

Interim report January-March 2000, Birka Energi

- **Mild winter reduced electricity and district heating margins**
- **Acquisition of regional network binds together Birka Energi's network areas**
- **Contract on purchase of business with 50 000 electricity customers**

SEK m	2000-03-31	1999-03-31	Pro forma 1998-03-31
Net turnover	4 007	3 947	3 787
Operating profit	1 008	1 246	987
Profit after financial income and expense	585	880	567
Operating margin, %	25,2	31,6	26,1

Birka Energi continues its strong development

Developments and changes in the Nordic energy market continue at a fast rate. The deregulated electricity market, combined with milder winters, has put strong pressure on electricity prices and continues to force market structural change in the direction of fewer and larger players.

Pressure on electricity prices affects Birka Energi's profits negatively, but increases the relative competitiveness of the group as a whole. The company's electricity and district heating/cooling networks are market-leaders in Scandinavia and provide Birka Energi with a unique and stable position in the energy market.

In order to widen the use of our customer base of around 900 000 customers, continued strong investment in development is required. This in turn will increase demand for increased solidity, which is why Birka Energi is now beginning a review of assets on the balance sheet. The aim is to sell assets during 2000 that are not strategically important, in order to free resources for internally financed growth in profitable areas.

Financial performance

Despite the year being characterised by continued low power prices and mild weather, the Group has managed to retain a net turnover on a level with the previous year, SEK 4,007 million (SEK 3,947 million). Sharpened competition and price pressure on the electricity market meant that electricity income sank, but thanks to financial price hedging the income level has been retained compared to previous years. Margins in electricity sales are however lower than previously. Competition on the household market has stiffened since standard metering was introduced on 1 November 1999, but movement in the segment is still relatively low. Total sales of electricity over the period amounted to 7.0 TWh (7.2).

In-house power production amounted to 6.2 TWh (6.4). Nuclear power had somewhat lower availability compared with previous years, whilst hydroelectric production was on a level with last year. Good inflow in March meant that water stocks are on a level with normal years but slightly lower than last year. Low electricity prices have instead meant that electricity was used for heating production 0.7 TWh (0.4). Total electricity turnover, including own use for heating production, amounted to 8.0 TWh (7.8). Besides its own production, the Group bought 1.8 TWh (1.3) through bilateral contracts and on the power exchange Nord Pool.

Because of the mild weather, sales of heating were lower than expected. Income stayed at the same level as last year however, thanks to continued expansion. Heating sales amounted to 3.2 TWh (3.2). Margins in heating have fallen as a result of last year's expansion, increasing costs. Heating was responsible for just over 30% of the Group's operating profit up to and including March.

Sales of cooling continue to be good and increased over the period by just over 50 percent. Cooling sales amounted to 37 GWh (24).

Sales of gas sank compared with the previous year to 133 GWh (149). This was mainly because the mild weather provided lower income from heating for household/property customers and ongoing discarding of gas stoves.

The operating profit for the Group was SEK 238 million lower than last year. Stiffening competition in electricity sales and the low and continuously falling price level for electricity means that margins in electricity were pressured. On top of this, the mild winter produced lower profits for heating.

Net financial income/expense amounted to – 423 million (– 370). The Group's net financial income/expense is SEK 53 million lower than last year because of higher market interest rates.

The profit after financial income and expense was SEK 585 million (880), a fall of SEK 295 million compared with last year. Of this fall, SEK 242 million is attributable to the business itself and SEK 53 million to financing activities. The profit for the period amounted to SEK 449 million (627).

Acquisitions and sales

	Company	Interest	Activity
Jan-00	Blåsjön Kraft AB	Customer contract	Acquisitions of electricity sales
Jan-00	Ljusdal Energi Försäljning AB	50%	Acquisitions of electricity sales
Feb-02	Arvika Energi AB	100%	Acquisitions of electricity sales/production
Mar-00	Gulsele AB	31,7%	Sale of hydroelectric power production

During the period, Birka Energi has continued its acquisition strategy in order to strengthen and complement the Group's business and range of services. Apart from the above acquisitions, contracts have been signed on the purchase of Sigtuna Energi, Brista Kraft and the district heating network in Upplands Väsby. Through these acquisitions, which consist largely of district heating, the district heating system in the Stockholm region will become more effective and efficient. In April, Birka Energi and Stora Enso Energy AB signed a contract on the transfer of Stora Enso's regional network in Dalarna. Through this acquisition, the Group's regional networks in Värmland and Hälsingland can be connected together. The Group will thereby strengthen its position as the leading network operator in Sweden. In addition to this, a contract has been signed on the purchase of shares in Energy Securities Europe AB. The company provides financial energy-trading solutions for larger customers. Birka Energi previously owned 28.5% of the company and will own 91% of the shares after the deal.

