



SKELLEFTEÅ KRAFT EXCERPT FROM ANNUAL REPORT 2009

This is Skellefteå Kraft

Skellefteå Kraft is a municipal joint-stock company. Founded in 1906, the company has grown to become the fifth largest electricity producer in Sweden through investments and organisational changes, and has a wide range of operations in the energy sector.

In an average year, approximately 3.9 TWh of electricity is produced in wholly-owned and partially-owned companies. Hydropower accounts for 70% of the production; 0.1% is wind power, 17% is thermal power and 13% is nuclear power, via part-ownership of the Forsmark plant.

Operations in the energy sector also include distribution of electricity, production and distribution of district heat in combination with the production of biofuel pellets. In the Skellefteå region, the company provides an infrastructure for information technology through fibre-optic broadband and leasing of office premises.

The company is divided into five business areas: Electric power, Electric networks, Heating, Properties and Communication, with operations in more than 30 locations in Västerbotten, Norrbotten and Jämtland counties.

HIGH CUSTOMER SATISFACTION After strong customer growth in recent years, Skellefteå Kraft now has 130,000 electricity customers in Sweden. One important factor in relation to the growth is customer satisfaction. The company has ranked among the most popular energy companies in the nationwide EPSI-ratings since entering the survey in 2007. In 2009, the company ranked fourth as an electricity trade company and second as an electric networks company. Among business-to-business clients, Skellefteå Kraft had the best rating in the survey in both fields.

VISION With owned energy supplies, knowledge and continuous development, Skellefteå Kraft strives to be the best alternative for the customer by offering attractive products and services at competitive

prices. This is a long-term strategy and a foundation for the company's growth.

Core values such as power, reliability, environmental responsibility and development guide, control work processes and relationships with employees, clients, owners and surrounding communities. Skellefteå Kraft's ability to uphold these values is vital to how the goals and visions of the group are reached.

REGIONAL DEVELOPMENT Energy and communications are important businesses for the future and Skellefteå Kraft has taken an active role to lead the development in several areas in connection with these two. One such example is the bioenergy area, where world-leading knowledge has led to the establishment of the partially-owned company, GreenExergy, which sells and delivers bioenergy CHP plants to the world market.

Skellefteå Kraft strives to create new resources for production while minimizing the effect on the environment. One example of this is the establishment of wind power in the arctic climate.

BUILDING THE COMMUNITY Other efforts to create energy solutions that contribute to a better climate and a reduced carbon footprint include further expansion of district heating and hydropower as well as a conversion to increased use of bioenergy through biofuel for heating, power and motors.

Also, Skellefteå Kraft strives to create the same opportunities for life in rural areas as in cities. The supply of infrastructure for electronic communications in villages and smaller localities is also an important aspect in working towards this goal.

In 2009, Skellefteå Kraft invested SEK 618 M, becoming one of the larger investors in the region.



A workplace of opportunities

Skellefteå Kraft has started extensive processes for further developing the organisation. Initiated efforts include strategies for individual growth at the workplace and the establishment of a strategy to strengthen the employer brand in order to attract employees with sought-after competence.

STRONG STAFF POLICY Important parts of the strategy concerning current employees include extensive investments in creating opportunities for individuals to enhance their competence and influence activities and operations.

“A strong staff policy is something that characterises successful companies,” says Gunnar Tenevall, Staff Manager at Skellefteå Kraft.

A survey conducted in the fall showed an improved satisfaction among employees of 61%, a 3% improvement from the survey conducted in 2007. It is also interesting to note that there was a 10% increase in satisfaction with immediate managers. This was a direct effect of leadership programmes carried out prior to the survey.

EMPLOYER BRAND There is an increased competition in Sweden among companies for highly qualified employees. The supply of competence, good leadership and committed employees is a deciding factor for the continued growth of Skellefteå Kraft. In order to meet these challenges, the company is formulating strategies concerning the employer brand.

ENVIRONMENT-FRIENDLY ENERGY IS KEY Skellefteå Kraft’s efforts in environment-friendly energy are highly influencing the employer brand, but also the region as a whole. Skellefteå Kraft’s investments in new production of electricity will focus on wind power and biofuel.

These efforts are in line with Skellefteå Kraft’s work for sustainable development and the company’s ambition to develop the operations in a systematic and reliable way.

Skellefteå Kraft also has a far-reaching programme for energy-efficiency that includes operations in its own plants and energy services for customers. The sum of saved energy through the energy-efficiency programme amounted to 1,500 MWh of electricity and 3,000 MWh of heat.

