

Organization number 556006-8420

## *INTERIM REPORT JANUARY – MARCH 2001*

- *Significantly improved earnings, up +30%*
- *Increased energy sales*
- *Normalization of electricity price*
- *Norrköping Miljö & Energi wholly owned as of January*
- *E.ON Energie makes bid for all shares outstanding in Sydkraft*

### **COMMENTS BY GROUP CEO**

The year has started well. During the first three months, earnings rose by 30 % compared with the corresponding quarter of 2000. Energy sales increased as a result of acquisitions and colder weather conditions. Hydroelectric power production was high and prices on the Nord Pool electricity exchange rose from an extremely low level and are normalizing. The price of other energy forms also increased during the period. The program of cost reductions is continuing according to plan.

Consumption of electricity and other forms of energy is continuing to rise in the increasingly integrated Nordic region and we now have a significantly more realistic price level. The underlying demand for our products and services is positive. Electricity is capturing market share from more expensive oil, for example.

Despite unusually high hydroelectric power production, the first signs of an impending electricity shortage were noted as early as 2000. It is very probable that in future years there will be a lower or even significantly lower level of hydroelectric power production. When that occurs, the Nordic electricity market will be close to experiencing an electricity shortage. Such a situation will lead to a continued rise in the price of electricity.

Further ahead, new investments will be needed in the Swedish energy sector. At Sydkraft, we are well prepared to meet this eventuality when it becomes necessary, and are convinced that the most appropriate fuel is natural gas. First and foremost, however, the price of electricity must become stable over the long term at more than 20 öre per kWh. However, no production will be ready for at least 4-5 years.

Today, Sydkraft is synonymous with a great deal more than electricity. The Group's operations include energy sales and distribution, the production of electricity, gas, the production and distribution of heat, waste and water, energy trading, broadband and consulting and contracting services. To a large extent, we are now a multi-utility company. Our most dominant market areas are southern Sweden, the Mälardalen/Östergötland area and the central part of northern Sweden.

In January this year, we added a further 800 employees to the Group through the acquisition of the remaining 51 % of Norrköping Miljö & Energi and the acquisition a few days earlier of the whole of the energy operations of Nora Municipality. Nora has become a well-known name in energy circles through efforts to establish the company as a low-price alternative on the market.

The integration of Norrköping Miljö & Energi (NME) is progressing energetically. During spring, NME's operations will be divided up into four independent companies to fit in with the Sydkraft organization.

In order to become optimally efficient in the recovery and recycling area, we are forming a new company called Sydkraft EcoPlus. The new company will develop, own and market a holistic approach towards the handling of waste on behalf of customers and will own waste-handling facilities. The concept will take into account both ecological and economic factors and function as a natural part of the customer's environmental work.

Through two new waste-handling plants, one in SAKAB, which we acquired last autumn, and the other in Norrköping, recovery operations will be conducted in an environmentally sustainable manner. The two new plants will be constructed during the current year and reflect a combined investment of nearly SEK 900 M.

## **FURTHER EXPANSION**

In addition to Sweden, Sydkraft's geographical focus is on Norway, Denmark and Poland. In Norway, priority is given to the high-growth area around Oslo, while the island of Sjælland is given priority in Denmark. In Poland, we are expanding mainly in the areas around Poznan and Katowice and, as recently as just a couple of weeks ago, we acquired a 31 % interest in district heating operations in Koszalin, a town in northern Poland.

In cooperation with ABB, we have established a jointly owned trading company, Acton Energy, which will manage energy portfolios mainly for municipal electricity companies and industrial customers in the German market. The company is based in Frankfurt and has about 15 employees.

During year 2000, a comprehensive business agreement was finalized between Sydkraft, E.ON and Vattenfall. The agreement, which is valued at about SEK 9 billion, means that Sydkraft and E.ON exchange their shares in HEW for a number of strategic assets and cash from Vattenfall. The agreement between Sydkraft and Vattenfall came into force on May 3 this year, when all conditions had been met, and provided Sydkraft with a capital gain of slightly more than SEK 1 billion.

Sydkraft's holding of approximately 4.9 million shares in E.ON AG will be sold during the second quarter of the current year. The sale is expected to generate a capital gain of approximately SEK 1.7 billion. Both these capital gains, totaling SEK 2.7 billion, will be reported during the second quarter of 2001.

