

Organization number 556006-8420

INTERIM REPORT JANUARY – SEPTEMBER 2000

- *Improved earnings, up 12%*
- *Lower sales of electricity and heat due to mild weather*
- *Reduced operating and maintenance costs*
- *Key acquisitions and restructuring measures*
- *Continued focus on broadband*

COMMENTS BY GROUP CEO

Sydkraft's profit after net financial items rose by 12%. This included the refund from the Swedish Staff Pension Society (SPP) of slightly more than SEK 550 M. However, profitability was depressed by the severe competition in the electricity market, abundant water supplies and the mild start to the year.

I notice now that electricity prices are slowly increasing, however, although only to a limited extent. Electricity consumption in Scandinavia as a whole is increasing by about 5%. In Sweden, the increase is around 3.5%. At the same time, no word has been received of producers intending to build new plants. Instead, it is likely that Northern European capacity will decline even further as more environmentally harmful coal-fired plants are closed down.

This year's water supply situation is characterized by a considerable surplus in both Norway and Sweden. Transmission restrictions between Norway and Sweden combined with the periodical scarcity of output in Sweden led to price differences on the Electricity Exchange. Occasionally, the price of spot power in Sweden was much higher than in Norway.

The production of nuclear power was regulated downwards at times during the period as a result of the high level of hydroelectric power production and in order to adjust to the low price of electricity. The change to a fixed tax on nuclear power as of midyear 2000 also made a significant contribution to this trend. Such a tax stimulates more protracted reductions at one and the same place. Production tax, which has no equivalent in our neighboring markets, nor in the EU, corresponds to around 20% of the forward price for electricity. In our case, production tax amounts to approximately SEK 450 M annually.

During the year, the power industry has consistently warned of the consequences of a cold winter in southern Sweden. Assuming that the Scandinavian cable connections are intact, we estimate that there would be a shortfall of around 1 000 MW. The government authority, Svenska Kraftnät, has also calculated that a substantial power shortfall could arise.

It feels very satisfying that our industry organization Svensk Energi and Svenska Kraftnät, have finally arrived at a solution that will significantly reduce the risk of a lack of power. Those responsible for maintaining a balance between demand and supply, including Sydkraft, must ensure that energy will be supplied during periods of peak consumption, meaning output power, and customers will pay 0.15 öre/kWh for this guarantee. Svenska Kraftnät started the process to procure output by inviting tenders in the middle of November. Sydkraft's subsidiary, Karlshamn Kraft, has offered 660 MW at the Karlshamn plant.

However, the most interesting development at the present time remains the restructuring of the Northern European energy market. Recent months have been very exciting, with the conclusion of several large acquisitions and one major divestment.

We have made significant acquisitions. Our latest acquisition was implemented as recently as one week ago, when the Municipality of Norrköping decided to sell the remaining shares outstanding in Norrköping Miljö & Energi to Sydkraft for approximately SEK 1.4 billion. As a result, we can continue to develop and efficiently coordinate energy sales throughout the entire Örebro-Norrköping area for the benefit of our customers. We will also establish a completely new call center in Navestad in Norrköping.

More effective energy supplies in the area will be facilitated through our gaining the former Forsmark local and regional network in Östergötland by exchanging our shares in HEW for assets in Vattenfall. Included in this exchange, which we are making jointly with Germany's E.ON Energie, are other assets, such as shares in Vattenfall Naturgas and Baltic Cable, 8.5% of the shares in the Forskraft nuclear power plant, shares in Norway's Hafslund, Fredrikstad Energiverk and Fredrikstad Energinet, shares in a Lithuanian company and a Czech company and more than SEK 4 billion in cash.

Another attractive transaction was our acquisition of Sellbergs/SAKAB, which we implemented jointly with one of the world's largest companies in the waste-handling and recovery area – SITA. SITA will look after Sellbergs, while we take care of SAKAB. This latter company, which is located outside Kumla, is Sweden's leader in handling environmentally hazardous waste for conversion into energy, among other uses. Energy recovery through waste incineration will increase, bearing in mind the EU regulations that will come into force at the beginning of 2002. As of then, it will be prohibited to dispose of unsorted burnable waste as landfill and in 2005 it will also be illegal to dispose of organic materials. Currently, two million tons of burnable waste are disposed of as landfill each year in Sweden alone. "Waste to energy" is a concept that is in use today and will be used to a large extent in our own approach to this highly attractive area of development.

