



GRANINGE

Interim report for January-June 2000

- * *Sales improved by 3 per cent to MSEK 1,769.*
- * *Profit including repayment of pension premiums from SPP was MSEK 285, down 6 per cent on the preceding year.*
- * *Electricity sales rose 16 per cent to 3,366 GWh.*
- * *The Scaninge transaction has been completed.*

Income and profit

The Graninge Group's income for the first half of the year amounted to MSEK 1,769 (1,722), a 3 per cent increase over the same period of last year attributable to acquired companies. Operating income for comparable units fell 2 per cent, mainly due to lower income in power operations.

Profit before tax was reported at MSEK 285 (304), a decrease of 6 per cent relative to 1999. Profit for the period included MSEK 61 in refunded pension premiums from the insurer SPP. Excluding these funds, profit declined by MSEK 80 or 26 per cent. The decrease is a reflection of record low electricity prices on the wholesale market, tight margins and mild weather.

Profit for the first six months represents earnings per share after tax of SEK 3.10 (3.30).

Second quarter income amounted to MSEK 768 (787) with a pre-tax profit of MSEK 71 (109) excluding the above-mentioned SPP funds, a decrease of 35 per cent compared with the preceding year.

Power & Energy

Competition in the electricity market remains fierce and power is generally being sold at very low prices. Furthermore, the margins relative to the power exchange are in many cases so narrow that it is questionable whether they provide coverage for administrative costs and market risks.

Behind these low electricity prices is high production in the Norwegian hydropower plants, which has forced down prices on the spot market to a very low level. Spot prices in Norway have fallen more sharply than in Sweden due to shortcomings in transmission capacity between the two countries. Differences of this type create problems for the power exchange, since the price hedging mechanism is partly eliminated.

Electricity prices have now reached rock bottom and number of companies have announced that they will be raising their prices for new contracts in the household segment.

In spite of this strained market situation, Gräninge has managed to hold its ground thanks to its focus on "green" electricity. The Group's deliveries thus increased by 5 per cent excluding the newly acquired Gräninge Kalmar Energi. Total deliveries including Kalmar amounted to 3,366 (2,898) GWh, up 16 per cent on the preceding year. Deliveries to customers in external networks rose by 419 GWh.

Because Gräninge normally price hedges all electricity that it sells, the low spot prices have not had a visible impact on power procurement costs. On the contrary, these have risen somewhat as a consequence of the above-mentioned price area differences.

Production in the Group's own power plants amounted to 1,612 GWh, which is 3 per cent higher than normal but 7 per cent lower than in 1999. The year's spring flood was comparatively heavy, although not on par with the preceding year, and began two weeks earlier than normal.

Heavy precipitation fell in Norrland after the end of the period – in the month of June up to nearly 300 mm in certain parts of the coastal region – washing out roads and bridges and flooding buildings. Though Gräninge was not among the most hard-hit companies, certain problems arose along non-regulated rivers in the forest areas. However, no major damage has occurred. Additional rain has fallen during August, this time mainly in the mountain areas. The rainfall has produced unseasonably high flows in the rivers where Gräninge's power plants are located and the reservoirs are now essentially full.

District heating sales rose by 131 GWh to 530 GWh. Excluding Kalmar, which delivered 173 GWh, sales declined by 11 per cent due to the very mild weather.

Income in power and energy operations during the first half of the year rose by 3 per cent to MSEK 1,159 (1,100). Operating profit excluding the above-mentioned refund from SPP was MSEK 288 (362), a decrease of 20 per cent.

Second quarter income amounted to MSEK 471 (432) and operating profit to MSEK 109 (139), down 22 per cent on the year-earlier figure.

Forest & Timber

Although the sawn timber market is relatively strong, the winter's storm felling on the continent and in southern Sweden has resulted in an oversupply of timber products. Although this primarily involves construction grade timber, the market for high quality products has also been affected. Furthermore, due to the strengthening of the Swedish krona against the Euro, the price increases that have been possible to introduce towards continental customers did not have a corresponding impact after translation to SEK.

Total deliveries in the first half of the year amounted to 278 (294) tm^3 , while the production volume was 303 (280) tm^3 . The increase in inventories is temporary.

Prices for sawmill chips and pulpwood on the raw material market were on par with 1999 despite high production in the pulp and paper mills. Timber prices fell somewhat, but the sawmills' net raw material costs remain excessively high.

The total cutting volume was 378 (350) tm^3 , of which 287 (256) tm^3 in the Group's own forests.

Income in Forest & Timber for the first half of the year amounted to MSEK 613, a decrease of 2 per cent compared with 1999. Operating profit was MSEK 37 (18).

Income for the second quarter was MSEK 298 (327) and operating profit totalled MSEK 12 (7). Profit for the period was charged with non-recurring items related to the formation of Scaninge Timber, among other things.

Structural changes

At the beginning of July, Graninge AB and Svenska Cellulosa AB SCA completed the formation of Scaninge Timber AB after obtaining the approval of the European Commission. The company is owned jointly by Graninge and SCA, and will be one of the ten largest sawmill groups in Europe. Graninge has transferred all of its forest holdings and four sawmills to Scaninge Timber, while SCA has contributed its sawmill in Lugnvik and all forest properties not owned directly by the Parent Company.