Sydkraft's largest owner, E.ON Energie, made an offer on February 21 to purchase all shares outstanding in Sydkraft. At a Special General Meeting on March 22, the Board of Directors issued its recommendation that shareholders accept the offer. At the time of writing, the offer period has expired but the definitive ownership proportions have yet to be finalized.

*Lars Frithiof*  
*President and Chief Executive Officer*

## SALES AND EARNINGS

The Group's net sales for the period amounted to SEK 4 945 M (4 382), an increase of approximately 13 %, compared with the first quarter of 2000. The increase was primarily due to the acquisition of Norrköping Miljö & Energi and SAKAB, as well as to increased sales of electricity and heat.

Electricity sales rose by 5 % to 8 996 GWh (8 574). Sydkraft's total gas deliveries decreased by 3 % due to lower sales of LPG and amounted to 2 826 GWh (2 908). The acquisition of new heat operations in combination with a cold start to the year led to sales of heat increasing by 40 % to 2 297 GWh (1 637).

Operating expenses totaled SEK 2 882 M (2 793). The increase was due to acquisitions and increased volumes.

Write-downs during the period totaled SEK 530 M (428). The increase was mainly attributable to the acquisitions implemented.

Earnings from participations in associated companies, primarily HEW, Graninge, and Østfold Energi, amounted to SEK 87 M (129). Norrköping Miljö & Energi, which was formerly an associated company, is consolidated in the Group's accounts as a wholly owned subsidiary as of January 1, 2001.

Operating profit increased by 37 % to SEK 1 770 M (1 290). Nonrecurring items totaling approximately SEK 90 M were included in operating profit for the period.

The financial net deteriorated by SEK 155 M compared with the first quarter of 2000 and amounted to an expense of SEK 361 M (expense: 206). The increase was attributable to large interest-bearing liabilities resulting from company acquisitions combined with negative exchange-rate differences.

Consolidated profit after net financial items rose by 30 % to SEK 1 409 M (1 084).

### Net sales and earnings per business sector

SEK M	Net sales		Of which, external		Earnings	
	Q1 2001	Q1 2000	Q1 2001	Q1 2000	Q1 2001	Q1 2000
Marketing and Sales	2 489	2 035	2 206	1 889	36	33
Production	2 635	2 354	404	218	886	679
Distribution	1 793	1 525	1 246	1 105	506	455
Consulting and Contracting	642	579	403	340	-7	11
Energy Trading	1 685	1 789	576	819	185	24

Result from participations in associated companies	-	-	-	-	<b>87</b>	129
Intra-Group trading	<b>-4 439</b>	-3 957	-	-	-	-
Other	<b>140</b>	57	<b>110</b>	11	<b>77</b>	-41
<b>Net sales</b>	<b>4 945</b>	4 382	<b>4 945</b>	4 382		
<b>Operating profit</b>					<b>1 770</b>	1 290
Net financial items					<b>-361</b>	-206
<b>Profit after net financial items</b>					<b>1 409</b>	1 084

## PROFITABILITY

During the most recent 12-month period, the operating margin was 27.4 % (21.3) and the profit margin 23.7 % (19.4).

The return on equity after tax during the most recent 12-month period was 11.0% (9.3) and the return on capital employed before tax was 10.4 % (9.4).

Earnings per share for the first three months of 2001 totaled SEK 5.17 (3.78). For 2000 as a whole, Sydkraft's earnings per share amounted to SEK 11.30.

## MARKETING AND SALES BUSINESS SECTOR

Net sales for the period totaled SEK 2 489 M (2 035), of which sales to customers outside the Group accounted for SEK 2 206 M (1 889). Operating profit amounted to SEK 36 M (33).

Physical sales of electricity and heat increased. This was primarily due to the acquisition of Norrköping Miljö & Energi but also to the colder weather conditions, which particularly affected sales of district heating during the quarter. Sales of Total Heat continued to increase, mainly as a result of new contracts.

The tough competitive situation remained unchanged, particularly in the electricity market. Price levels on the Nord Pool exchange increased, which affected sales prices to customers and the purchase prices paid by the sector. Margins were narrow. The price level in the gas market was higher than in the corresponding period of 2000 due to the correlation between the price of gas to the price of oil on both the purchasing and sales sides. The price of oil rose sharply during 2000.

## PRODUCTION BUSINESS SECTOR

The business sector's operations include the production of electricity, heat and cooling, the recovery of materials and energy from waste and the distribution of heating and cooling.

Net sales totaled SEK 2 635 M (2 354), of which sales to customers outside the Group accounted for SEK 404 M (218). Operating profit amounted to SEK 886 M (679).