Through the sale of ElektroSandberg Installation, with 375 employees, to the NEA Group, ElektroSandberg can now focus more on core operations in the new building, operation and maintenance of high-tension plants.

Finally, a few words about the business trend. We expect the current severe competition to continue, particularly on the electricity side. The high levels of hydroelectric power production will also continue through the coming winter season. However, at the same time we believe that the increasing electricity consumption and a normalized hydroelectric power production will eventually result in more reasonable price levels and thus have a positive effect on earnings in a slightly more long-term perspective.

Lars Frithiof

SALES AND EARNINGS

The Group's net sales for the period amounted to SEK 10 276 M (10 653), down approximately 4%, compared with the corresponding nine months of 1999. SEK 2 886 M (2 952) of sales was attributable to the third quarter. The decrease in sales was mainly due to lower volumes of energy sold, in combination with lower electricity prices.

Sales of electricity, gas and heat rose during the third quarter, compared with the corresponding quarter of 1999. For the year as a whole, energy sales declined, however, as a result of the mild winter and spring.

Accumulated electricity sales decreased by 7% to 20 116 GWh (21 559). Slightly higher deliveries of natural gas but lower sales of LPG led to gas deliveries as a whole declining by about 2% to 5 456 GWh (5 577). The mild weather at the start of the year resulted in sales of heat declining by 2% to 2 770 GWh (2 819) during the period.

Operating expenses totaled SEK 6 947 M (7 055). The decrease was due primarily to slightly lower volumes and to continuing measures to improve cost-efficiency. The new, fixed output tax on nuclear power led to tax charges increasing by around SEK 100 M. Operating expenses also included approximately SEK 60 M for the renewal and replacement of administrative systems.

Depreciation during the period amounted to SEK 1 272 M (1 280).

Earnings from participations in associated companies, primarily HEW and Graning and the newly added associated companies Norrköping Miljö & Energi and Østfold Energi, amounted to SEK 246 M (339).

Operating profit rose by 10% to SEK 2 957 M (2 696). SEK 1 052 M (666) of operating profit was attributable to the third quarter. Operating profit included SEK 556 M corresponding to the current value of the expected refund of the consolidation surplus from SPP.

The financial net was largely unchanged compared with the first nine months of 1999 and amounted to an expense of SEK 575 M (expense: 574).

Consolidated profit after financial items increased by 12% to SEK 2 382 M (2 122).

Net sales and earnings per business sector

<i>SEK M</i>	<i>Net sales</i>		<i>Of which, external</i>		<i>Earnings</i>	
	<i>Q3 00</i>	<i>Q3 99</i>	<i>Q3 00</i>	<i>Q3 99</i>	<i>Q3 00</i>	<i>Q3 99</i>
Marketing and Sales	4 344	4 216	4 003	3 948	19	94
Production	4 846	5 010	355	443	1 124	1 174
Distribution	3 623	3 241	2 722	2 950	941	920
Consulting and Contracting	1 739	1 819	1 066	977	40	79
Energy Trading	4 225	4 962	2 104	2 315	134	195
Result from participations in associated companies	-	-	-	-	246	339
Group eliminations, etc.	-8 501	-8 595	-	-	-	-
Other	-	-	26	20	453	-105
Net sales	10 276	10 653	10 276	10 653		
Operating profit					2 957	2 696
Net financial items					- 575	- 574
Profit after net financial items					2 382	2 122

PROFITABILITY

During the most recent 12-month period, the operating margin was 24.8% (21.8) and the profit margin 22.0% (19.7).

The return on equity after tax during the most recent 12-month period was 10.4% (10.1) and the return on capital employed before tax was 10.0% (9.8).

Earnings per share for the first nine months of 2000 totaled SEK 8.40 (7.30). For 1999 as a whole, Sydkraft's earnings per share amounted to SEK 10.15.

MARKETING AND SALES BUSINESS SECTOR

Net sales for the period totaled SEK 4 344 M (4 216), of which sales to customers outside the Group accounted for SEK 4 003 M (3 948). Operating profit amounted to SEK 19 M (94).

