2K preparations, which had been in progress for the past three years. We are now looking forward to an exciting new century. In 2006, for example, Sydkraft will celebrate the 100th anniversary of its founding.

On November 1, 1999, the total deregulation of the Swedish electricity market was implemented. As of that date, all electricity consumers can, in practice, change their electricity suppliers with one month's advance notice. During November and December, several thousand customers left Sydkraft. In return, we gained customers from other companies.

There was substantial price pressure in the Nordic electricity market, which resulted in Sydkraft's electricity sales and energy trading operations experiencing lower revenues. The mild start to the winter also left its mark on electricity prices.

The restructuring process continued during the year and in September we acquired a 49% holding in Norrköping Miljö & Energi, a transaction totaling approximately SEK 1.3 billion. During the early months of 2000, we have acquired 49% of the shares in two Norwegian companies, Østfold Energi Kraftsalg and Østfold Energi Nett. With Østfold Energi as our partner and Southern Norway as our base, we improve our potential to expand further into the Norwegian market.

During 1999, we also acquired Tellus Teknik AB, with a hundred of highly qualified environmental consultants, and El & Trafikteknik (ETA) in Gothenburg, with experts in the maintenance of traffic lights. Among other

projects, ETA secured an order at the end of 1999 to maintain the city of Oslo's traffic lights.

Work to strengthen the Sydkraft brand is continuing. During the year, a number of campaigns, particularly those on television, generated positive results. The degree of brand recognition has increased significantly. Sydkraft will continue to be seen in connection with aggressive promotional projects. We shall therefore be taking a very active part in the international and EU-supported housing exhibition Bo01 in Malmö in summer 2001. The format is based on a futuristic community consisting of more than 1 000 exciting apartments and houses. It is estimated that the exhibition will attract about one million visitors, who will be given the opportunity to see how Sydkraft delivers 100% local, renewable energy based on ecocycle principles with fully maintained standards of comfort. Through our corporate slogan "TomorrowToday," we shall reflect our desire to look to the future without losing our grip on the present.

The Barsebäck nuclear power plant was decommissioned on November 30, 1999 due to a political decision. We pursued the legal process to the extent possible, while simultaneously negotiating a voluntary settlement with the Swedish Government. The agreement reached with the Government and Vattenfall was approved by a special general meeting of shareholders just prior to Christmas. An independent party, Handelsbanken Markets, was able to demonstrate that the settlement would not be negative for shareholders. The Standard & Poor's credit rating institute considers the settlement to be neutral from a credit-rating viewpoint. The Swedish Government/Parliament will reach a decision on the settlement during spring 2000.

*Lars Frithiof*  
*Chief Executive Officer*

**SALES AND EARNINGS**

The Group's net sales for 1999 totaled SEK 14 779 M (15 283), down approximately SEK 504 M, or 3%, compared with 1998.

Electricity sales totaled 29 257 GWh (32 980). The 11% decrease was mainly due to reduced water availability and lower nuclear power production. Gas sales increased marginally to 8 259 GWh (8 237). Sales of heat declined by 2% to 4 187 GWh (4 270). Sales of consulting and contracting services to customers outside the Group rose by SEK 308 M.

Operating expenses amounted to SEK 9 914 M (9 954). As a result of the lower hydroelectric and nuclear power production, the relative proportion of power purchased from the electricity exchange and elsewhere increased. This is the main reason for operating expense not declining by more than SEK 40 M. Operating expense included SEK 12 M (16) for employee profit participation.

Write-downs during the year totaled SEK 43 M (236), most of which related to the oil-fueled Karlshamn plant.

Results from participations in subsidiaries, primarily related to the holdings in Hamburgische Electricitäts-Werke (HEW) and Graningeverkens AB, amounted to SEK 468 M (431).

Combined, these factors resulted in a decline of SEK 299 M in operating profit to SEK 3 689 M (3 988). Operating profit for 1998 included capital gains of SEK 65 M and earnings in 1999 were charged with about SEK 40 M in costs for the corporate branding campaign. Excluding these items, operating profit was down 5% on the preceding year.

Despite increased net loan indebtedness compared with the preceding year, the financial net improved by SEK 121 M to an expense of SEK 781 M (expense: 902). This was mainly due to the Group being able to exploit lower interest-rate levels during the year.