Despite lower prices to Energy Trading for the electricity sold by the business sector, sales increased. This was primarily due to the acquisition of Norrköping's heat operations, the SAKAB business, which includes heat operations in Mora, and increased production resulting from colder weather conditions.

### *Electricity*

Electricity production totaled 9 068 GWh (8 366).

Total hydroelectric power production amounted to 3 869 GWh (3 233). The increase was due to the higher run-off during 2000, which affected reservoir levels at the beginning of the year.

Nuclear power produced 4 850 GWh (4 843). Of this amount, OKG accounted for 2 533 GWh, while the balance of 2 317 GWh related to Sydkraft's participations in Ringhals, Barsebäck and Forsmark. The energy availability in the three OKG nuclear power blocks totaled of 94 %. During May 2001, the business sector will be supplied with a further 8.5 %, corresponding to 2 TWh, from the Forsmark nuclear power plant as a result of the HEW agreement with Vattenfall.

A total of 349 GWh (290) of electricity was produced via co-generation, gas turbine and windpower plants during the year. The increase was due to increased production at Karlshamn Kraft as a result of the cold weather in February.

### **Heat**

Heat production amounted to 2 297 GWh (1 637). District heating production increased due to the acquisition of Norrköping's heat operations and a colder winter and amounted to 1 923 GWh (1 366). Deliveries of total heat rose as a result of newly contracted volumes during 2000 in combination with the colder weather conditions and amounted to 374 GWh (271).

Heat operations continued to grow through acquisitions made in Sweden, Denmark and Poland.

### **Waste-handling**

The new Waste-handling business segment consists of the operations conducted by Sydkraft SAKAB and Sydkraft EcoPlus.

Sydkraft SAKAB handles hazardous waste and the production of heat. The decision has been made and permission has been obtained to construct a new incineration line with a capacity of 75 000 tons.

The newly established company Sydkraft EcoPlus will develop, own and market total concepts for the handling of customer waste products and ownership of installations for waste disposal. The customer base will include companies, government authorities and municipalities.

## **DISTRIBUTION BUSINESS SECTOR**

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

Net sales totaled SEK 1 793 M (1 525), of which sales to customers outside the Group accounted for SEK 1 246 M (1 105). Operating profit amounted to SEK 506 M (455).

The increase in net sales was mainly due to hikes in the price of oil, which affected both the purchasing and selling price of natural gas. Newly added companies also contributed to the increase. The electricity network operations of Norrköping Miljö & Energi and Östernärke's Kraft, with 65 000 and 8 200 customers, respectively, have been part of the Distribution sector since January 1, 2001. In May 2001, an additional 46 000 customers in the Forskraft, Vikbolandet and Söderköping network areas will be added. This is a result of the agreement between Sydkraft and Vattenfall regarding HEW and other assets. The agreement also gives

Sydkraft 49 % of the shares in the Fredrikstad Energiverk group in Norway and a further 74 000 customers.

Continued measures to raise efficiency and rationalize operations, in combination with the comprehensive changes made to administrative systems, enabled the sector to continue the positive development of its cost structure and thereby improve operating earnings.

The decision has been taken to expand the natural gas network in the Gnosjö-Gislaved area.

During the period, the sector transported 9 701 GWh (8 905) of electricity.

## **CONSULTING AND CONTRACTING BUSINESS SECTOR**

Net sales totaled SEK 642 M (579). Sales to customers outside the Group accounted for SEK 403 M (340), which means that the proportion of external projects undertaken rose from 59 % to 63 %. Operating profit amounted to SEK -7 M (11).

Compared with the corresponding quarter of 2000, the sector has been subject to extensive restructuring. During the latter part of 2000, Sycon acquired a number of consulting operations in Sweden and Denmark. Through the Group's acquisition of the NME group, NME Service was consolidated in the sector as of January 1, 2001. Simultaneously, Evicom's operations were transferred to Sydkraft Broadband, which is not a part of the sector. Furthermore, ElektroSandberg Installation was sold to the NEA group.

The situation for the companies in the business sector continues to be characterized by the rationalization and efficiency-enhancement measures being conducted in the energy sector. This is resulting in reduced project volumes, tougher competition and lower prices, particularly on the contracting side.

## **ENERGY TRADING**

Net sales totaled SEK 1 685 M (1 789), of which sales to customers outside the Group amounted to SEK 576 M (819). Operating profit amounted to SEK 185 M (24).

