GRANINGE

*Interim report for January -September 2000*

- *Sales down 7% to MSEK 2,212 after the sale of Forest & Timber operations to Scaninge Timber.*
- *Sales in energy operations improved to MSEK 1,603 (+ 7%).*
- *Profit of MSEK 764 including a capital gain and SPP funds.*
- *Record production in the hydropower plants.*
- *Electricity deliveries up 18% to 4,697 GWh.*

## Income and profit

The Graninge Group's operating income for the first nine months of the year amounted to MSEK 2,212 (2,378), which is 7 per cent lower than the year-earlier figure. The decrease is entirely attributable to the sale of Forest & Timber to Scaninge Timber AB in July, after which they are no longer consolidated in the Group. Operating income in Power & Energy totalled MSEK 1,603 (1,498), an increase of 7 per cent.

Profit after net financial items is reported at MSEK 764 (355), and includes a capital gain of MSEK 402 on the sale of Forest & Timber and MSEK 61 in reallocated pension premiums from the insurance company SPP. Excluding these items, profit amounted to MSEK 301, 15 per cent lower than in 1999.

The decrease is explained by periodically very low prices for electricity, above all in the first quarter, and narrow margins in the wholesale market. The warm weather and the resulting decrease in energy deliveries and heating requirements were also contributing factors.

Profit for the first nine months of the year represents earnings per share of SEK 9.93, compared with SEK 3.85 for the corresponding period of 1999 and SEK 5.40 for the full year 1999.

Third quarter income amounted to MSEK 443 (656) with a pre-tax profit of MSEK 479 (51). Excluding the above-mentioned capital gain, profit for the quarter was MSEK 77, an increase of 51 per cent. The summer and autumn of 1999 were unusually dry, with record low production in the Group's hydropower plants.

## Production and sales of electricity

The year began with a massive snow accumulation in the Norwegian mountains. These huge amounts of snow created expectations for high production in the Norwegian hydropower plants and by the end of spot prices of NOK 100 /MWh had been noted, prices that normally apply to the summer period. Forward prices also plummeted, which had a direct impact on the consumer market.

As expected, the spring flood in Norway was powerful and the ample supply of power led to record low prices on the power exchange. Prices in Norway have fallen more sharply than in Sweden due to shortcomings in transmission capacity, particularly between Norway and Sweden. Price area differences have persisted throughout the summer and autumn, despite heavy precipitation in Sweden and accompanying high production in the Swedish hydropower plants.

Since power is normally price hedged against a common system price for the entire Nordic region, price area differences of the type that arose this year generate substantial extra costs for Swedish electricity sellers with no production of their own. Graninge, which sells more electricity than is generated in its hydropower plants, has also been affected, though effects of this have been offset by record high production during the summer and autumn. All in all, a total of 2,557 (2,268) GWh was generated during the period January – September. Of this amount, 945 (529) GWh was generated in the third quarter, which is 80 per cent more than in the corresponding period of 1999.

Despite an abundant supply of hydropower, forward prices have risen during the summer and autumn. This trend has now been broken due to steady rain throughout November. However, the situation is unstable and even normal weather conditions could send prices upward again. Consumption in the Nordic system is expected to increase by up to 2 per cent during the year, and no new power is obtainable. In addition, capacity in the Swedish nuclear power plants may be insufficient to satisfy demand during winter days with severe cold.

Aside from the fact that prices must increase in order to create an incentive for new investments, it is vital that trading margins be improved. Today’s tight margins do not provide coverage for the risks associated with electricity sales. If nothing else, this should be obvious after a summer and autumn with persistent price area differences and subsequent extra costs for procurement of power, costs which have had a direct impact on trading margins.

Consumer prices are also on the rise, particularly in the household segment where prices in new contracts have been raised successively throughout the autumn. Margins have improved in the corporate segment as well. However, due to the term of contracts in force, it will take at least one year before these price increases attain full impact on profit.

In terms of volume, the Group’s order backlog has decreased as a result of price pressure. On the other hand, deliveries are continuing to increase and amounted to 4,697 (3,965) GWh for the period January – September. For comparable units, the increase was 10 per cent.

Profit for the first nine months of the year is reported at MSEK 208 (257), a decrease of 18 per cent. Of this total, the third quarter accounted for MSEK 47 (33), which is 48 per cent better than in the corresponding period of 1999.

**Network operations**

The Group’s network operations continue to show favourable development. Contracts were signed with several new companies during the year, which will contribute to increased transmission on local networks. This applies particularly to the network in Järfälla, a location which is increasingly standing out as an alternative to Kista for telecom and IT companies seeking to set up base in the Stockholm area.

The mild winter – the third in a row – has otherwise inhibited transmission on the Group's local networks. During the period January – September a total of 2.016 (2.035) GWh was transmitted, which is 3 per cent lower than normal.

The effects of this have been compensated with increased input into the Group's regional networks. Above all, high production in the hydropower plants in Norrland helped to raise the transmission volume by 117 GWh or 4 per cent to a total of 2,750 GWh.

Profit for the period is reported at MSEK 145 (133), an improvement of 9 per cent. Of this amount MSEK 44 (26) is attributable to the third quarter, which is 69 per cent better than in the same period of 1999.

**Heating, etc.**

District heating operations have also been affected by the warm weather. The number of degree days, a direct measure of heating consumption, in the Stockholm area so far this year is 15 per cent lower than normal. The autumn also started with mild, or to be more accurate, very mild weather.

Deliveries of district heating and so-called ready heating for the period January – September amounted to 680 (546) GWh. For comparable units, deliveries fell by 10 per cent.

