

Organization number 556006-8420

INTERIM REPORT JANUARY - JUNE 2000

- **Tough price competition and low electricity prices**
- **Decrease in sales of electricity and heat due to mild weather conditions**
- **Profit after net financial items down by 7%**
- **Lower operating and maintenance costs**
- **Cash flow from operations remains strong**
- **Continued focus on broadband**

COMMENTS BY GROUP CEO

Tough competition in primarily the electricity market combined with a mild start to the year led to lower earnings for the Group during the first six months. The ongoing rationalization and efficiency enhancement measures were unable to fully offset the impact of lower volumes and continuing low electricity prices. Operating profit declined by 6% during the period. Profitability in the form of the Group's return ratios deteriorated somewhat, while the profit margin was slightly up. Cash flow remained strong.

Within the Marketing and Sales business sector the margin for electricity declined compared with the corresponding period of 1999. Price area differences occurred on the electricity exchange as a result of the abundant water supplies in Norway and transmission restrictions between Norway and Sweden. At times, the spot price for electricity in Sweden was significantly higher than in Norway.

The price area differences constituted a problem for the Nordic electricity exchange. The differences derive from the surplus of hydroelectric power in Norway, which was accentuated by the high precipitation in July and the periodical scarcity of effective output in Sweden. As usual nuclear power plants were subject to inspection during the summer and, in addition, some nuclear power production was reduced to come into line with market conditions. For the same reasons, it is possible that in future production plants could be shut down for long periods.

A factor that is contributing significantly to this trend is the switch to a fixed "output tax" on nuclear power, effective midyear 2000. Such a tax stimulates prolonged cutbacks at one and the same place. The tax is equivalent to approximately 20% of the forward contract price of electricity.

Few people can have missed the reports of the very difficult situation caused by the severe rainfall in parts of northern Sweden earlier this summer. Flooding caused extensive damage in certain areas. Like everyone else, it was impossible for the power companies to foresee the extreme precipitation that occurred. A great deal of damage also took place in the unregulated tributaries, for which there are neither dams nor power plants. Regulation of rivers reduces the risk of flooding.

The restructuring of the Nordic energy market is continuing. Following our acquisition of 49% of Østfold Energi's sales and network companies, we are now discussing the acquisition of 20% of Oslo Energi Holding. It is estimated that these negotiations will be concluded during the autumn. Oslo Energi Holding, which is one of the largest power companies in Norway, has substantial hydroelectric power operations.

Sydkraft's increased presence in Norway is creating business opportunities for several companies in the Group. ElektroSandberg, part of the Consulting and Contracting business sector, is hiring new employees in southern Norway in order to meet the needs that exist in that

region. In Denmark, we are starting a new company, Sydkraft Danmark A/S, which will offer the Danish heat market Totalvärme – Sydkraft's successful Swedish heating concept. In Poland, we are continuing our efforts to sell-in the same concept Total Heat and to invest in central and subsidiary boiler plants in the city of Poznan's district-heating network for 600 000 consumers.

Developments in the IT and broadband areas are progressing rapidly. Within just a few years, 40% of all households in Sweden are expected to be linked to the broadband network. We have established Sydkraft Bredband AB in order to sharpen our efforts to generate business with the help of broadband technology. Our aim is for Sydkraft, which has worked with broadband for a number of years, to become one of the country's leading suppliers of broadband. Accordingly, investments will be made in the main grid, metropolitan networks and access networks – in other words, all the networks that are closest to the customer.

This focus is another expression of our desire to look to the future without losing our grip on the present, as coined in our new corporate slogan, "TomorrowToday." Another future-oriented project is the international housing exhibition "Bo01," which will take place in Malmö in 2001. Sydkraft will deliver 100% locally generated, renewable energy based on windpower, solar cells and geothermal technology.

With approximately 1 000 consultants in our Consulting and Contracting business sector, many of whom are experts in IT and broadband, we have every reason to act aggressively in the energy area. During recent months, Sycon, our consulting company, has acquired additional expertise. In July, Stockholm Konsult Stadsutveckling and BARAB were acquired, contributing 170 and 20 technical consultants, respectively, to Sycon's operations.