Cash flow and financing

SEK m	2000-03-31	1999-03-31
Balance sheet total	72 765	70 225
Equity capital	24 561	24 024
Equity/assets ratio, %	35,1	35,5
Interest-bearing net loan liabilities	29 640	29 163

Cash flow from ongoing business amounted to SEK 534 million (433). The lower result compared with the previous year was countered by less capital being tied up in working capital.

The Group's net investments in tangible and intangible fixed assets excluding company acquisitions amounted to SEK 387 million (355). The greater part of these investments were carried out in the subsidiaries Birka Värme and Birka Nät. Birka Värme's investments were largely related to expansion in the heating and cooling businesses. Investments in network activities were largely concentrated in re-investments in the existing networks.

Investments in the acquisition of subsidiaries in the first quarter accounted for SEK 46 million (600). During the period, the Group sold 31.7% of its shares in Gulsele AB to Fortum.

Cash flow after investments amounted to SEK 506 million (−682). Compared with the same period last year, cash flow was affected positively, above all because of lower investment in company acquisitions and the sale of shares in Gulsele AB.

The balance sheet total increased compared with last year as a result of company acquisitions which were carried out during the latter part of 1999 and through the expansive level of investment in district heating. Since the beginning of the year, the balance sheet total has increased by SEK 329 million.

Equity capital amounted to SEK 24 561 million. A dividend of SEK 500 million has been approved but not yet issued. Interest-bearing net loan liabilities amounted to SEK 29 640 million, which corresponds with a reduction since the beginning of the year of SEK 86 million.

Stockholm, May 2000

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This report has not been the subject of special review by the Group's auditors.

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Profit and loss statement

SEK m	Jan-Mar 2000	Jan-Mar 1999	The Year 1999
Net turnover excluding selective taxes	4 007	3 891	12 702
Other operating incomes	21	132	560
Operating expenses	-2 608	-2 389	-9 063
Depreciation and write-downs	-443	-396	-1 694
Profit from participation in associated companies	31	12	84
Operating profit	1 008	1 250	2 589
Financial income	38	38	185
Financial expense	-461	-408	-1 660
Profit after financial income and expense	585	880	1 114
Minority share	5	-2	1
Tax	-141	-251	-400
Profit for the period	449	627	715

Balance sheet

SEK m	2000-03-31	1999-03-31	1999-12-31
Assets			
Fixed assets	67 180	65 414	66 932
Current assets	5 066	4 284	4 837
Liquid assets	519	527	667
Total assets	72 765	70 225	72 436
Equity capital and liabilities			
Equity capital	24 561	24 024	24 112
Minority interest	998	941	999
Allocation for latent tax liability	10 338	9 895	10 363
Other allocations	1 296	1 428	1 346
Interest-bearing debt	31 421	31 343	31 966
Non-interest-bearing liabilities	4 151	2 594	3 650
Total equity capital and liabilities	72 765	70 225	72 436

Cash flow statement

SEK m	Jan-Mar 2000	Jan-Mar 1999	The Year 1999
Current operations			
Cash flow before changes in working capital	1 097	1 328	2 904
Change in working capital	-563	-895	-601
Cash flow from current operations	534	433	2 303
Investment activities			
Acquisitions	-46	-600	-1 049
Net investment in tangible fixed assets	-370	-355	-2 116
Net investment in other fixed assets	388	-160	-411
Cash flow from investment activities	-28	-1 115	-3 576
Financing activities			
Loans raised and net amortisations	-653	696	1 428
Cash flow from financing activities	-653	696	1 428
Net change in liquid assets	-147	14	155