

Organization number 556006-8420

## *INTERIM REPORT JANUARY 1 – MARCH 31, 2000*

- *Virtually unchanged earnings, despite tough price competition and mild weather conditions*
- *Lower water levels and reduced nuclear power production*
- *Focus on broadband*
- *Repayment of SPP funds to be recognized in earnings during year*
- *Acquisition of 49% of shares in Østfold Energi*

### **COMMENTS BY GROUP CEO**

A continued successful hunt to reduce costs has contributed to Sydkraft being able to present a quarterly report that shows a largely unchanged level of earnings compared with the corresponding quarter of 1999. This was possible despite the mild start to the year, which had an adverse effect on energy sales, abundant water supplies and continued tough price competition, which contributed to electricity prices in particular being maintained at a low level.

The weather and water situation during the initial months of the year resulted in the downward adjustment of nuclear power being started somewhat earlier this year. Production at the plants in Oskarshamn and Barsebäck was reduced, primarily due to well-filled reservoirs, considerable amounts of snow in the mountains and commencement of the spring thaw.

Our acquisition strategy continues to focus on targets in northern Europe. Our latest acquisitions, in Örebro and Norrköping (Sweden) and Østfold (Norway) developed favorably. In Norrköping, we have already started a joint service company with Norrköping Miljö & Energi comprising 450 employees and SEK 330 M in sales. We are also discussing the establishment of a joint electrical installation and consulting company with Østfold Energi.

In Poland, we recently started a heating company that will sell-in the packaged heating concept of "Färdig Värme" to primarily the Katowice area. In addition, we plan to invest jointly with the city of Poznan's district heating company in central and subsidiary boiler plants in the district-heating network for 600 000 consumers.

Partnership is one of the most successful ways of achieving a greater number of satisfied customers. Our vision is to have a total of three million satisfied customers by year 2005. Today, we have almost one million customers, if we include the 49% holdings in Norrköping and Østfold and their 160 000 customers.

Sydkraft's strength lies in its service and individual solutions, which provide its customers with greater competitiveness, comfort and security. This is to be

achieved through a future-oriented approach. We have coined the slogan “TomorrowToday,” which reflects our desire to look to the future without losing our grip on the present. This means that we will be seen in a number of aggressive and highly challenging projects.

We are currently coordinating our IT resources within the communications area and initiating a major focus on broadband by utilizing our network infrastructure and developing business via these electronic highways. The focus on our infrastructure is being undertaken through our subsidiary Evicom, with investments in the main grid, city networks and customer-access networks.

In a pilot project in the municipality of Staffanstorp, outside Malmö, southern Sweden, we are building a local portal – “Godagrannar” (Good neighbors) – jointly with the business community for the local inhabitants.

Sydskraft is also a partner in another offensively oriented project, namely the international housing exhibition “Bo01,” which will take place in Malmö in summer 2001. Approximately one million exhibition visitors will be able to see Sydkraft deliver 100% locally generated, renewable energy based on ecocycle principles, with sustained home comfort.

Forceful efforts are being devoted to developing and safeguarding the Sydkraft brand. Our vision is to have the strongest brand in the energy industry. Successful brands are developed out of operations that share strong and clearly defined values. Sydkraft’s corporate values are based on customer orientation, constant improvement and the participation and cooperation of all employees.

At the same time, we are active in an industry that is characterized by sweeping changes and increasingly tough competition. We face a number of major challenges in the years ahead. To meet them, we are working determinedly to strengthen our market position and further improve the efficiency of our operations. Against this background, I would say that we have every reason to view developments during year 2000 with confidence.

*Lars Frithiof*

**SALES AND EARNINGS**

The Group's net sales for the period amounted to SEK 4 382 M (4 341), down approximately 1%, compared with the first quarter of 1999.

Energy sales were affected by the mild start to the year. However, this was offset by increased service sales and some oil sales.

Electricity sales totaled 8 574 GWh (9 441). The 9% decrease was mainly due to the mild weather in combination with lower hydroelectric and nuclear power production.

Gas deliveries decreased by 4% to 2 908 GWh (3 020). Sales of heat declined by 5% and totaled 1 634 GWh (1 724).