The prevailing market conditions, with extremely low electricity prices and a lack of transmission capacity between mainly Norway and Sweden, have caused substantial price area differences and this has had an adverse effect on all of the Group's Swedish electricity sales companies. Stable cash flows from principally our hydroelectric production and distribution operations mean that we can continue to participate actively in the ongoing restructuring of primarily the Nordic electricity market.

Lars Frithiof

SALES AND EARNINGS

The Group's net sales for the period amounted to SEK 7 390 M (7 701), down approximately 4%, compared with the first half of 1999. SEK 3 008 M (3 360) of sales was attributable to the second quarter.

The decrease in sales was mainly due to lower volumes of energy sold, in combination with lower electricity prices.

Energy sales were down as a result of the mild start to the year.

Electricity sales totaled 14 452 GWh (16 320). The 11% decrease was mainly due to the mild weather in combination with lower hydroelectric and nuclear power production. As a result of lower LPG sales, gas deliveries decreased by 5% to 4 283 GWh (4 528). The mild weather resulted in sales of heat declining by 7% to 2 310 GWh (2 483) during the period.

Operating expenses declined by 5% and totaled SEK 4 828 M (5 080). The decrease, which was due to continuing measures to improve cost-efficiency, in combination with lower volumes, was insufficient to fully offset the impact of lower energy volumes and continuing low electricity prices.

Depreciation during the period amounted to SEK 856 M (854).

Earnings from participations in associated companies, primarily HEW and Graninge and the newly added associated companies Norrköping Miljö & Energi and Østfold Energi, amounted to SEK 188 M (226).

Operating profit declined by 6% to SEK 1 905 M (2 030). SEK 615 M (705) of operating profit was attributable to the second quarter.

The financial net was largely unchanged compared with the first half of 1999 and amounted to an expense of SEK 372 M (expense: 380).

Consolidated profit after financial items amounted to SEK 1 533 M (1 650).

Net sales and earnings per business sector

<i>SEK M</i>	<i>Net sales</i>		<i>Of which, external</i>		<i>Earnings</i>	
	<i>Q2 2000</i>	<i>Q2 1999</i>	<i>Q2 2000</i>	<i>Q2 1999</i>	<i>Q2 2000</i>	<i>Q2 1999</i>
Marketing and Sales	3 283	3 099	3 033	2 912	33	78
Production	3 726	3 990	312	295	1 019	1 064
Distribution	2 605	2 363	1 911	2 123	690	700
Consulting and Contracting	1 153	1 181	649	618	12	68
Energy Trading	3 031	3 569	1 448	1 710	62	5
Result from participations in associated companies	-	-	-	-	188	226
Group eliminations, etc.	- 6 408	- 6 501	37	43	- 99	- 111
Net sales	7 390	7 701	7 390	7 701		
Operating profit					1 905	2 030
Net financial items					- 372	- 380
Profit after net financial items					1 533	1 650

PROFITABILITY

During the most recent 12-month period, the operating margin was 21.7% (21.7) and the profit margin 19.3% (19.2).

The return on equity after tax during the most recent 12-month period was 9.1% (10.1) and the return on capital employed before tax was 9.4% (10.3).

Earnings per share for the first six months of 2000 totaled SEK 5.35 (5.70). For 1999 as a whole, Sydkraft's earnings per share amounted to SEK 10.15.

MARKETING AND SALES BUSINESS SECTOR

The business sector encompasses the Group's marketing and sales resources, in which competence encompassing the entire energy area is concentrated.

Net sales for the period totaled SEK 3 283 M (3 099), of which sales to customers outside the Group accounted for SEK 3 033 M (2 912). Operating profit amounted to SEK 33 M (78).

The increase in sales was due primarily to heat, gas and LPG sales being reported in other business sectors during the first quarter of 1999. At the same time, physical sales of electricity and heat were down as a result of the substantially milder than usual start to the year. Moreover, a number of distribution and major customer agreements were transferred to Sydkraft Energy Trading during the latter part of 1999.