Group profit after financial items declined by SEK 178 M and totaled SEK 2 908 M (3 086).

Profit for the year amounted to SEK 1 939 M (2 055).

**PROFITABILITY**

During 1999, the operating margin was 21.8% (23.3) and the profit margin 19.7% (20.2).

The return on average equity after tax during the year was 9.6% (10.7) and the return on average capital employed before tax was 9.5% (10.9). The decrease was mainly

due to a continued increase in equity and interest-bearing liabilities in combination with a somewhat lower level of earnings.

Earnings per share totaled SEK 10.15 (10.76).

## BUSINESS SECTORS

### Net sales and earnings per business sector

<i>SEK M</i>	<i>Net sales</i>		<i>Of which, external</i>		<i>Earnings</i>	
	<b>1999</b>	1998	<b>1999</b>	1998	<b>1999</b>	1998
Marketing and Sales	<b>6 059</b>	7 333	<b>5 638</b>	6 945	<b>96</b>	236
Production	<b>7 091</b>	8 242	<b>555</b>	621	<b>1 690</b>	1 987
Distribution	<b>4 619</b>	4 658	<b>4 173</b>	4 034	<b>1 321</b>	1 310
Consulting and Contracting	<b>2 565</b>	2 186	<b>1 347</b>	1 039	<b>133</b>	148
Energy trading	<b>6 704</b>	7 370	<b>3 015</b>	2 620	<b>230</b>	61
Result from participations in associated companies					<b>468</b>	431
Group eliminations, etc.	<b>-12 259</b>	-14 506	<b>51</b>	24	<b>-249</b>	-185
<b>Net sales</b>	<b>14 779</b>	15 283	<b>14 779</b>	15 283		
<b>Operating profit</b>					<b>3 689</b>	3 988
Net financial items					<b>-781</b>	-902
<b>Profit after net financial items</b>					<b>2 908</b>	3 086

### Marketing and Sales business sector

The business sector's net sales totaled SEK 6 059 M (7 333), of which sales to customers outside the Group totaled SEK 5 638 M (6 945). Operating profit amounted to SEK 96 M (236), down SEK 140 M.

The decline in sales and volumes was due to the transfer of a number of electricity distribution and major customer agreements to Sydkraft Energy Trading during the year. Sales were also down slightly as a result of milder weather conditions, compared with the preceding year.

Competition in the electricity market has become progressively tougher and electricity prices dropped by about 5% compared with 1998. With the discontinuation of the hourly metering requirement in Sweden on November 1, the private market segment has also become fully exposed to competition.

In addition to reduced electricity sales volumes, the decrease in earnings was attributable to increased marketing costs and preparations for increased mobility in the private market segment. Earnings during the final quarter were also charged with

slightly more than SEK 90 M for expected losses on unprofitable agreements signed in autumn 1997.

### **Production business sector**

Net sales totaled SEK 7 091 M (8 242), of which sales to customers outside the Group accounted for SEK 555 M (621). Operating profit amounted to SEK 1 690 M (1 987), a decrease of SEK 297 M. Operating profit was charged with write-downs totaling SEK 32 M (206) related primarily to the oil-fueled Karlshamn plant.

The decline in both sales and operating profit was mainly due to lower electricity production and lower prices compared with the preceding year.

Electricity production totaled 27 535 GWh (30 937).

Total hydroelectric power production amounted to 11 370 GWh (13 514). The decrease should be viewed in the light of the extremely abundant water supplies available in 1998 and the fact that hydroelectric power production in 1999 exceeded a so-called normal year by approximately 0.8 TWh.

Nuclear power produced 15 357 GWh (16 509). The decrease was mainly due to an extended inspection of both Barsebäck 1 and 2 and Oskarshamn 2 and to a controlled cutback of nuclear power due to the good availability of hydroelectric power during the spring. All reactors are in full production, with the exception of Barsebäck 1, which was decommissioned on November 30, 1999. As of this date, Sydkraft receives replacement power from the Swedish Government.

A total of 808 GWh (914) was produced via co-generation, gas turbine and wind power plants. On January 1, 1999, two of the blocks at Karlshamn Kraft AB were shut down. An agreement has been signed with Svenska 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 4 187 GWh (4 270). The decrease was due to a slightly milder winter than in the preceding year. Work to expand the district heating system between Hallsberg, Kumla and Örebro is under way. The first stage, between Hallsberg and Kumla, has been placed in operation.