Physical sales of electricity and heat declined as a result of the substantially milder than usual start to the year. Net sales for this business sector rose, however, since gas and LPG sales were added after having been reported in other business sectors during the beginning of 1999.

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

Heat sales remained largely unchanged. The mild weather conditions resulted in lower deliveries of district heating. At the same time, deliveries of Total Heat increased. Sales are now accelerating in northern Sweden after having shown satisfactory development in southern and central Sweden for a long period.

The sharp hikes in the price of oil during the year led to price increases for both gas and heat.

Notable among the various marketing activities and projects implemented to strengthen Sydkraft's positions in the energy market is the Collect Program, which has now attracted more than 50 000 customers, the development of a web-based version of Energidialog and systems for reporting meter values and invoice information via the Internet.

Comprehensive changes are being made to administrative systems with the aim of increasing the efficiency of working methods and raising competitiveness. The cost of the changes has led to SEK 33 M being charged against earnings for the year.

PRODUCTION BUSINESS SECTOR

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

Net sales totaled SEK 4 846 M (5 010), of which sales to customers outside the Group accounted for SEK 355 M (443). Operating profit amounted to SEK 1 124 M (1 174).

The decline in sales was mainly due to lower heat production and somewhat declining prices for the electricity sold by the business sector. The negative effects of the lower electricity prices could largely be offset by continued cost savings, however.

Electricity production totaled 19 740 GWh (19 501).

Total hydroelectric power production amounted to 9 247 GWh (8 817). The increase was due to the higher water run-off during July in particular.

Nuclear power produced 10 093 GWh (10 132). 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 between Sydkraft, the Swedish Government and Vattenfall regarding the decommissioning of block 1 in Barsebäck came into force 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. In the Sydkraft Group, Ringhals is consolidated in accordance with the proportional method, in other words based on Sydkraft's holding in the company.

A total of 400 GWh (552) of electricity was produced via co-generation, gas turbine and wind power plants during the period.

Heat production amounted to 2 770 GWh (2 819). The decrease was due to a slightly warmer winter and spring compared with the preceding year.

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.

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 3 623 M (3 241), of which sales to customers outside the Group accounted for SEK 2 722 M (2 950). Operating profit amounted to SEK 941 M (920).

The increase in net sales is explained by the addition of new electricity network companies, the introduction of a new fee to compensate for the support the authorities have granted to small-scale electricity production, and the sharp increase in the price of oil during the past year, which 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.

Operating profit rose 2%, compared with the corresponding period of 1999 due to ongoing cost-rationalizations and other measures. Comprehensive changes have been and continue to be made to administrative systems in order to increase the efficiency of working methods and to increase competitiveness. The cost of the changes, SEK 35 M, was charged against earnings for the year.

As in 1999, the weather during the period was milder than usual, which affected temperature-dependent deliveries. At the same time, business conditions were good, with increases noted in sales of natural gas and in transported volumes of electricity as a result. During the period, the sector transported 23 392 GWh (22 725) of electricity.

CONSULTING AND CONTRACTING BUSINESS SECTOR

Net sales totaled SEK 1 739 M (1 819). Sales to customers outside the Group accounted for SEK 1 066 M (977), which meant that the proportion of external sales rose from 54% to 61%. Operating profit amounted to SEK 40 M (79).

The companies in the business sector are mainly active in the energy area. The market situation is characterized by the rationalization and efficiency enhancement work being conducted in the energy area, both within and outside the Sydkraft Group. For several of the companies, this has led to reduced order volumes and lower margins. At the same time, the structure of customer and project consulting operations is continuing to change and an increasing amount of work is being generated outside the energy area. As a result of acquisitions, such as Sycon's acquisition of Stockholm Konsult Stadsutveckling and BARAB, new areas of competence and attractive external markets are being added.

Sydkraft's focus on broadband, initially under the direction of Evicom, is another example of the development of the Group and of the new direction being taken by this business sector. This is an investment offering major potential, but means initially that costs will be charged against the business sector's earnings.

ENERGY TRADING

Net sales totaled SEK 4 225 M (4 962), of which sales to customers outside the Group amounted to SEK 2 104 M (2 315). Operating profit amounted to SEK 134 M (195).

The decrease in sales was attributable to lower volumes and price levels. The decrease in operating profit was due to lower volumes and lower profit contributions from trading in physical electricity, factor that were partially offset by improved trading results and the positive effects of price-area differences in the Nordic electricity market.

