

Annual Report 2022



Skellefteå Kraft

Skellefteå Kraftaktiebolag
Corporate registration number: 556016-2561

This is Skellefteå Kraft

We endeavour to be Sweden’s best energy company and see ourselves as the industry’s challenger. We put the customer and the customer’s needs first and are a driving force for a sustainable future by focusing on our own renewable energy production and investing in research and development. The assignment from our owner, Skellefteå Municipality, is to safeguard the region’s energy supply while creating profitable growth that promotes the development of the region.

This report summarises the results and position for the municipality’s entire energy operation.*

Our business

Skellefteå Kraft is one of Sweden’s five biggest electricity producers and the biggest of the municipally owned power companies. Our production is concentrated in the north of Sweden and we have our own production facilities for wind power, hydropower, heating and bioenergy.

Energy production

We produce electricity from renewable energy sources. The major part of the electricity comes from northern hydro and wind power. In 2022, a total of 801 GWh of heat and 4,115 GWh of electricity was produced.

Electricity grid

Our grid is 12,000 kilometres long and covers nine municipalities. It’s one of Sweden’s regional grids.

District heating

Our largest district heating network is located in Skellefteå; we also have several smaller networks in the region. Our district heating is produced primarily with biofuel.

Fibre network

We build and own the fibre network in Skellefteå and the surrounding area. Eight out of ten local residents have access to one of Sweden’s fastest and best networks.

Energiservice

Energiservice Skellefteå is a wide range provider of maintenance services to companies operating in the wind, water, heating, industry and electricity grid sectors.

Development for the future

We focus on research and collaboration projects to develop tomorrow’s energy supply.

Focused on the customer

We put our customers and their needs first. The reliability of energy deliveries has first priority, along with good service and great agreements.



798
employees**



71
motivated
employee index



SEK 2,002
million
our profit



89%
proportion of renewable
energy production



94%
of households and com-
panies have a fibre optic
broadband connection

**The Annualised number of employees in 2022 was 751.

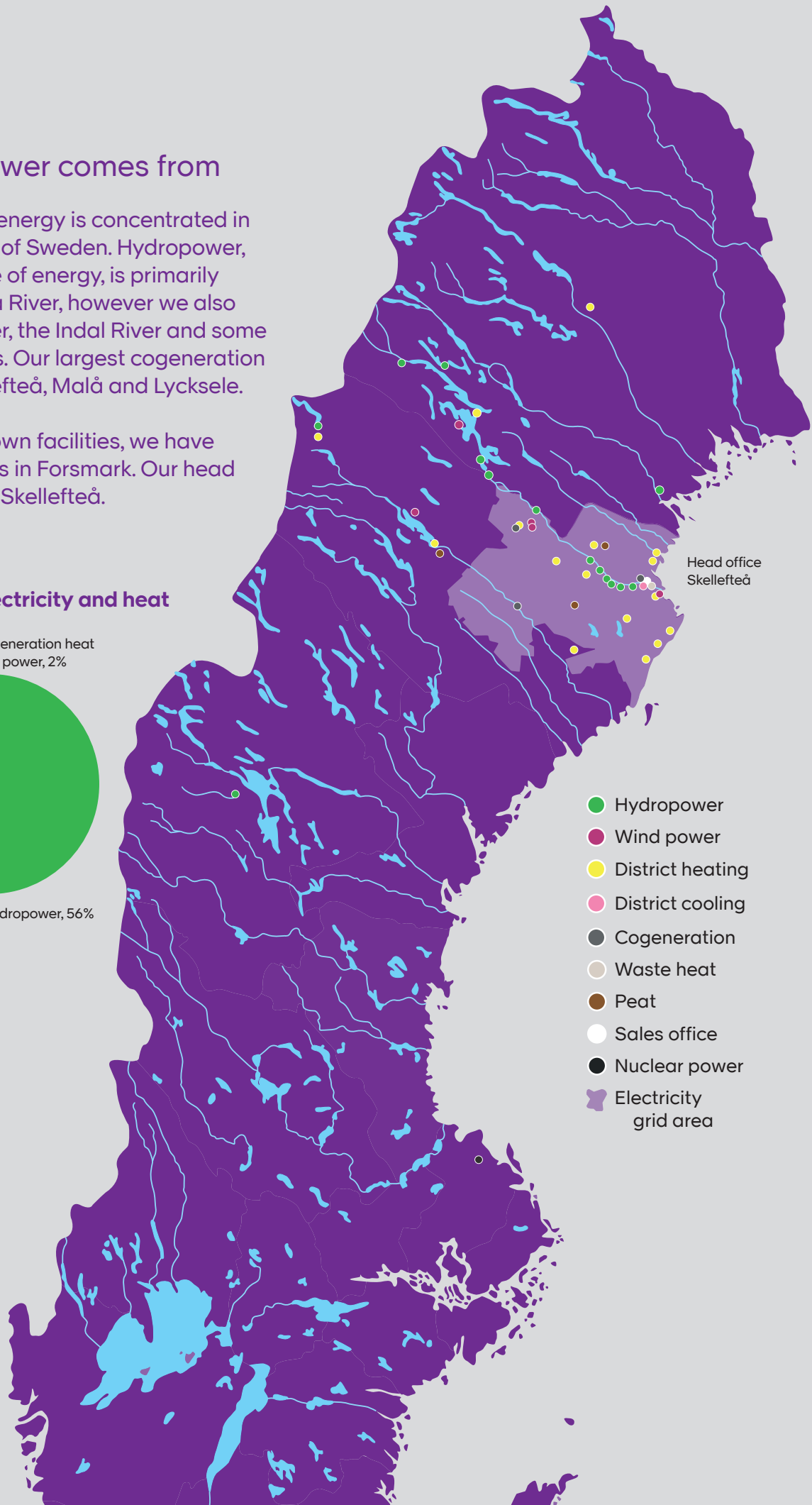
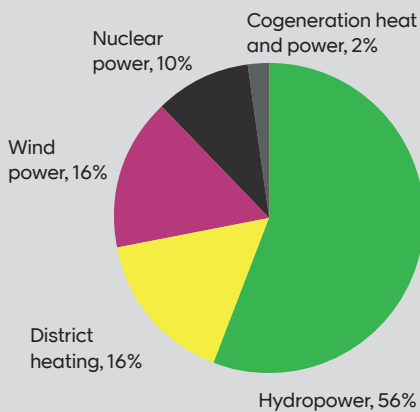
*Skellefteå Kraft is a fictitious group consisting of the municipal administration Skellefteå Kraftverk (parent company) and the sub-group Skellefteå Kraftaktiebolag. The purpose of this report is to show the results and position of the municipality’s total energy operation and is thus a summary of the results and position of the corporate sphere and Skellefteå Kraftverk. The Skellefteå Kraftaktiebolag sub-group has been subject to scrutiny by the company’s auditor and the municipal board Skellefteå Kraftverk has been scrutinised by Skellefteå municipality’s auditor. On the other hand, the consolidated financial statements of the fictitious group have not been scrutinised, since there is no requirement for such scrutiny.