Oil sales rose by approximately SEK 100 M due to inventory reductions combined with changed production conditions. Compared with the corresponding period of 1999, sales of consulting and contracting services to customers outside the Group were up by SEK 55 M.

Taken as a whole, these factors resulted in slightly lower operating profit of SEK 1 290 M (1 325).

Write-downs during the period totaled SEK 428 M (408).

Results from participations in associated companies, primarily HEW and Graninge and the newly added associated companies Norrköping Miljö & Energi and Østfold Energi, amounted to SEK 129 M (106).

The financial net was largely unchanged compared with the first quarter of 1999 and amounted to an expense of SEK 206 M (expense: 205). Financial income for the period included a nonrecurring item of approximately SEK 24 M.

Consolidated profit after net financial items amounted to SEK 1 084 M (1 120).

**Net sales and earnings per business sector**

<i>SEK M</i>	<i>Net sales</i>		<i>Of which, external</i>		<i>Earnings</i>	
	<i>Q1 2000</i>	<i>Q1 1999</i>	<i>Q1 2000</i>	<i>Q1 1999</i>	<i>Q1 2000</i>	<i>Q1 1999</i>
Marketing and Sales	<b>2 035</b>	1 292	<b>1 889</b>	1 177	<b>33</b>	49
Production	<b>2 354</b>	2 428	<b>218</b>	744	<b>679</b>	719
Distribution	<b>1 525</b>	1 398	<b>1 105</b>	1 254	<b>455</b>	466
Consulting and Contracting	<b>579</b>	547	<b>340</b>	285	<b>11</b>	35
Energy trading	<b>1 789</b>	1 956	<b>819</b>	862	<b>24</b>	23
Result from participations in associated companies	-	-	-	-	<b>129</b>	106
Group eliminations, etc.	<b>- 3 900</b>	- 3 280	<b>11</b>	19	<b>-41</b>	- 73
<b>Net sales</b>	<b>4 382</b>	4 341	<b>4 382</b>	4 341		
<b>Operating profit</b>					<b>1 290</b>	1 325
Net financial items					<b>- 206</b>	- 205
<b>Profit after net financial items</b>					<b>1 084</b>	1 120

**PROFITABILITY**

During the most recent 12-month period, the operating margin was 21.3% (22.4) and the profit margin 19.4% (19.3).

The return on equity after tax during the most recent 12-month period was 9.3% (9.8) and the return on capital employed before tax was 9.4% (10.4).

Earnings per share for the first three months of 2000 totaled SEK 3.78 (3.90). 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 entire marketing and sales resources within the energy area.

Net sales for the period totaled SEK 2 035 M (1 292), of which sales to customers outside the Group totaled SEK 1 889 M (1 177). Operating profit amounted to SEK 33 M (49).

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.

Physical sales of electricity were down as a result of weather conditions being substantially milder than usual at the start of the current year. Moreover, a number of electricity 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 of about

1-3 öre/kWh in price level within all customer segments.

## **PRODUCTION BUSINESS SECTOR**

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

Net sales totaled SEK 2 354 M (2 428), of which sales to customers outside the Group accounted for SEK 218 M (744). Operating profit amounted to SEK 679 M (719).

The decline in both sales and operating profit was mainly due to lower electricity production and lower sales of heating compared with the first quarter of 1999. Karlshamn Kraft AB was given the right to sell parts of its reserve inventory, which had a positive effect on earnings.

Electricity production totaled 8 366 GWh (9 387).

Total hydroelectric power production amounted to 3 233 GWh (3 820). The decrease between the years was due to the lower water run-off compared with the first quarter of 1999.

Nuclear power produced 4 843 GWh (5 192). 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. Energy availability was very high in all nuclear power blocks.

A total of 290 GWh (365) was produced via co-generation, gas turbine and wind power plants. The decrease resulted primarily from lower heating production, which in turn affected opportunities to produce heat in co-generation plants.

Heat production amounted to 1 638 GWh (1 724). The decrease was due to a slightly milder winter than in the preceding year. A number of new heating deliveries were commenced during the period. Sydkraft Värme Malmö is planning to invest SEK 45 M in the natural-gas-fired Heleneholm plant. The investment will increase boiler output by around 10% without requiring any additional fuel.