During the first quarter, the financial energy market was marked by rising prices. This was primarily due to the low volume of snow in Norway, which is expected to result in a spring run-off that is lower than normal. Such expectations have led to a gradual escalation of spot prices. The average spot price in Sweden during the period was SEK 220/MWh, compared with SEK 124/MWh in the corresponding quarter of 2000.

The decrease in sales was mainly attributable to the gradual hedging of electricity sales, which was undertaken at the lower price levels prevailing earlier. The increase in earnings was primarily due to strongly improved trading results and lower purchasing prices.

New customers have signed portfolio-management contracts with Energy Trading. Work to establish a joint electricity trading company with ABB Financial Energy in Germany progressed according to plan. The company, will work with energy portfolio management in the German market.

## **INVESTMENTS AND ACQUISITIONS**

Group investments during the period totaled SEK 4 751 M (1 079). Of these, SEK 340 M (321) pertained to fixed-asset investments in existing operations, SEK 4 387 M (41) to acquired subsidiaries and SEK 24 M (717) to participations in associated companies and other shares.

At the beginning of the year, Sydkraft acquired the remaining shares outstanding in Norrköping Miljö & Energi for SEK 1 482 M. As a result, NME became a wholly owned Sydkraft Group subsidiary.

In January, Sydkraft subsidiary Sycon acquired the Danish consulting companies Steensen & Varming, Knudsen & Sørensen and Frigo Consult for a total of SEK 14 M.

In February, Sydkraft Energy Trading and ABB Financial Trading jointly established an electricity trading company, Acton Energy, which will conduct energy portfolio management operations in the German market.

In March, Sydkraft purchased 365 GWh of hydroelectric power production in northern Sweden from Birka Energi for around SEK 800 M. The transaction includes Birka's participations in the Korsselbränna, Dabbsjö and Bergvattnet power plants on the Fjällsjöälven River, the Betsele and Hällforsen plants on the Umeälven River, the Storfinnforsen power plant on the Faxälven River and the Olden power plant on the Långan tributary. Sydkraft was formerly a majority owner in all of these plants.

Since the end of the period under review, in April Sydkraft acquired district heating operations in Åmål from Riksbyggen for approximately SEK 35 M. The acquisition also included small heat production plants in other areas of Sweden. Also in April, Sydkraft acquired 31 % of the shares in the Polish municipal district heating company, MEC Koszalin, for SEK 40 M.

As a result of the agreement reached in May with Vattenfall, regarding Sydkraft's holding in HEW, the Group will receive 8.5 % of the shares in Forsmark Kraft AB and a holding in the listed Norwegian company, Hafslund AS, corresponding to 31.7 % of the votes and 20.5 % of the equity. The agreement also covers a number of network areas in Östergötland (Sweden), with approximately 46 000 customers. In addition, a 49 % holding was obtained in the Norwegian company Fredrikstad Energiverk AS, and 35 % of the shares in both Fredrikstad Energinet AS and Fredrikstad Fjernvarme AS.

## **CASH FLOW AND FINANCIAL POSITION**

Sydkraft's cash flow from operations during the period amounted to SEK 854 M (1 633). Cash flow after investments amounted to SEK -1 367 M (neg: 492).

Interest-bearing net liabilities totaled SEK 22 932 M (18 696). At year-end 2000, net loan debt amounted to SEK 20 438 M. The increase was mainly due to new borrowing for company acquisitions.

Including cash investments, the Group had liquid funds of SEK 3 460 M (1 989) at the end of the first quarter. At year-end 2000 the Group had liquid funds of SEK 1 214 M. The higher liquidity was due to new borrowing for company acquisitions.

The equity/assets ratio was 37 % (42). At year-end 2000, the equity/assets ratio was 41 %.

## **NEW ACTIVITIES AND RESTRUCTURING MEASURES**

Work to integrate the operations of Norrköping Miljö & Energi and newly acquired SAKAB will continue during the spring. The measures to establish Sydkraft Bredband as one of Sweden's leading broadband companies will also continue.

The agreement with Vattenfall described above means that Sydkraft receives a number of strategic assets and approximately SEK 2 billion in cash. The transaction also generates a capital gain of approximately SEK 1 billion.

A capital gain of approximately SEK 1.7 billion will also be realized through the sale of Sydkraft's holding of 4.9 million shares in E.ON AG.