Where the power comes from

Our production of energy is concentrated in the northern parts of Sweden. Hydropower, our primary source of energy, is primarily from the Skellefteå River, however we also utilise the Pite River, the Indal River and some smaller waterways. Our largest cogeneration plants are in Skellefteå, Malå and Lycksele.

In addition to our own facilities, we have ownership interests in Forsmark. Our head office is located in Skellefteå.

Production mix electricity and heat



Head office
Skellefteå

Director's report

The organisation

Skellefteå Kraft is a fictitious group consisting of the municipal administration Skellefteå Kraftverk (parent company) and the sub-group Skellefteå Kraftaktiebolag. The report is thus a summary of the results and position of the corporate sphere and Skellefteå Kraftverk. The Skellefteå Kraftaktiebolag sub-group has been subject to scrutiny by the company's auditor and the municipal board Skellefteå Kraftverk has been scrutinised by Skellefteå municipality's auditor. The consolidated financial statements of the fictitious group have not been scrutinised, however, since there is no requirement for such scrutiny.

The annual and consolidated report for this fictitious group has been prepared in accordance with the Annual Reports Act and also in accordance with the Swedish Accounting Standards Board's general guidelines 2012:1 Annual reports and consolidated reports (K3). For more detailed information, see the section Accounting and valuation principles.

The corporate sphere consists of the parent company Skellefteå Kraftaktiebolag, company registration number 556016-2561, with the wholly owned subsidiaries Skellefteå Kraft Elnät AB, Skellefteå Kraft Service AB, Energiservice i Skellefteå AB, Skellefteå Kraft Fibernät AB, Skellefteå Kraft Industry Locations AB, BlaikenVind AB, Skellefteå Kraft Fastighetsutveckling AB with its subsidiary Skellefteå Kraft Fastighetsförvaltning AB and Skellefteå Kraft Denmark A/S.

The municipality's political parties nominate candidates for the boards of the municipally owned companies. Nominations take into account, for example, gender, age and geographical place of residence. The municipal council appoints the board for each mandate period. Skellefteå Kraft's present board consists of nine members (no deputies): three women and six men. The chair is Fredrik Lundberg.

Skellefteå Kraft is one of Sweden's five largest electricity producers and the largest among the municipally owned power companies, with its own production facilities for wind, hydropower, heat and bioenergy. The business is mainly in Västerbotten and consists of both technical development and sales and delivery. With substantial investments in renewable energy production, the company is a driving force in the development of renewable energy in Sweden. Skellefteå Kraft has its own electricity grid and offers energy and maintenance services. There are also property leasing and fibre network operations.