## **DISTRIBUTION BUSINESS SECTOR**

The business sector includes all of the Sydkraft Group's electricity network and gas companies. The companies in the sector 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 1 525 M (1 398), of which sales to customers outside the Group accounted for SEK 1 105 M (1 254). Operating profit amounted to SEK 455 M (466).

The increase in net sales is chiefly 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 0.20 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 has affected the price of transporting electricity. Finally, the sharp increase in the price of oil during the past year has affected both the purchasing and sales price of natural gas.

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

During the period, the sector transported 8 905 GWh (9 056) of electricity. Natural gas deliveries amounted to 2 646 GWh (2 649). As in 1999, the weather during the period was significantly milder than usual, which affected temperature-dependent deliveries.

### **CONSULTING AND CONTRACTING BUSINESS SECTOR**

Net sales totaled SEK 579 M (547). Sales to customers outside the Group accounted for SEK 340 M (285), which meant that the proportion of external sales rose to 52% to 59%. Operating profit amounted to SEK 11 M (35).

Technical consulting operations within Sycon showed good work on hand during the period. The restructuring of operations continued due to the reduced level of incoming assignments from the Swedish defense forces and energy sector. Instead, the proportion of projects obtained from customers in the environment, safety and operational-development segments increased.

Operating earnings in the contracting segment were charged with nonrecurring costs related to the restructuring of the ElektroSandberg group. In other respects, contracting operations reported a favorable level of work on hand and a positive earnings trend.

The trend of operating earnings for IT operations was negative, due to the lower level of work on hand for IT consultants deriving from structural measures implemented by customers. At the same time, however, volumes are growing for new products within both these areas.

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 strengthen Sydkraft's presence in growth regions, the operations in Sycon, ElektroSandberg, Evicom and Sydkraft Försäljning (Sales) have been assembled in shared offices in Stockholm and Gothenburg.

### **ENERGY TRADING**

Net sales totaled SEK 1 789 M (1 956), of which sales to customers outside the Group amounted to SEK 819 M (862). Operating profit amounted to SEK 24 M (23).

The decrease in sales was primarily attributable to lower volumes and price levels. This, in combination with lower purchasing prices and the settlement of financial hedging contracts led to a virtually unchanged level of operating profit compared with the first quarter of 1999.

Energy Trading continued to develop its portfolio management operations for external customers and agreements were signed during the period with SCA and Fundia, among other companies.

### **INVESTMENTS AND ACQUISITIONS**

Group investments during the period totaled SEK 1 079 M (525). Of this amount, fixed asset investments in existing operations accounted for SEK 321 M, investments in new subsidiaries for SEK 41 M and shares in the results of associated companies for SEK 717 M.

In January 2000, Sydkraft acquired all of the shares in AB Lessebo kommuns Elnät for SEK 15 M. This company transports approximately 25 GWh of electricity to 1 550 customers in the municipality of Lessebo.

In January, Sydkraft and Härnösand Energi & Miljö, jointly established HEMAB Elförsäljning AB, with initially some 16 000 customers. Sydkraft AB owns 75% of the new company and HEMAB AB the remaining 25%.

The acquisition of 49% of the shares in Östfold Energi Nett AS and Östfold Energi Kraftsalg AS was formally concluded at the end of February 2000.

### **CASH FLOW AND FINANCIAL POSITION**

Sydkraft's cash flow from operations during the period amounted to SEK 1 633 M (1 230). Cash flow after investments amounted to SEK 492 M (689).

Interest-bearing net liabilities amounted to SEK 18 696 M (17 609). 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 1 989 M (1 366). At year-end 1999 the Group had liquid funds of SEK 1 352 M.

The equity/assets ratio was 42% (42). At year-end 1999 the Group had an equity/assets ratio of 41%.

### **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 this or any earlier report.

Following a statement from the Swedish Competition Authority, SPP announced on April 28, 2000, that it expected these company-linked funds to begin to be paid 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.

### **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 the areas of service, electricity installation and consulting operations, among others.

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 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.

The mild start to the current year resulted in lower energy sales and a continued low level of electricity prices. The continuing severe price competition within this area makes it important to continue the work to enhance operating efficiency within all areas of the Group.

Earnings for 2000 will be positively affected by the forthcoming payment of surplus funds from SPP.