As a whole, all efforts and strategic decisions are based on Skellefteå Kraft’s core values of Power, Reliability, Environmental responsibility and Development.



Skellefteå Kraft Group in brief

- Despite the downturn in the business cycle and an additional write-down of the broadband net and a negative share of earnings from Norrlands Etanolkraft AB (holding company of SEKAB) of SEK 102 M, Skellefteå Kraft has shown a good result for the year.
- The net turnover reached SEK 3,619 M compared to SEK 3,627 M for the previous year. The prices on the Nordic power market have been lower than in the previous year.
- Operating costs increased from SEK 2,915 M to SEK 3,134 M, mainly due to higher costs for biofuel.
- The operating profit decreased from SEK 732 M to SEK 527 M.
- Net financial income improved from SEK -111 M to SEK -92 M.
- The result after net financial income was SEK 435 M, compared to SEK 622 M for 2008.
- Investments in shares and facilities totalled SEK 618 M.

	2009	2008
Net turnover, SEK M	3,619	3,627
Operating profit, SEK M	527	732
Profit after net financial income, SEK M	435	622
Balance sheet total, SEK M	9,000	8,796
Shareholders' equity, SEK M	4,123	3,940
Investments, SEK M	618	928
Return on equity, %	8.9	16.6
Return on assets, %	6.2	9.0
Return on capital employed, %	7.3	10.7
Operating margin, %	14.6	20.2
Solidity, %	45.8	44.8
Number of employees	495	484

ELECTRIC POWER Strong customer growth for wind power pioneers

The business area, Electric power, handles Skellefteå Kraft's production and trade in electricity and can look back on a successful year. Despite the worldwide financial crisis and subsequent downturn in the business cycle, the business area has delivered a strong result on the strength of a record-breaking customer growth.

PRODUCTION OF ENERGY FROM RENEWABLE SOURCES

Skellefteå Kraft has a strong foundation in the production of energy from renewable sources. Production of hydropower amounts to 2,570 GWh in a normal year and accounts for 70% of the production of electricity at the company. Other types of energy produced via wholly-owned or partially-owned plants include nuclear energy and thermal energy (500 GWh each).

The production of electricity from wind power is currently 39 GWh but will grow since Skellefteå Kraft has initiated efforts to build wind power turbines in the arctic climate of northern Sweden.

"Setting up wind power turbines in arctic climates makes us pioneers and we are very happy that the systems used to de-ice the propeller blades perform in a way that enables electricity production," says Anders Järvelä, Managing Director of the business area, Electric Power.

During 2009, four units were set up in the low-lying mountains of Uljabuouda in Lapland. An additional six units will be built in 2010. Environmental and building permits were also granted for three more wind power parks, consisting of a total of 118 units.

20,000 NEW CUSTOMERS This year's record customer growth amounted to 20,000 new customers, bringing the total to 130,000.

"There was a high demand for energy efficiency services and portfolio management from our corporate customers."

INCREASE IN RENEWABLE ENERGY PRODUCTION The European Union has taken a leading role in the fight against climate change and has set a target of a 20% increase in energy production from renewable sources for the year 2020. The short period leading up to the year makes wind power a priority, considering it is relatively fast to build.

"Our investments in wind power will strengthen our profile as a green energy company and will generate job opportunities in the areas where plants are built."

TURNOVER AND RESULT The turnover for the business area was SEK 2,585 M, and the operating profit was SEK 690 M. The return on equity amounted to 16.5%.

CONTINUED GROWTH AND GREEN INVESTMENTS Skellefteå Kraft expects a continued customer growth in 2010 and a further strengthening of the profile as a producer of green electricity. The result for the coming year is expected to be solid and comparative to the result for 2009.



ELECTRIC NETWORKS Weatherproof network a priority

The business area, Electric Networks, distributes electricity from producers to customers. With a network that covers large parts of Västerbotten and southern Lapland, Skellefteå Kraft Electric Networks distributes power produced by a number of companies.

The fee for distributing electricity within the system is largely independent of the amount of energy transported, which means that the business area can show a solid result for the year despite hot weather and a downturn in the business cycle that lowered the amount of electricity transported in the network.

“It’s quite natural that we are independent of the electricity consumption due to the fact that our costs are largely made up of the management and support of our distribution system and facilities,” says Lars-Olof Martinsson, Managing Director of Electric Networks.

IMPORTANT INFRASTRUCTURE Today’s society has a low tolerance for power failures and the electric distribution systems are among Sweden’s most important infrastructures. To further enhance the distribution system and make it more robust to withstand extreme weather conditions, Skellefteå Kraft will be making extensive investments in the coming years.