The owner has stated in the owner's directive that the group shall create profitable growth that promotes the development of the region. In brief, this means that the group shall secure the region's energy supply, create a good infrastructure for energy, telecom and data communications and provide capital and business competence to the region.

Society is entirely dependent on the availability of reliable and competitive energy. For Skellefteå Kraft, sustainable energy production means that the production and delivery of energy is done responsibly and with awareness of the

organisation's environment and societal impact. Skellefteå Kraft works for resource-efficient investments, so as to achieve 100 per cent renewable energy production in the longer term. Read more about Skellefteå Kraft's responsibility in the group's sustainability report. The annual and consolidated financial statements are written in SEK millions unless otherwise stated.

Significant events during the financial year

The energy market

The year 2022 began with high electricity prices in Europe and in the electricity price areas of southern Sweden. The differentiated and volatile electricity prices have escalated during the year and price records have been set time and again. In terms of weather, the year has been warmer than usual, resulting in slightly reduced electricity consumption. From the second quarter onwards, there has been less rainfall, resulting in a declining hydrological balance. Wind power production in the Nordic countries has generally been lower than normal during the year due to weak winds but higher than the previous year. The increase in production compared to 2021 is due to the expansion of wind power. Nuclear power in the Nordic countries produced levels consistent with the previous year. The Swedish grid capacity has been higher than in 2021, leading to more and more instances of similar prices across the country. In addition, the deployment of international cables in recent years has increased the Nordic electricity price's vulnerability to continental electricity prices. This becomes even more evident during years such as these with generally lower generation from renewable sources.

Russia's invasion of Ukraine is probably the single biggest factor behind this year's increase in spot electricity prices. Gas supplies from Russia to Europe gradually ceased, prompting European gas players to replenish their stocks. This increased the price of the raw material and, by extension, the spot price of electricity. Electricity spot prices have also been affected by the heat wave that hit southern Europe during the year, as well as by various production outages that the French nuclear sector experienced. During the last months of the year, electricity spot prices also rose sharply in northern Sweden as wind power production was low due to weak winds as well as ice formation on the rotor blades. Other contributing factors were declining hydropower reservoirs, river icing resulting in decreased hydropower production combined with high domestic grid capacity.

In Europe and in Sweden, huge support measures have been launched to prevent an accelerating energy crisis in Europe in the winter of 2022/2023. Among other things, REPowerEU wishes to accelerate the breaking free from Europe's energy dependency on Russia through new green production, while Sweden is increasingly leaning towards nuclear power. Both Swedish and European authorities have looked at ways to reduce the overall financial burden on households and businesses. Sweden provides a

retroactive electricity compensation, paid for by the system operator's (Svenska Kraftnät) bottleneck revenues, and the EU is looking at the possibility of introducing a revenue cap whereby revenues in excess of this would then be returned to households and businesses.

Our business

The year began with abundant wind resources and relatively low electricity prices in northern Sweden. This resulted in higher wind power production but lower production from hydro and bio power in the first quarter. With higher volatility and higher price levels in the latter part of the year, production from regulated hydropower has increased while electricity production from wind power and combined heat and power has delivered in line with the plan. District heating supplies were lower than expected due to the warmer than usual year. With high electricity prices and local economic growth, the Group sees an increased interest in the expansion of district heating as a form of heating. Total production volumes for the Group exceeded the plan but were lower than in 2021.

Volatile electricity prices have negatively affected end-customers in the form of historically high hourly profile costs and a sharp increase in the price of Guarantees of Origin. The underlying factors behind the rising prices for Guarantees of Origin are a declining hydrological balance in the Nordic region and increased demand linked to the continued strong trend towards a green profile among both end-customers and energy suppliers. A large number of customers have signed multi-year fixed price contracts, which has had a negative impact on this year's results. The price of emission allowances has been volatile in 2022 and, after rising in the spring, it dropped in the late summer to rise again in the late autumn.

Despite a negative impact from hourly profile costs, curve effects and Guarantees of Origin, the Group is achieving very positive results relative to the plan. This is thanks to higher production volumes, production optimisation and high electricity spot prices. The Group's financial trading has been successful in this year's volatile electricity market.

In the summer of 2022, the dismantling of the wind turbines at the Uljabuouda wind farm began. As a result, the cost of retrofitting has been adjusted and a full provision for retrofitting is made for the current year.

At the turn of the year, all wind turbines from Skellefteå Kraft AB were sold to BlaikenVind AB in order to streamline operations in one company.

Skellefteå Kraft AB has during the year been granted extended credit lines from Skellefteå City Hall. This is due to the fact that the security requirements have increased significantly, due to the high and volatile electricity prices, on the trading venues where the Group operates.