The pressurized gasification test program to obtain biofuel-based electricity and heat production from biofuels at the Värnamo plant was concluded as planned during October, following six years of research work.

### **Distribution business sector**

Net sales totaled SEK 4 619 M (4 658), of which sales to customers outside the Group accounted for SEK 4 173 M (4 034). Operating profit amounted to SEK 1 321 M (1 310), up by about SEK 11 M.

All of the Sydkraft Group's electricity network and gas companies have been assembled in the Distribution business sector. The sector's companies are responsible for the operation and maintenance of the network and other facilities in order to transport electricity, natural gas and LPG to the network's customers. In addition, Sydgas is responsible for all purchasing and delivery of natural gas to distributors in Helsingborg, Lund and Ängelholm, as well as to the Heleneholm plant in Malmö.

During the year, the sector transported 31 554 GWh (31 363) of electricity. Unfortunately, highly turbulent autumn weather conditions caused a disruption of service to many customers in mainly southern Sweden. During the first weekend in December, gales reached hurricane force and Sydkraft experienced major problems with salt build-up on switchgear and blown-down transmission lines.

Natural gas deliveries amounted to 7 313 GWh (7 294). As in 1998, the weather during the year was significantly warmer than usual, particularly during the spring and the September-November period. This led to a decrease in deliveries for heating purposes, while volumes for customers in the industrial segment increased.

### **Consulting and Contracting business sector**

Net sales totaled SEK 2 565 M (2 186). Sales to customers outside the Group accounted for SEK 1 347 M (1 039), which meant that external sales rose 53% (48). Operating profit amounted to SEK 133 M (148), a decrease of SEK 15 M. Operating earnings were charged with write-downs of SEK 11 M (16) related to certain properties.

Several acquisitions were made during the year, which are helping to strengthen and expand the business sector's operations. Sycon's acquisition of the consulting company Tellus established Sydkraft in the environmental management segment, while ElektroSandberg's acquisition of El & Trafikteknik AB (ETA) strengthens operations within the traffic information segment. Through these acquisitions, the business sector gained approximately 200 new employees and additional sales of some SEK 200 M.

The trend of operating profit for IT operations was positive. For WM-data Ellips, the year was marked by strong growth for consulting services, while licensed sales of the company's various systems for the energy industry also increased.

Despite narrowing margins, ElektroSandberg's contracting and service operations showed favorable sales and earnings trends.

Operating earnings for Sycon decreased as a result of lower demand from the defense sector. Earnings were also charged with restructuring costs. The purpose of the restructuring work is to increase market share and volumes within the civil sector, particularly within selected geographic growth areas.

**Energy trading**

Net sales totaled SEK 6 704 M (7 370), of which sales to customers outside the Group amounted to SEK 3 015 M (2 620). Operating profit amounted to SEK 230 M (61), up by SEK 169 M. The increase was primarily due to lower purchase prices for physical power in combination with the settlement of financial hedging contracts.

Average prices in the spot market fluctuated sharply during the year and were approximately 2 öre/kWh lower than for the preceding year. Because of the hedging conducted within the framework of Sydkraft's portfolio management, the lower spot market price levels did not have a full effect on Group earnings.

On November 1, 1999, Sydkraft Trading AB became the first market player to receive full authorization from Sweden's Financial Supervisory Authority to conduct trading operations with energy derivatives – futures, options – and currencies on behalf of external customers, and to transact business deals based on energy derivative instruments between different parties.

**INVESTMENTS AND ACQUISITIONS**

Group investments during the year totaled SEK 3 857 M (3 185).

Fixed asset investments in existing operations amounted to SEK 1 652 M (1 956). In addition to normal investments for renewal and to increase efficiency, notable major investments related to the modernization of block 1 at the Oskarshamn nuclear power plant, in which Sydkraft's share was SEK 137 M, and the expansion of the district heating network linking Hallsberg-Kumla-Örebro, for SEK 100 M.

Investments in new subsidiaries and shares in associated companies totaled SEK 2 205 M (1 229).