The price trend during the year to date has been characterized by the abundant supply of hydroelectric power in the Nordic system and by spot prices on the Nordic electricity exchange having been somewhat lower than in 1999. A slight upturn was seen during the third quarter, however.

INVESTMENTS AND ACQUISITIONS

Group investments during the period totaled SEK 1 923 M (3 261). Of this amount, fixed-asset investments in existing operations accounted for SEK 941 M (1 143), investments in new subsidiaries for SEK 154 M (525) and shares in associated companies for SEK 828 M (1 593).

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 third quarter, fixed-asset investments in existing operations amounted to SEK 286 M (415).

In July, Sydkraft's subsidiary Sycon acquired all of the shares in Markhusbro Förvaltning AB, which owns AB Stockholm Konsult Stadsutveckling, with 170 consultants in Stockholm. Apart from these, only minor investments were made in the form of 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 3 078 M (2 685). Cash flow after investments amounted to SEK 1 353 M (neg: 506).

Interest-bearing net liabilities amounted to SEK 18 913 M (19 692). 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 1 981 M (1 366). At year-end 1999, the Group had liquid funds of SEK 1 352 M.

The equity/assets ratio was 41% (40). At year-end 1999, the Group had an equity/assets ratio of 41%.

NEW ACTIVITIES AND OUTLOOK

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

As a result of the joint acquisition of WM Sverige and SAKAB in Kumla by Sydkraft and the French company SITA, through its Swedish subsidiary Miljöservice, at the end of the year, Sydkraft now takes a step into a new area of business, energy recovery from waste materials. The selling party is Waste Management International BV, a subsidiary of the American company, Waste Management Inc. The transaction means Sydkraft will be responsible for SAKAB and district heating operations in Mora, while SITA/Miljöservice will assume responsibility for traditional refuse-handling operations within WM Sellbergs. Sydkraft's share of the transaction amounts to approximately SEK 1 200 M.

In October, Sydkraft and E.ON Energie reached an agreement with Vattenfall regarding the companies' holdings in HEW. For Sydkraft, the agreement contributes a financial gain for continued acquisitions and a strengthening of its position in central Sweden and, particularly, an

opportunity to participate in the restructuring of the energy market in the Oslo area with its Norwegian partners.

The transaction is a good complement to the letter of intent signed between Sydkraft and Oslo Energi Holding in July regarding ownership cooperation. Under the terms of the agreement, negotiations will be initiated to acquire 20% of Oslo Energi Holding. The cooperation with Østfold Energi also fits in well with this development.

Sydkraft's focus on the broadband area continues. 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.

The interim reports presented to date indicate that the profitability of all power companies is under pressure. Sydkraft is working hard to meet this situation. This is taking the form of both aggressive marketing measures and intensive efficiency enhancement and rationalization programs, all of which have shown tangible results. Substantial amounts will continue to be invested in the implementation of new, more efficient administrative systems 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 earnings will improve during the fourth quarter.

Sales of gas and heat are continuing to develop in a stable manner. The abundant supply of hydroelectric power has caused continued declines in electricity prices, while margins have narrowed compared with the preceding year. There are certain tendencies toward an increase in price levels but in general the situation is expected to remain unchanged during the short term. The price scenario through the remainder of year 2000 will be affected by weather conditions and the production situation in the Nordic electricity system.

KEY FIGURES

	Q3 00	Q3 99	Q3 98
Net sales, SEK M	10 276	10 653	10 835
Operating profit, SEK M	2 957	2 696	2 895
Profit after financial items, SEK M	2 382	2 122	2 229
Operating margin, % ^{1) 2)}	24.8	21.8	24.1
Profit margin, % ²⁾	22.0	19.7	20.6
Return on equity, % ²⁾	10.4	10.1	10.5
Return on capital employed, % ²⁾	10.0	9.8	11.1
Equity/assets ratio, %	41	40	40
Earnings per share, SEK ³⁾	8.40	7.30	7.74
Sales of electricity, GWh	20 116	21 559	24 058
Sales of gas, GWh	5 456	5 577	5 419
Sales of heat, GWh	2 770	2 819	2 714