“This is something that we will focus on for many years to come and our strategy is mainly laying electric cable directly into the ground. This is the best way to guarantee high reliability and availability.

In the years leading up to 2025, Skellefteå Kraft’s focus on building a weatherproof distribution system will lead to investments totalling SEK 1.5 Billion.

In 2009, investments in converting the existing distribution system amounted to more than SEK 100 M.

NETWORKS FOR NEW WIND POWER At the end of 2009, there were inquiries of connections for new wind power plants with a joint effect of more than 1,200 MW within the region of the distribution system. This would mean that the production of electricity within the system would be more than doubled.

These projects will require efforts to expand the distribution system. Preparations are already underway in the area surrounding Malå and Robertsfors.

TURNOVER AND RESULT The turnover for the business area was SEK 421 M, and the operating profit was SEK 82 M. The return on equity amounted to 7.9%.



HEATING Green energy – a strong business model

The business area, Heating, is responsible for Skellefteå Kraft's sales, distribution and production of district heating and electricity through bio-fuel and pellets. District heating is produced in combined heat and power (CHP) plants, where the 2008 establishment of the bioenergy CHP plant in Storuman was an important investment.

“Our business model is oriented towards environment-friendly energy and is a strong one,” says Lars Atterhem, Managing Director of the business area, Heating.

In 2009, there has been a focus on increasing the capacity of the Storuman CHP plant. Major challenges have been handled and the plant is now run with a higher degree of utilisation.

RESEARCH AND DEVELOPMENT Skellefteå Kraft is part of several research and development projects in cooperation with universities as well as forestry and energy companies. One example is a research project in small-scale district-heating power plants that was co-financed by the Swedish Energy Agency.

In cooperation with Outotec and four smaller partial owners, Skellefteå Kraft has formed the company, GreenExergy, which will sell and deliver bioenergy CHP plants.

“The world-leading knowledge in our region is important and it shall be utilised and commercialised for export to customers throughout the world.”

NEW MARKETS FOR PELLETS AND DISTRICT HEATING In 2009, 600 new clients were connected to district heating in Skellefteå. New heating plants were delivering heat to two housing-cooperatives, a school in the Skellefteå region, and the Aitik copper-mine, the largest open-pit mine in Scandinavia.

The introduction of pellets from the Storuman plant enabled new possibilities for cooperation with customers, domestically as well as on the international market.

PRODUCTION The production of electricity was 5 GWh lower than in the previous year. The reason for the decline is that the turbine at the Rönnskär smelter lost 12 GWh. Electricity production amounted to 290 GWh. Skellefteå Kraft is producing biofuel pellets at a higher rate than the demand, which has effectively increased delivery capacity.

The production of peat amounted to 153,000 m³ and Skellefteå Kraft has initiated projects to expand peat cutting.

TURNOVER AND RESULT The turnover for the business area was SEK 772 M and the operating profit was SEK 18 M. The return on equity amounted to 0.9%.

“The result has been impacted by the introduction on the new plant in Storuman. Our efforts in Storuman and on the market have had an effect and 2010 promises to be a good year for us,” concludes Lars Atterhem.



COMMUNICATION Doubled demand for broadband services

Skellefteå Kraft Communications is responsible for broadband operations within the company and manages the fibre optic network, SkeKraft.net. After an ambitious expansion of the network, more than 70% of households in the Skellefteå municipality are being offered 100 Mbit/s connections. Today, more than 21,000 households and 1,000 companies are connected to SkeKraft.net.

The business area, Communications, is not currently profitable, but through organisational changes in recent years the foundation has been laid for long-term profitability.

PLATFORM FOR BROADBAND SERVICES The establishment of the platform for broadband services that was launched in September 2009 is important for the generation of higher revenues. The platform has given customers the opportunity to compare and choose services from multiple suppliers. Today, seven different suppliers of broadband services are represented in the network. Kajsa Hedberg, Managing Director of Communications, says the effects of opening the net for more suppliers and services were immediate:

“The demand for broadband connections doubled and the price to the customer for the 10 Mbit/s service was almost cut in half.”

PUBLIC BENEFITS The municipality of Skellefteå has a high broadband penetration, despite geographical challenges in the form of long distances and several smaller localities.

“In recent years, broadband issues have been established as a deciding factor for regional growth. There is an increased understanding of the public benefit of a strong electronic infrastructure.”

According to the broadband strategy presented by the Swedish government, 90% of all households should have access to a 100 Mbit/s connections in the year 2020. That target is already in reach in the Skellefteå municipality.

INCOME AND RESULT The turnover for the business area was SEK 54 M and the operating loss was SEK 132 M. Skellefteå Kraft has decided to conduct a write-down of SEK 100 M.