In the starting phase, Scaninge Timber's operations thus include close to 400,000 hectares of productive forest land and the sawmills in Bollstabruk – where the company has its head office – Rundvik, Vilhelmina, Graningebruk and Lugnvik. Graninge and SCA will have equal control over the company by way of vote differentiated shares. The supply of timber to the sawmills will be improved and Scaninge expects to realise synergy gains of MSEK 75 within two years.

The purchase price for the assets Graninge has contributed to the new company amounts to MSEK 2,950, whereas the assets have a book value of around MSEK 1,850 in the Group. Of the difference, approx. MSEK 300 will be reported as a capital gain. The capital gain is tax exempt.

Of the total purchase sum, Graninge has received just under MSEK 1,900 in cash. In addition, debts of approx. MSEK 150 have been transferred to the new company, boosting the Group's equity ratio to over 50 per cent.

On 1 April of this year, Graninge AB and the Finnish energy company Fortum carried out a barter transaction involving hydropower. Graninge received Fortum's share in the hydropower producer Gulsele Kraft AB in return for Graninge's 60-year right to hydropower from Finnish Kemijoki Oy. Through this transaction Graninge has taken over 31.7 per cent of Gulsele Kraft, which owns the Gulsele and Hällby hydropower stations on the Åsele River. Graninge's acquired share corresponds to an output of 45 MW and annual production of 220 GWh, the same annual volume that Graninge has leased from Kemijoki in recent years. The withdrawal costs in Gulsele are considerably lower than in Kemijoki, which will be economically favourable.

Investments and net financial items

The Group's investments in new plant and equipment during the first half of the year totalled MSEK 125 (180), of which Power & Energy accounted for MSEK 91 (55) and Forest & Timber for MSEK 34 (125). Of the total investments, MSEK 69 (130) pertained to the second quarter.

Net financial items for the period are reported at MSEK -101 (-76). The increase relative to 1999 is attributable to higher net debt and rising interest rates.

The Group's net debt at the end of June was MSEK 4,056, which is MSEK 88 higher than at year-end 1999.

The equity ratio as per 30 June was 41 per cent, on a level with the first quarter.

Other

The Board has appointed Lars Enslöf as the new Managing Director and CEO of Graninge AB. Lars Enslöf joined the company in 1977 and has served as Deputy Managing Director since 1983.

Bollstabruk, 28 August 2000

Lars Enslöf
Managing Director

Summary consolidated profit & loss account

MSEK	Jan-June 2000	Jan-June 1999	Full year 1999
Net sales (excl. power tax)	1,769	1,722	3,394
Participations in associated companies	5	4	9
Operating expenses *)	-1,388	-1,346	-2,764
Operating profit	386	380	639
Net financial items	-101	-76	-149
Profit after financial items	285	304	490
Tax	-80	-85	-134
Net profit for the period	205	219	356
*) Operating expenses include planned depreciation of	-136	-123	-240
Earnings per share (66,322,722), SEK	3.10	3.30	5.40

Income and operating profit by business area

MSEK	Jan-June 00		Jan-June 99		Full year 99	
	Income	Profit	Income	Profit	Income	Profit
Power & Energy	1,159	349	1,100	362	2,166	577
Forest & Timber	613	37	625	18	1,237	62
Intra-Group deliveries	-3		-3		-9	-
Total Group	1,769	386	1,722	380	3,394	639

Summary consolidated balance sheet

MSEK	30/06/2000	30/06/1999	31/12/1999
<i>Assets</i>			
Fixed assets	9,790	9,402	9,793
Bank deposits and short-term investments	44	146	160
Other current assets	1,137	1,206	1,271
<i>Total assets</i>	<i>10,971</i>	<i>10,754</i>	<i>11,224</i>
<i>Shareholders' equity, provisions and liabilities</i>			
Shareholders' equity	4,477	4,374	4,377
Minority interests	10	0	124
Deferred tax	1,531	1,466	1,530
Long-term liabilities	1,325	308	1,275
Interest-bearing current liabilities	2,804	3,861	3,133
Other current liabilities	824	745	785
<i>Total shareholders' equity and liabilities</i>	<i>10,971</i>	<i>10,754</i>	<i>11,224</i>

Summary consolidated cash flow statement

MSEK	Jan-June 00	Jan-June 99	Full year 99
Opening interest-bearing liabilities	-4,144	-2,588	-2,588
Financing generated by operations	334	342	585
Dividend	<u>-219</u>	<u>-219</u>	<u>-219</u>
	115	123	366
Increase(-)/decrease(+) in working capital	97	-185	-135
Increase(+)/decrease(-) in deferred tax	1	213	277
Investments, etc.	-125	-167	-544
Plant and equipment, etc. via acquisitions	-	-1,381	-1,520
Closing interest-bearing liabilities	-4,056	-3,985	-4,144

Key ratios

	Jan-June 00	Jan-June 99	Full year 99
Visible equity, %	41	41	39
Equity per share, SEK	69	68	66
Return on capital employed, %	8	8	7
Return on shareholders' equity, %	9	10	8

Financial information

Interim report January – September 2000 27 November 2000

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

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