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

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

Notable other acquisitions included Osby Energi AB, El & Trafikteknik AB (ETA) and the consulting company Tellus Teknik AB. Jointly with other players, a number of electricity sales companies were established, including Elektra Energihandel A/S on the island of Sjaelland, Denmark, and HEMAB Elförsäljning AB in Härnösand, Sweden.

The acquisition of 49% of the shares in Østfold Energi Nett AS and Østfold Energi Kraftsalg AS for SEK 784 M is expected to be formally concluded by March 1, 2000.

**CASH FLOW AND FINANCIAL POSITION**

Sydkraft's cash flow from operations during the year was positive and amounted to SEK 3 466 M (positive: 3 536). Cash flow after investments was negative and amounted to SEK 157 M (positive: 479).

Interest-bearing net liabilities increased by SEK 0.7 billion due mainly to company acquisitions and totaled SEK 19.3 billion at year-end.

At the end of 1999, the Group's liquid funds, including cash investments, amounted to SEK 1 352 M (1 159).

The equity/assets ratio was 41% (40).

**REFUND OF CONSOLIDATION SURPLUS**

During October 1999, 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 year-end report. To date, no decision has been reached about when or how these funds may be used.

**AGREEMENT REGARDING BARSEBÄCK**

On November 30, 1999, the Swedish Government, Sydkraft and Vattenfall reached a solution – a framework agreement – regarding the Barsebäck nuclear power plant. The agreement relates to both of the Barsebäck reactors and means that Sydkraft will be compensated with a corresponding amount of electricity production, at the same cost and with the same environmental impact.

Barsebäck 1 was decommissioned on November 30, 1999, at which time Sydkraft immediately received replacement power from the Government via Vattenfall. A special interim agreement regulates these deliveries until the framework agreement formally comes into force following Government/Parliament approval during year 2000.

The Barsebäck and Ringhals nuclear power plants will be merged to form a single corporate group, in which Sydkraft will have a 25.8% holding. If Barsebäck 2 is subsequently decommissioned as a result of a political decision, Sydkraft will receive a higher proportion, about 30%, corresponding to the closure of Barsebäck 2.

Sydkraft will pay SEK 113 M per year in addition to the production costs for Ringhals, since production costs in Barsebäck are approximately 1.4 öre/kWh higher than at Ringhals.

The Government's costs include the additional costs incurred for so-called "single operation" of Barsebäck 2 and for decommissioning and maintaining the service operations of Barsebäck 1. This compensation will be paid annually,

with an initial amount of nearly SEK 400 M, which will be reduced each year to a figure of approximately SEK 240 M in the final year. Based on a present-value computation, this compensation will amount to approximately SEK 3.3 billion.

Decommissioning and demolition responsibility for the Barsebäck plant will continue to rest with Sydkraft, while the corresponding responsibility for the Ringhals plant will rest with Vattenfall.

At the Special General Meeting on December 22, shareholders voted to approve the proposed voluntary settlement. At the Special General Meeting, an independent third party – Handelsbanken Markets – presented its view of the proposed settlement to the shareholders. In its evaluation, Handelsbanken Markets stated that Sydkraft is not negatively affected by the financial transactions, or by the terms of the agreement in general. Furthermore, Standard & Poor's considers the agreement to be neutral from a credit-rating viewpoint and has accordingly affirmed the Sydkraft rating.

The proposed agreement is subject to the approval of the Swedish Government, which is expected in spring 2000.

## **DIVIDEND**

The Board of Director's aim is that the Sydkraft share's dividend and growth in value should be in line with the level for the sector and above the interest on risk-free long-term financial investments. Long-term, the dividend should correspond to between 30% and 50% of profit after tax.

In accordance with the dividend policy, the Board proposes that the Annual General Meeting approve a dividend of SEK 4.75 per share (4.75) for the 1999 fiscal year. The dividend proposed corresponds to 47 % of Group profit after tax.

The Annual General Meeting will take place in Malmö on May 8, 2000.

It is expected that the 1999 Annual Report will be published and available during the week commencing April 17, 2000.

Malmö, February 24, 2000

Lars Frithiof  
Chief Executive Officer

Note: Figures within parentheses refer to corresponding values for 1998. The business sectors accounts for 1998 have been prepared on a pro forma basis.