INCREASED SHARE OF CONNECTED HOUSEHOLDS Skellefteå Kraft Communications will focus on cost-efficient development of the network and increasing the number of connected households through the continued development of the services platform and the recruitment of additional suppliers.

An important part of the mission for the business area is also to create public benefits through contributions to the continued development of the business community and public sector.

Over a 10-year period, the target is to increase the number of connected households to over 80% and increase the number of services to an average of around five per household.

PROPERTIES New office building shows belief in future

The business area, Properties, is responsible for the development, management and lease of office premises in the Sirius block, which consists of 60,000 m² of offices and storage areas as well as a library and a hotel. 2009 showed a decline in the result compared to the previous year.

“We have seen a slight decrease in demand but central Skellefteå still has a solid market for leasing with few empty offices,” says Rolf Rönmark, Managing Director at Skellefteå Kraft’s business area, Properties.

NEW OFFICE BUILDING The construction of a new office building was completed in 2009. Furnishing and moving in has taken place gradually since October. With eleven stories, the house is a landmark for Skellefteå.

“The new office building demonstrates our strong belief in the future of Skellefteå Kraft.”

CONTINUED DEVELOPMENT The percentage of leased premises in the block has decreased as a result of the new office building. An additional 2,200 m² is available for lease and the percentage of leased premises in 2010 will be 91% at the lowest.

A long-term downturn in the business cycle could have an effect on the results of the business area since Skellefteå Kraft Properties could find it more difficult to quickly find tenants for available premises. At the same time, discussions are underway regarding an expansion of the Scandic Hotel, which can influence the result of the business area in coming years.

Income Statement of the Group

Amounts in SEK million

	2009	2008
Net turnover	3,618.8	3,626.5
Work performed by the company for its own use and capitalized	25.8	34.8
Other operating revenues	16.6	22.2
REVENUES	3,661.2	3,683.5
Operating expenses		
Energy and production costs	-1,867.6	-1,937.4
Other external costs	-425.7	-353.8
Personal costs	-325.8	-306.3
Depreciation	-407.6	-350.2
Other operating expenses	-10.6	-4.7
Shares of income in associated companies	-97.1	1.2
Total costs	-3,134.4	-2,951.2
OPERATING PROFIT	526.8	732.3
<i>Income from financial investments</i>		
Income from security paper and receivables from fixed assets	18.2	27.6
Other interest income and similar income items	5.2	13.1
Interest expenses and similar income items	-115.4	-151.2
Net financial income	-92.0	-110.5
PROFIT AFTER NET FINANCIAL INCOME	434.8	621.8
Taxes	-75.5	-8.0
NET INCOME	359.3	613.8

Cash flow break-down analysis of the group

Amounts in SEK million

	2009	2008
CURRENT OPERATIONS		
Profit after net financial income	434.8	621.8
Adjustment of items not in cash flow		
Depreciation	407.6	350.2
Others	100.9	-11.4
Cash flow from current operations before change in working capital	943.3	960.6
Cash flow from change in working capital		
Increase (-) and decrease in		
Inventories	-52.3	40.5
Operating receivables	138.0	86.4
Increase and decrease (-) in operating liabilities	-62.8	148.6
Cash flow from current operations	966.2	1,236.1
INVESTMENTS		
Acquired plants	-631.4	-928.4
Sold plants etc	1.9	3.4
Change in receivables etc	-200.3	-0.3
Received government contribution	13.7	0
Cash flow from investments	-816.1	-925.3
EXTERNAL FINANCING		
New loans	175.0	135.0
Change in other liabilities	-5.8	-30.9
Repayments and prepaid loans etc	-158.2	-250.8
Allocation to the municipality	-170.0	-153.0
Cash flow from external financing	-159.0	-299.7
Change in cash flow during the period	-8.9	11.1
Liquid funds at the end of the period	17.4	26.3