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

	2000 July-Sep.	1999 July-Sep.	2000 Jan.-Sep.	1999 Jan.-Sep.	Oct. 1999- Sep. 2000	1999 Full-year
Net sales	2 886	2 952	10 276	10 653	14 402	14 779
Operating expense	-2 119	-1 975	-6 947	-7 055	-9 806	-9 914
Depreciation and write-downs of fixed assets	-416	-426	- 1 272	-1 280	-1 672	-1 680
Other operating revenue/expense	643	2	654	39	651	36
Result from participations in associated companies	58	113	246	339	375	468
Operating profit	1 052	666	2 957	2 696	3 950	3 689
Financial income	56	34	200	117	249	166
Profit before financial expense	1 108	700	3 157	2 813	4 199	3 855
Financial expense	-259	-228	-775	-691	-1 031	-947
Profit after financial income and expense	849	472	2 382	2 122	3 168	2 908
Taxes	-260	-165	-764	-722	-1 003	-961
Minority interest	-6	-2	-13	-6	-15	-8
Net profit for the period	583	305	1 605	1 394	2 150	1 939

CONSOLIDATED BALANCE SHEET

Amounts in SEK M

	September 30, 2000	September 30, 1999	December 31, 1999
Assets			
Fixed assets	45 226	44 305	44 379
Current assets	4 910	4 715	5 373
Liquid funds	1 981	1 366	1 352
Total assets	52 117	50 386	51 104
Equity and liabilities			
Equity	21 518	20 239	20 832
Provisions for deferred tax	4 992	5 076	5 150
Interest-bearing liabilities	20 894	21 058	20 658
Non interest-bearing liabilities	4 713	4 013	4 464
Total equity and liabilities	52 117	50 386	51 104

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in SEK M

	2000 July-Sep.	1999 July-Sep.	2000 Jan.-Sep.	1999 Jan.-Sep.	Oct. 1999- Sep. 2000	1999 Full-year
Cash flow before change in working capital	746	627	2 734	2 311	3 785	3 362
Change in working capital	-274	-152	344	374	74	104
Cash flow from operations	472	475	3 078	2 685	3 859	3 466
Fixed assets sold, including shares	26	-27	47	41	105	99
Acquisitions of Group companies	39	-1 453	-831	-2 089	-812	-2 070
Investments in plants	-286	-415	-941	-1 143	-1 450	-1 652
Cash flow after investments	251	-1 420	1 353	-506	1 702	-157
Net borrowing/amortization	231	957	206	1 633	-157	1 270
Dividends paid	-	-7	-930	-920	-930	-920
Change in liquid funds	482	-470	629	207	615	193

Malmö, November 27, 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	February 22, 2001
Annual report, 2000	Beginning of 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.

DIAGRAM TEXTS:

1. Sales of electricity, gas and heat increased during the third quarter compared with the corresponding quarter of 1999. However, due to the mild winter and spring, energy sales for the year as a whole declined. Electricity sales fell by 7% to 20.1 TWh (21.6). The mild weather conditions also led to a 2% decline in sales of both gas and heat. Deliveries of gas totaled 5.5 TWh (5.6), while heat sales amounted to 2.8 TWh (2.8).
2. Group net sales amounted to SEK 10 276 M (10 653), down by about 4% compared with the corresponding period of 1999. Of this amount, the third quarter accounted for SEK 2 886 M (2 952). The decrease in sales was due primarily to a combination of lower volumes of energy sold and lower electricity prices.
3. To counter the effects of the lower energy volumes and electricity prices, Sydkraft continued its rationalization and efficiency enhancement programs. At the same time, operating expenses rose as a result of the new fixed output tax on nuclear power and the cost of renewing and replacing administrative systems. Operating profit includes SEK 556 M relating to the refund of the consolidation surplus from SPP. Taken as a whole, operating profit rose by 10% to SEK 2 957 M (2 696). Of this amount, the third quarter accounted for SEK 1 052 M (666).
4. The financial net remained largely unchanged compared with the preceding year and amounted to an expense of SEK 575 M (expense: 574). Profit after net financial items rose by 12% to SEK 2 382 M (2 122).
5. The return on equity during the most recent 12-month period was 10.4% and the return on capital employed was 10.0%. For fiscal 1999, the returns were 9.6% and 9.5%, respectively. Profitability during the third period was positively affected by the surplus funds received from SPP, which were taken up as earnings.