### **KEY FIGURES**



	<b>Q1 2000</b>	<b>Q1 1999</b>	<b>Q1 1998</b>
Net sales, SEK M	4 382	4 341	4 314
Operating profit, SEK M	1 290	1 325	1 462
Profit after financial items, SEK M	1 084	1 120	1 248
Operating margin, % <sup>*)</sup> (most recent 12-month period)	21.3	22.4	24.9
Profit margin, % (most recent 12-month period)	19.4	19.3	20.9
Return on equity, % (most recent 12-month period)	9.3	9.8	10.0
Return on capital employed, % (most recent 12-month period)	9.4	10.4	11.3
Equity/assets ratio, %	42	42	42
Earnings per share, SEK (No. of shares 191 000 332)	3.78	3.90	4.41
Sales of electricity, GWh	8 574	9 441	9 202
Sales of gas, GWh	2 908	3 020	2 801
Sales of heat, GWh	1 634	1 724	1 578

<sup>\*)</sup> *The operating margin does not include participations in the results of associated companies.*

**CONSOLIDATED STATEMENT OF INCOME**

Amounts in SEK M

	2000 January- March	1999 January- March	April 1999- March 2000	1999 Full-year
<b>Net sales</b>	<b>4 382</b>	<b>4 341</b>	<b>14 820</b>	<b>14 779</b>
Operating expense	-2 793	-2 734	-9 973	-9 914
Depreciation and write-downs of fixed assets	-428	-408	-1 700	-1 680
Other operating revenue/expense	-	20	16	36
Result from participations in associated companies	129	106	491	468
<b>Operating profit</b>	<b>1 290</b>	<b>1 325</b>	<b>3 654</b>	<b>3 689</b>
Financial income	53	38	181	166
<b>Profit before financial expense</b>	<b>1 343</b>	<b>1 363</b>	<b>3 835</b>	<b>3 855</b>
Financial expense	-259	-243	-963	-947
<b>Profit after financial income and expense</b>	<b>1 084</b>	<b>1 120</b>	<b>2 872</b>	<b>2 908</b>
Taxes	-358	-366	-953	-961
Minority interest	-4	-10	-2	-8
<b>Net profit for the period</b>	<b>722</b>	<b>744</b>	<b>1 917</b>	<b>1 939</b>

**CONSOLIDATED BALANCE SHEET**

Amounts in SEK M

	March 31, 2000	March 31, 1999	Dec. 31, 1999
<b>Assets</b>			
Fixed assets	45 123	42 530	44 379
Current assets	4 802	4 989	5 373
Liquid funds	1 989	1 366	1 352
<b>Total assets</b>	<b>51 914</b>	<b>48 885</b>	<b>51 104</b>
<b>Equity and liabilities</b>			
Equity	21 564	20 570	20 832
Provisions for deferred tax	5 182	4 894	5 150
Interest-bearing liabilities	20 685	18 975	20 658
Non interest-bearing liabilities	4 483	4 446	4 464
<b>Total equity and liabilities</b>	<b>51 914</b>	<b>48 885</b>	<b>51 104</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Amounts in SEK M

	2000 January- March	1999 January- March	April 1999- March 2000	1999 Full-year
Cash flow before change in working capital	1 195	1 002	3 555	3 362
Change in working capital	438	228	314	104
<b>Cash flow from operations</b>	<b>1 633</b>	<b>1 230</b>	<b>3 869</b>	<b>3 466</b>
Fixed assets sold, including shares	21	16	104	99
Acquisitions of Group companies	-841	-233	-2 678	-2 070
Investments in plants	-321	-324	-1 649	-1 652
<b>Cash flow after investments</b>	<b>492</b>	<b>689</b>	<b>-354</b>	<b>-157</b>
Net borrowing/amortization	145	-482	1 897	1 270
Dividends paid	-	-	-920	-920
<b>Change in liquid funds</b>	<b>637</b>	<b>207</b>	<b>623</b>	<b>193</b>

Malmö, May 8, 2000

Lars Frithiof  
President and CEO

<b>Financial information from Sydkraft related to 2000</b>	
Interim report as per March 31	May 8
Interim report as per June 30	August 21
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.*

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