The severe price competition in the electricity market led to a drop in price levels and the margin for electricity narrowed compared with the preceding year. As a result of the abundant water supply in Norway, combined with transmission restrictions between Norway and Sweden, so-called price-area differences arose on the electricity exchange. This had an adverse effect on the earnings of the business sector.

Extensive measures are in progress within the business sector to strengthen Sydkraft's position in energy markets. These include marketing activities and projects of various sorts, as well as

comprehensive changes to administrative systems to improve the efficiency of working routines and to increase competitiveness.

PRODUCTION BUSINESS SECTOR

The business sector encompasses the production of electricity and the production and distribution of heating and cooling.

Net sales totaled SEK 3 726 M (3 990), of which sales to customers outside the Group accounted for SEK 312 M (295). Operating profit amounted to SEK 1 019 M (1 064).

The decline in sales was mainly due to lower electricity production and lower sales of heating compared with the first six months of 1999. The decrease in operating profit was mainly attributable to the lower volumes of heat sold. As a result of inventory reductions in connection with changed production conditions, sales of oil rose during the first quarter by approximately SEK 100 M.

Electricity production totaled 14 204 GWh (15 685).

Total hydroelectric power production amounted to 5 981 GWh (6 516). The decrease between the years was due to the lower water run-off during the first quarter, compared with the preceding year.

Nuclear power produced 7 849 GWh (8 658). The decrease was due to Sydkraft receiving 1 066 MW in replacement power as a result of the agreement entered into with the Swedish Government regarding the decommissioning of block 1 in Barsebäck, compared with the earlier 1 200 MW generated by both blocks. The lower output will be compensated over time. Sydkraft received power from the Government equivalent to 466 MW as compensation for block 1 in Barsebäck. Energy availability was very high in all nuclear power blocks, but production of nuclear power was reduced during the spring due to the good availability of hydroelectric power in the Nordic system and the prevailing market conditions.

The agreement reached between the Swedish Government, Sweden and Vattenkraft on November 30, 1999, became effective on July 31, resulting, among other consequences, in Barsebäck Kraft AB becoming a subsidiary of Ringhals AB, a company in which Sydkraft has a 25.8% holding.

A total of 374 GWh (511) of electricity was produced via co-generation, gas turbine and wind power plants. The decrease was due primarily to lower heat production, which in turn affected opportunities to produce electricity in co-generation plants. The agreement with Svenska Kraftnät regarding compensation for maintaining gas turbines as a reserve source of power was expanded to include the second gas turbine in Halmstad, which was thereby placed in operational readiness. In connection with the concluding tests of the SwePol Link and simultaneous work on the main grid, unit 3 at Karlshamn Kraft AB was operated to a limited extent during the first two weeks of June.

Heat production amounted to 2 310 GWh (2 483) during the first half of the year. The decrease was due to a slightly warmer winter and spring compared with the preceding year. Several new heating deliveries were commenced during the period. Sydkraft Värme Malmö invested SEK 45 M in the natural-gas-fired Heleneholm plant, whereby the output of one of the boilers was increased by around 10%, without requiring any additional fuel.

Work to develop heating operations in Poland has led to Sydkraft signing an agreement with Poznan's district heating company and the city of Poznan regarding joint ownership of a subsidiary to the district heating company.

Poznan is approximately the size of the Swedish city of Gothenburg. In addition, offers have been made for a number of heating plants in Poland.

Offers for heating operations have also been submitted in Sweden.

A new company, Sydkraft Danmark A/S, was formed during the period to develop heating operations in Denmark.

DISTRIBUTION BUSINESS SECTOR

The business sector includes all of the Sydkraft Group's electricity network and gas companies. These companies are responsible for the operation and maintenance of networks and other facilities in order to transport electricity, natural gas and LPG to connected customers. In addition, the subsidiary, Sydgas, supplies natural gas to the Marketing and Sales business sector, the Heleneholm plant in Malmö and the distributors in Helsingborg, Lund and Ängelholm.

Net sales totaled SEK 2 605 M (2 363), of which sales to customers outside the Group accounted for SEK 1 911 M (2 123). Operating profit amounted to SEK 690 M (700).