The outlook for the remainder of 2001 is assessed as favorable – although the same positive development noted during the first quarter cannot be assumed. In addition, the capital gains totaling slightly more than SEK 2.7 billion described above will be reported during the second quarter.

**KEY FIGURES**

	<b>Q1 01</b>	<b>Q1 00</b>	<b>Q1 99</b>
Net sales, SEK M	4 945	4 382	4 341
Operating profit, SEK M	1 770	1 290	1 325
Profit after financial items, SEK M	1 409	1 084	1 120
Operating margin, % <sup>1) 2)</sup>	27.4	21.3	22.4
Profit margin, % <sup>2)</sup>	23.7	19.4	19.3
Return on equity, % <sup>2)</sup>	11.0	9.3	9.8
Return on capital employed, % <sup>2)</sup>	10.4	9.4	10.4
Equity/assets ratio, %	37	42	42
Earnings per share, SEK <sup>3)</sup>	5.17	3.78	3.90
Sales of electricity, GWh	8 996	8 574	9 441
Sales of gas, GWh	2 826	2 908	3 020
Sales of heat, GWh	2 297	1 637	1 724

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

2) Most recent 12-month period.

3) No. of shares 191 000 332

**CONSOLIDATED STATEMENT OF INCOME**

Amounts in SEK M

	January- March 2001	January- March 2000	April 2000- March 2001	Full-year 2000
<b>Net sales</b>	<b>4 945</b>	<b>4 382</b>	<b>14 890</b>	<b>14 327</b>
Operating expense	-2 882	-2 793	-9 842	-9 753
Depreciation and write-downs of fixed assets	-530	-428	-1 785	-1 683
Other operating revenue/expense	150	-	816	666
Result from participations in associated companies	87	129	381	423
<b>Operating profit</b>	<b>1 770</b>	<b>1 290</b>	<b>4 460</b>	<b>3 980</b>
Financial income	94	53	316	275
<b>Profit before financial expense</b>	<b>1 864</b>	<b>1 353</b>	<b>4 776</b>	<b>4 255</b>
Financial expense	-455	-259	-1 247	-1 051
<b>Profit after financial income and expense</b>	<b>1 409</b>	<b>1 084</b>	<b>3 529</b>	<b>3 204</b>
Taxes	-421	-358	-1 089	-1 026
Minority interest	-1	-4	-16	-19
<b>Net profit for the period</b>	<b>987</b>	<b>722</b>	<b>2 424</b>	<b>2 159</b>

**CONSOLIDATED BALANCE SHEET**

Amounts in SEK M

	March 31, 2001	March 31, 2000	December 31, 2000
<b>Assets</b>			
Fixed assets	51 823	45 123	47 652
Current assets	6 113	4 802	5 349
Liquid funds	3 460	1 989	1 214
<b>Total assets</b>	<b>61 396</b>	<b>51 914</b>	<b>54 215</b>
<b>Equity and liabilities</b>			
Equity	22 786	21 564	22 057
Provisions for deferred tax	6 967	5 182	5 480
Interest-bearing liabilities	26 392	20 685	21 652
Non interest-bearing liabilities	5 251	4 483	5 026
<b>Total equity and liabilities</b>	<b>61 396</b>	<b>51 914</b>	<b>54 215</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Amounts in SEK M

	January- March 2001	January- March 2000	April 2000- March 2001	2000 Full-year
Cash flow before change in working capital	1 402	1 195	3 839	3 632
Change in working capital	-548	438	-624	362
<b>Cash flow from operations</b>	<b>854</b>	<b>1 633</b>	<b>3 215</b>	<b>3 994</b>
Fixed assets sold, including shares	176	21	207	52
Acquisitions of Group companies	-2 057	-841	-3 458	-2 242
Investments in plants	-340	-321	-1 469	-1 450
<b>Cash flow after investments</b>	<b>-1 367</b>	<b>492</b>	<b>-1 505</b>	<b>354</b>
Net borrowing/amortization	3 613	145	3 906	438
Dividends paid	-	-	-930	-930
<b>Change in liquid funds</b>	<b>2 246</b>	<b>637</b>	<b>1 471</b>	<b>-138</b>

Malmö, May 7, 2001

Lars Frithiof, CEO

<b>Financial information from Sydkraft related to 2001:</b>	
Interim report, March 31	May 7
Interim report, June 30	August 20
Interim report, September 30	October 11
Year-end report,	End of February, 2002
Annual Report 2001	Beginning of April 2002

*Note: Figures within parentheses refer to corresponding values for Q1 2000.*

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