Enclosed:  
Consolidated Income Statement.  
Consolidated Balance Sheet  
Consolidated Statement of Cash Flows

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

<b>FIVE YEARS IN SUMMARY</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Net sales, SEK M	12 155	13 556	14 513	15 283	14 779
Operating profit, SEK M	3 543	3 460	3 996	3 988	3 689
Profit after net financial items, SEK M	2 499	2 504	5181/2878 <sup>1)</sup>	3 086	2 908
Total assets, SEK M	39 343	42 074	47 495	49 022	51 104
Investments, SEK M	1 473	3 301	8 956	3 185	3 857
Operating margin, % <sup>2)</sup>	29	25	25	23	22
Profit margin, %	21	18	36/20 <sup>1)</sup>	20	20
Return on equity, %	12.6	11.8	19.9/10.4 <sup>1)</sup>	10.7	9.6
Return on capital employed, %	12.5	11.7	18.5/11.9 <sup>1)</sup>	10.9	9.5
Equity/assets ratio, %	38	38	40	40	41
Earnings per share, SEK <sup>3)</sup>	9.37	9.52	18.13/9.45 <sup>1)</sup>	10.76	10.15
Electricity sales, GWh	30 120	31 218	32 025	32 980	29 257
Gas sales, GWh	7 709	8 079	8 075	8 237	8 259
Heat sales, GWh	3 088	3 371	4 317	4 270	4 187

- <sup>1)</sup> To facilitate comparisons between the years, the figures for 1997 show values both including and excluding the capital gain on the sale of the shares in VEBA, while the capital base remains unaltered.
- <sup>2)</sup> The operating margin has been calculated excluding participation in the results of associated companies.
- <sup>3)</sup> The total number of shares in the Parent Company is 191 000 332.

## **FINANCIAL INFORMATION FROM SYDKRAFT 2000**

Annual report	Mid April
Annual General Meeting	May 8
Interim report as per March 31	May 8
Interim report as per June 30	August 21
Interim report as per September 30	November 27

**CONSOLIDATED STATEMENT OF INCOME**

Amounts in SEK M

	<b>1999</b>	<b>1998</b>
<b>Net sales</b>	<b>14 779</b>	<b>15 283</b>
Operating expense	-9 914	-9 954
Depreciation and write-downs of fixed assets	-1 680	-1 789
Other operating revenue/expense	36	17
Share in profit of associated companies	468	431
<b>Operating profit</b>	<b>3 689</b>	<b>3 988</b>
Financial income	166	187
<b>Profit before financial expense</b>	<b>3 855</b>	<b>4 175</b>
Financial expense	-947	-1 089
<b>Profit after financial income and expense</b>	<b>2 908</b>	<b>3 086</b>
Taxes	-961	-1 010
Minority interest	-8	-21
<b>Net profit for the period</b>	<b>1 939</b>	<b>2 055</b>

**CONSOLIDATED BALANCE SHEET**

Amounts in SEK M

	<b><u>Dec. 31, 1999</u></b>	<b><u>Dec. 31, 1998</u></b>
<b>Assets</b>		
Fixed assets	44 379	42 627
Current assets	5 373	5 236
Liquid funds	1 352	1 159
<b>Total assets</b>	<b>51 104</b>	<b>49 022</b>
<b>Equity and liabilities</b>		
Shareholders' equity	20 832	19 814
Deferred tax liability	5 150	4 861
Interest-bearing liabilities	20 658	19 723
Non-interest-bearing liabilities	4 464	4 624
<b>Total equity and liabilities</b>	<b>51 104</b>	<b>49 022</b>

**CONSOLIDATED STATEMENT OF CASH FLOW**

Amounts in SEK M

	<b>1999</b>	<b>1998</b>
Cash flow before change in working capital	3 362	3 517
Change in working capital	104	19
<b>Cash flow from operations</b>	<b>3 466</b>	<b>3 536</b>
Fixed assets sold, including shares	99	-436 <sup>1)</sup>
Acquisitions of Group companies	-2 070	-665
Investments in plants	-1 652	-1 956
<b>Cash flow after investments</b>	<b>-157</b>	<b>479</b>
Net borrowing	1 270	646
Dividends paid	-920	-1 153
<b>Change in liquid funds</b>	<b>193</b>	<b>-28</b>

<sup>1)</sup> of which tax in connection with sale of shares -645