The increase in net sales is mainly explained by three factors. Since the corresponding period of 1999, three new electricity network companies have been added: Osby, Billeberga and Lessebo. In addition, a new fee of 0.2 öre/kWh has been imposed on Swedish electricity network companies to compensate the support granted to small-scale electricity production by the authorities. The fee is taken from consumers. Finally, the sharp increase in the price of oil during the past year has affected both the purchasing and sales price of natural gas.

The decrease in external sales was attributable to marketing and sales operations for gas and LPG being transferred to the Marketing and Sales business sector.

Earnings remained largely unchanged compared with the corresponding period of 1999 due to ongoing cost-rationalization measures.

During the period, the sector transported 16 445 GWh (16 121) of electricity. Natural gas deliveries amounted to 3 921 GWh (3 964). As in 1999, the weather during the period was milder than usual, which affected temperature-dependent deliveries.

CONSULTING AND CONTRACTING BUSINESS SECTOR

Net sales totaled SEK 1 153 M (1 181). Sales to customers outside the Group accounted for SEK 649 M (618), which meant that the proportion of external sales rose to 52% to 56%. Operating profit amounted to SEK 12 M (68).

The structure of customer and project consulting operations is continuing to change, with a greater proportion of assignments being received within the environment, safety and operational development segments. Since midyear, Sycon AB has acquired Stockholm Konsult Stadsutveckling and BARAB AB, with 170 and 20 consultants, respectively. Following these acquisitions, Sycon has a total of approximately 1 000 consultants and has thus reinforced its position as one of the largest technical consulting companies in Sweden.

Operating profit in the contracting segment declined, due to lower margins and to earnings being charged with nonrecurring costs related to the restructuring of the ElektroSandberg group. In other respects, contracting operations showed a favorable level of work on hand.

The trend of operating profit for IT operations was negative, due to the lower level of work on hand for IT-consultants. At the same time, however, volumes are growing for new products and the earnings trend will improve during the remainder of the year.

Market conditions for electricity-metering operations have changed drastically as a result of the deregulation of the electricity market and the new rules that came into force as a result. This led to reduced volumes for Evicom, with cuts in both personnel and costs as a consequence. At the same time, Evicom is investing in the IT infrastructure/broadband area, the costs of which are initially being charged against earnings. To date, the investments have led to Sydkraft becoming one of four owners in the so-called opto-triangle between Malmö, Gothenburg and Stockholm,

and broadband test projects on the cable TV network in Staffanstorp and electricity network communications in Limhamn.

ENERGY TRADING

Net sales totaled SEK 3 031 M (3 569), of which sales to customers outside the Group amounted to SEK 1 448 M (1 710). Operating profit amounted to SEK 62 M (5).

The decrease in sales was primarily attributable to lower volumes and price levels. The increase in operating profit was due to improved trading results and lower purchasing prices for physical power. Spot prices on the Nordic electricity exchange were somewhat lower than in 1999. However, the abundant supply of hydroelectric power in Norway in combination with restricted transmission opportunities between Norway and Sweden led to the price of spot power in Sweden being higher at times than the price of electricity on the Nord Pool exchange. This price difference also made a positive contribution to earnings.

Energy Trading is continuing to develop portfolio management operations for external customers. This concept has been received with major interest by customers and a number of new agreements were signed during the period.

INVESTMENTS AND ACQUISITIONS

Group investments during the period totaled SEK 1 466 M (1 340). Of this amount, fixed asset investments in existing operations accounted for SEK 655 M (728), investments in new subsidiaries for SEK 55 M (395) and shares in associated companies for SEK 756 M (217).

At the beginning of the year, Sydkraft acquired all of the shares in AB Lessebo kommuns Elnät. Sydkraft and Härnösand Energi & Miljö jointly established HEMAB Elförsäljning AB, in which Sydkraft AB has a 75% interest. The largest transaction was the 49% stake acquired in Østfold Energi Nett AS and Østfold Energi Kraftsalg AS.

During the second quarter, fixed asset investments in existing operations amounted to SEK 334 M, with only minor investments being made in the acquisition of subsidiaries and increases in the holdings of existing associated companies.