Profit for the period is reported at MSEK 25 (36), or a decrease of 20 per cent, of which MSEK -1 (5) is attributable to the third quarter.

**Structural changes**

A previously reported, Scaninge Timber AB was formed in July. The company is owned jointly by Graninge and Svenska Cellulosa AB SCA. Graninge has transferred all of its Forest & Timber operations (four sawmills and all of its forest holdings) to Scaninge Timber, while SCA has contributed its sawmill in Lugnvik and all forest properties not owned directly by the Parent Company.

The purchase price for the assets Graninge has contributed to the new company has been set at MSEK 2,870. Of the total purchase sum, Graninge has received just under MSEK 1,900 in cash. In addition, debts of approx. MSEK 200 have been transferred to the new company. The remainder is made up of shares in the new company, which means that Graninge owns just under 60 per cent of the company's equity capital.

The assets that were transferred to Scaninge had a book value of just under MSEK 1,500. Over MSEK 400 is reported in the quarterly accounts as a capital gain corresponding to the share of equity capital not owned by Graninge.

**Investments and net financial items**

The Group's investments in new plant and equipment during the first nine months of the year totalled MSEK 153 (247), of which MSEK 34 refers to Forest & Timber, i.e. the present Scaninge Timber, compared with MSEK 157 last year. Including only the remaining portions of the Group, investments amounted to MSEK 119, compared with MSEK 90 in 1999.

Net financial items for the period are reported at MSEK –114 (–106). The increase is attributable to rising interest rates and an increase in net debt during the first half of the year relative to the corresponding period of 1999. The purchase price for the Scaninge transaction was used to redeem loans in July – September.

The Group's net debt at the end of September was MSEK 2,094 (3,821). The equity ratio was strengthened by the Scaninge transaction and amounted to 55 per cent as per 30 September, an increase of 13 per cent compared with the corresponding period of the preceding year.

Bollstabruk, 27 November 2000

Lars Enslöf
Managing Director

**Summary consolidated profit & loss account**

| MSEK | Jan-Sept 2000 | Jan-Sept 1999 | Full year 1999 |
|---|---|---|---|
| Net sales (excl. power tax) | 2 212 | 2 378 | 3 394 |
| Participations in associated companies | 4 | 5 | 9 |
| Capital gains Forest & Timber | 402 | | |
| Operating expenses *) | -1 740 | -1 922 | -2 764 |
| Operating profit | 878 | 461 | 639 |
| Net financial items | -114 | -106 | -149 |
| **Profit after financial items** | **764** | **355** | **490** |
| Tax | -101 | -99 | -134 |
| Net profit for the period | 663 | 256 | 356 |
| *) Operating expenses include planned depreciation of | -188 | -183 | -240 |
| | | | |
| Earnings per share (66,789,472), SEK | 9,93 | 3.85 | 5.40 |

*Income and operating profit by business area*

| MSEK | Jan-Sept 00 | | Jan-Sept 99 | | Full year 99 | |
|---|---|---|---|---|---|---|
| | Income | Profit | Income | Profit | Income | Profit |
| Power & Energy | 1 603 | 439 | 1 498 | 439 | 2 166 | 577 |
| Forest & Timber | 613 | 439 | 886 | 22 | 1,237 | 62 |
| Intra-Group deliveries | -4 | | -6 | | -9 | - |
| Total Group | 2 212 | 878 | 2 378 | 461 | 3 394 | 639 |

**Summary consolidated balance sheet**

| MSEK | 30/09/2000 | 30/09/1999 | 31/12/1999 |
|---|---|---|---|
| *Assets* | | | |
| Fixed assets | 8 422 | 9 412 | 9 793 |
| Bank deposits and short-term investments | 104 | 76 | 160 |
| Other current assets | 722 | 1 073 | 1 271 |
| *Total assets* | *9 248* | *10 561* | *11 224* |
| *Shareholders' equity, provisions and liabilities* | | | |
| Shareholders' equity | 4 958 | 4 411 | 4 377 |
| Minority interests | 10 | 0 | 124 |
| Deferred tax | 1 320 | 1 461 | 1 530 |
| Long-term liabilities | 1 776 | 100 | 1 275 |
| Interest-bearing current liabilities | 425 | 3 835 | 3 133 |
| Other current liabilities | 759 | 754 | 785 |
| *Total shareholders' equity and liabilities* | *9 248* | *10 561* | *11 224* |

**Summary consolidated cash flow statement**

| MSEK | Jan-Sept 00 | Jan-Sept 99 | Full year 99 |
|---|---|---|---|
| **Opening interest-bearing liabilities** | **-4,144** | **-2 588** | **-2 588** |
| Financing generated by operations | 844 | 439 | 585 |
| Dividend | -219 | -219 | -219 |
| | **625** | **220** | **366** |
| Increase(-)/decrease(+) in working capital | **448** | **-43** | **-135** |
| Increase(+)/decrease(-) in deferred tax | **-210** | **208** | **277** |
| Investments, etc. | **-156** | **-234** | **-544** |
| Plant and equipment, etc. via acquisitions | **1 343** | **-1 384** | **-1 520** |
| *Closing interest-bearing liabilities* | *-2 094* | *-3 821* | *-4 144* |

**Key ratios**

| | Jan-Sept 00 | Jan-Sept 99 | Full year 99 |
|---|---|---|---|
| Visible equity, % | 54 | 42 | 39 |
| Equity per share, SEK | 75 | 67 | 66 |
| Return on capital employed, % | 13 | 7 | 7 |
| Return on shareholders' equity, % | 19 | 8 | 8 |

**Financial information**

Year end report 2000   16 February 2001

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

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