Balance sheet of the group

Amounts in SEK million

	2009-12-31	2008-12-31
ASSETS		
FIXED ASSETS		
Intangible assets	156.4	161.7
Tangible assets		
Buildings	1,218.4	1,011.4
Land and other real estate	1,832.0	1,807.2
Machinery and other technical constructions	3,412.8	3,369.6
Equipment, tools and installations	174.0	117.9
Plants under construction and prepayments	434.6	552.6
Financial fixed assets		
Shares in associated companies	161.1	265.2
Receivables from associated companies	378.1	192.1
Other long-term securities holding	31.5	31.5
Other long-term receivables	198.0	189.5
Total fixed assets	7,996.9	7,698.7
CURRENT ASSETS		
Inventories etc	155.5	103.2
Current receivables		
Customers receivables	254.6	382.7
Other receivables	22.2	107.1
Prepaid expenses and accrued income	552.9	477.9
Cash and bank	17.4	26.3
Total current assets	1,002.6	1,097.2
TOTAL ASSETS	8,999.5	8,795.9
SHAREHOLDERS' EQUITY		
Restricted equity	204.0	204.0
Non-restricted equity	3,919.3	3,735.7
Total shareholders' equity	4,123.3	3,939.7
ALLOCATIONS		
Provision for pensions	23.7	23.9
Deferred tax liability	699.5	624.1
Other allocations	5.2	6.5
Total allocations	728.4	654.5
LONG-TERM LIABILITIES		
Liabilities to credit institute	2,893.1	2,616.3
Other liabilities	22.0	26.3
Total long-term liabilities	2,915.1	2,642.6
CURRENT LIABILITIES		
Liabilities to credit institute	573.1	833.1
Accounts payable	196.1	218.8
Liabilities to associated companies	20.6	27.5
Other liabilities	104.8	108.0
Accrued expenses and deferred income	338.1	371.7
Total current liabilities	1,232.7	1,559.1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	8,999.5	8,795.9

Five-year review

Amounts in SEK million

	2009	2008	2007	2006	2005
FROM INCOME STATEMENT					
Net turnover	3,618.8	3,626.5	3,075.8	3,210.4	2,245.5
Expenses and other business items	-2,684.4	-2,544.0	-2,197.8	-2,302.2	-1,351.6
Depreciation	-407.6	-350.2	-276.1	-270.4	-258.3
OPERATING PROFIT	526.8	732.3	601.9	637.8	635.6
Net financial income	-92.0	-110.5	-95.4	-99.6	-109.5
PROFIT AFTER NET FINANCIAL INCOME	434.8	621.8	506.5	538.2	526.1
Taxes	-75.5	-8.0	-62.8	-72.5	-106.0
NET INCOME	359.3	613.8	443.7	465.7	420.1
FROM BALANCE SHEET					
Intangible assets	156.4	161.7	166.0	171.1	176.2
Tangible assets	7,071.8	6,858.7	6,361.0	5,943.3	5,559.5
Financial fixed assets	768.7	678.3	581.6	520.7	434.9
Current receivables and inventories	985.2	1,070.9	1,188.2	796.9	638.8
Cash and bank	17.4	26.3	15.2	48.6	53.0
TOTAL ASSETS	8,999.5	8,795.9	8,312.0	7,480.6	6,862.4
Shareholders' equity	4,123.3	3,939.7	3,464.5	3,140.7	2,782.8
Interest-bearing long-term liabilities and allocations	2,916.8	2,640.2	2,627.8	2,506.2	2,668.0
Non-interest-bearing long-term liabilities and allocations	726.7	656.9	665.4	605.8	547.6
Interest-bearing current liabilities	573.1	833.1	975.8	608.1	371.1
Non-interest-bearing current liabilities	659.6	726.0	578.5	619.8	492.9
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	8,999.5	8,795.9	8,312.0	7,480.6	6,862.4
Capital employed	7,613.2	7,413.0	7,068.1	6,255.0	5,821.9
Net investments in plants	614.4	815.6	700.0	657.3	408.0
Net investments in shares	3.3	112.1	60.6	13.4	32.9
Average number of employees	495	484	452	426	427
KEY RATIOS					
Return on equity, %	8.9	16.6	13.4	15.7	16.1
Return on assets, %	6.2	9.0	8.2	9.1	9.7
Return on capital employed, %	7.3	10.7	9.8	10.8	11.4
Operating margin, %	14.6	20.2	19.6	19.9	28.3
Net margin, %	12.0	17.1	16.5	16.8	23.4
Solidity, %	45.8	44.8	41.7	42.0	40.6
Self-financing, %	121.9	88.2	86.5	104.2	158.0
Interest coverage ratio, times	4.8	5.1	4.6	5.7	5.4
Debt ratio, times	0.8	0.9	1.0	1.0	1.1
Capital turnover ratio, times	0.5	0.5	0.5	0.5	0.4

COMMENTS During 2005 and 2006 the conditions of production were extremely good and profit increased. Despite low prices in the beginning of 2007 the result improved in the end of the year and remained on a high level. In 2008 high electricity prices and own power production helps to explain the best profit ever for the group. Despite the downturn in the economy and a negative share of earnings from Norrlands Etanolkraft, Skellefteå Kraft shows a good result for the year.