CASH FLOW AND FINANCIAL POSITION

Sydkraft's cash flow from operations during the period amounted to SEK 2 606 M (2 210). Cash flow after investments amounted to SEK 1 102 M (914).

Interest-bearing net liabilities amounted to SEK 19 077 M (18 229). At year-end 1999, net loan debt totaled SEK 19 306 M.

At the end of the period, the Group's liquid funds, including cash investments, amounted to SEK 1 499 M (1 836). At year-end 1999, the Group had liquid funds of SEK 1 352 M.

The equity/assets ratio was 41% (41). At year-end 1999, the Group had an equity/assets ratio of 41%.

PARENT COMPANY

The Parent Company's net sales during the period amounted to SEK 2 952 M (3 503).

Profit after net financial items totaled SEK 1 337 M (941).

Liquid funds, including cash investments, amounted to SEK 1 150 M (1 569), up by SEK 213 M since year-end 1999.

Investments for the period totaled SEK 771 M (1 185), of which investments in shares accounted for SEK 770 M (1 177).

REFUND OF CONSOLIDATED 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 this or any earlier reports.

In spring 2000, SPP presented rules for how the payments were to be made and simultaneously announced that payments of company-linked funds were expected to commence in August.

Taking into account the expected payment schedule, the effect on Sydkraft's earnings during 2000 is expected to amount to approximately SEK 500 M. It is estimated that accounting will commence as of the third quarter, at which time Sydkraft assesses that all of the conditions pertaining to these funds will be known.

NEW ACTIVITIES AND OUTLOOK

The Group will continue to develop within both existing and new areas of operation.

During the year, the cooperation with Norrköping Miljö & Energi and Østfold Energi will continue to be developed through the formation of jointly owned companies in such areas as service, electricity installation and consulting operations.

In July, Sydkraft and Oslo Energi Holding signed a letter of intent regarding ownership cooperation. Under the terms of the agreement, Sydkraft will negotiate to acquire 20% of Oslo Energi Holding. It is intended that the acquisition will take place during the year and that cooperation within the energy area can be started. In the ongoing restructuring of the Norwegian electricity market, Sydkraft can contribute financial strength and strategic expertise. The cooperation with Østfold Energi fits in well with this development.

Work to develop heating operations in Poland has led to Sydkraft signing a Letter of Intent with Poznan's district heating company and the city of Poznan regarding joint ownership of a subsidiary to the district heating company. Sydkraft has also become involved in heating operations in Denmark through the establishment of a new company, Sydkraft Danmark A/S.

Sydkraft has long experience of infrastructure-development operations, concessions and the other rights involved in the building of a network, which makes plans to invest in broadband a natural development. There is considerable potential within this area and the recently started investment program reflects an attractive development of the Sydkraft Group. Today, Sydkraft already has the potential to offer high-speed communications opportunities to major users through the so-called opto-triangle between Malmö, Gothenburg and Stockholm. Work is now continuing with the conscious aim of positioning Sydkraft as a leading broadband player capable of offering broadband customers an attractive portal.

Sales of gas and heat are continuing to develop in a stable manner, but at the same time competition is intensifying, particularly in the electricity market. This, in combination with the abundant supply of hydroelectric power, has caused continued declines in prices, while margins have narrowed compared with the preceding year. This situation is expected to remain unchanged during the second half of the year. The price scenario through the remainder of year 2000 will be affected by weather conditions and the production situation in the Nordic electricity system.

Accordingly, the profitability of all power companies is under pressure. Sydkraft is meeting this situation through the implementation of aggressive marketing measures and via intensive rationalization and efficiency enhancement programs. Substantial amounts will be invested in these areas during the current year, which will have an adverse effect on earnings over the short term.

Consulting and contracting operations noted a weak start to the year. It is anticipated that conditions will improve during the second six-month period.

Earnings will also be positively affected as a result of the repayment of the SPP surplus, which is expected to be reported as income commencing in the third quarter.

KEY FIGURES

	Q2 00	Q2 99	Q2 98
Net sales, SEK M	7 390	7 701	7 651
Operating profit, SEK M	1 905	2 030	2 218
Profit after financial items, SEK M	1 533	1 650	1 790
Operating margin, % ^{*)} (most recent 12-month period)	21.7	21.7	25.0
Profit margin, % (most recent 12-month period)	19.3	19.2	21.0
Return on equity, % (most recent 12-month period)	9.1	10.1	10.4
Return on capital employed, % (most recent 12-month period)	9.4	10.3	11.3
Equity/assets ratio, %	41	41	41
Earnings per share, SEK (No. of shares 191 000 332)	5.35	5.70	6.30
Sales of electricity, GWh	14 452	16 320	17 038
Sales of gas, GWh	4 283	4 528	4 233
Sales of heat, GWh	2 310	2 483	2 334

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

CONSOLIDATED STATEMENT OF INCOME

Amounts in SEK M

	April-June 2000	April-June 1999	January- June 2000	January- June 1999	July 1999- June 2000	Full-year 1999
Net sales	3 008	3 360	7 390	7 701	14 468	14 779
Operating expense	-2 035	- 2 346	-4 828	- 5 080	-9 662	-9 914
Depreciation and write-downs of fixed assets	-428	- 446	-856	-854	-1 682	-1 680
Other operating revenue/expense	11	17	11	37	10	36
Result from participations in associated companies	59	120	188	226	430	468
Operating profit	615	705	1 905	2 030	3 564	3 689
Financial income	91	45	144	83	227	166
Profit before financial expense	706	750	2 049	2 113	3 791	3 855
Financial expense	-257	- 219	-516	- 463	-1 000	-947
Profit after financial income and expense	449	531	1 533	1 650	2 791	2 908
Taxes	-146	- 191	-504	- 557	-908	-961
Minority interest	-3	5	-7	- 4	-11	-8
Net profit for the period	300	345	1 022	1 089	1 872	1 939

CONSOLIDATED BALANCE SHEET

Amounts in SEK M

	June 30, 2000	June 30, 1999	December 31, 1999
Assets			
Fixed assets	44 887	42 820	44 379
Current assets	4 588	4 583	5 373
Liquid funds	1 499	1 836	1 352
Total assets	50 974	49 239	51 104
Equity and liabilities			
Equity	20 927	19 940	20 832
Provisions for deferred tax	5 213	5 001	5 150
Interest-bearing liabilities	20 576	20 065	20 658
Non interest-bearing liabilities	4 258	4 233	4 464
Total equity and liabilities	50 974	49 239	51 104

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in SEK M

	April-June 2000	April-June 1999	January- June 2000	January- June 1999	July 1999- June 2000	Full-year 1999
Cash flow before change in working capital	793	682	1 988	1 684	3 666	3 362
Change in working capital	180	298	618	526	196	104
Cash flow from operations	973	980	2 606	2 210	3 862	3 466
Fixed assets sold, including shares	-	52	21	68	52	99
Acquisitions of Group companies	-29	-403	-870	-636	-2 304	-2 070
Investments in plants	-334	-404	-655	-728	-1 579	-1 652
Cash flow after investments	610	225	1 102	914	31	-157
Net borrowing/amortization	-170	1 158	-25	676	569	1 270
Dividends paid	-930	-913	-930	-913	-937	-920
Change in liquid funds	-490	470	147	677	-337	193

Malmö, August 21, 2000

Lars Frithiof
President and CEO

Financial information from Sydkraft related to 2000	
Interim report as per September 30	November 27
Year-end report, 2000	End of February 2001
Annual report, 2000	Mid April 2001

Note: Figures within parentheses refer to corresponding values for 1999.

REVIEW REPORT

We have reviewed this interim report in accordance with the recommendation issued by the Swedish Institute of Authorized Public Accountants (FAR).

A review is considerably more limited in scope than an audit.

Nothing has come to our attention that indicates that this interim report does not comply with the requirements of the Securities and Clearing Operations Act and the Annual Accounts Act.

Malmö, August 21, 2000

Torbjörn Hanson
Authorized Public Accountant

Gilbert Larsson
Authorized Public Accountant