Investments

The rate of investment in the Group has been high and is expected to remain at a historically high level in the coming years. Investments in 2022 amounted to 1.2 billion and are

mainly linked to electricity grid expansion in Skellefteå, fibre network expansion in the district and reinvestments/new investments in hydropower production.

Reinvestments and reinforcements of the regional grid are being carried out to ensure a high level of security of supply and to meet the rapidly increasing demand for new connections in the Skellefteå area. The reinforcement of the regional grid started in 2019 and is expected to last for several years. New enquiries have been submitted and future projects are assessed and projected.

In addition, there has been continued investment in the expansion of charging infrastructure. Together with OKQ8, Skellefteå Kraft is making Sweden's largest investment in a nationwide charging network for rapid charging, which has progressed according to plan. A charging station for heavy electric vehicles was also commissioned in the autumn. Skellefteå Kraft and OKQ8 are also jointly investing in two filling stations for renewable hydrogen in Västerbotten. This is being done with the help of the Swedish Energy Agency, and the projects are due to be completed in autumn 2023.

Acquisition of associated companies

Skellefteå Kraft has invested in Emulate Energy AB, a company that has developed a unique solution that is expected to improve the efficiency of the energy system and contribute to the management of an increasingly decentralised and weather-dependent energy system. Using Emulate's solution, Skellefteå Kraft wants to further develop a tool for managing demand flexibility. In this way, Skellefteå Kraft contributes to a more efficient use of the energy system and reduces the energy costs for customers.

Significant events after the end of the financial year

The Group has invested in TH1NG AB, a company that has developed a digital solution that will contribute to a smart, sustainable and connected society. Digitalisation is a high priority for Skellefteå Kraft and TH1NG is an important partner in this area where the Group sees great benefits from the IoT Open platform in all the Group's business areas, as well as for our owners.

On 19 January, the Swedish government decided on a legislative proposal to introduce a temporary tax on excess revenues of electricity producers as a consequence of the EU Emergency Regulation to tackle high energy prices. The new law is proposed to apply for the period March–June 2023. The government provides a number of clarifications of definitions, including those relating to hydropower and fuels, and proposes administrative simplifications regarding tax liability and tax return periods. The government has announced that a final tax proposal is planned to be submitted to Parliament in a supplementary budget on February 9.

Multi-year Summary

Consolidated for the Group

(SEK millions)	2022	2021	2020	2019	2018
Net sales	7,571	5,443	3,333	4,436	4,421
Operating profit (EBIT)	2,002	1,059	-238	502	680
Balance sheet total	16,301	13,703	11,968	12,548	12,294
Shareholder equity	7,838	6,511	5,835	6,202	6,058
Return on equity (before tax), %	18.7	10.6	neg	5.1	7.2
Equity ratio, %	48.1	47.5	48.8	49.4	49.3
Annualised number of employees	751	737	675	646	607

Sustainability Report

Skellefteå Kraft's sustainability report, based on Global Reporting Initiative (GRI) standards, Core level, is available at skkraft.se.

Compulsory permits and obligation to notify according to the Environmental Code

The group has 46 operations requiring a permit and 30 with an obligation to notify according to the Environmental Code. The operations requiring permits include one for peat extraction, seven combustion plants for the production of district heating and electricity, as well as a wind farm. Nine permits are for the intermediate storage/transport of hazardous waste, 24 are for the handling of flammable goods, two are water court judgments for district cooling and the use of river water respectively and two concession permits refer to peat extraction. Of the notifiable activities, 26 refer to biofuel-based production of district heating, three to wind power plants and one refers to the construction of a fuel plant. All operations have valid permits.

The environmental impact of the operations requiring permits comes mainly from the combustion of wood fuel, peat and oil, which in turn results in emissions to the air. The emissions consist of both fossil CO₂ from peat and oil and biogenic CO₂ from wood fuels, as well as NO_x and a certain amount of sulphur and dust. All our combustion plants are equipped with different types of purification of flue gases and at the Hedensbyn plant there is also equipment for NO_x reduction.

The new national plan for hydropower will establish modern environmental conditions for hydropower through the review of such facilities. The first of Skellefteå Kraft's plants that was reviewed was Rickleån and the review process started in 2022.

Incidents and disruptions

No major disruptions in the electricity grid were recorded in 2022, nor were there any major disruptions in hydropower production.

For more detailed information, see the Sustainability Report of the Skellefteå Kraft Group.

Future development

The most important thing Skellefteå Kraft wants to do for Sweden is to help drive the transition to a sustainable society with 100 percent renewable energy. In this way, Skellefteå Kraft is assuming responsibility as one of the country's largest energy companies. The work continues with a focus on the core business as well as the development of new partnerships, and products and services in the energy system of the future. The rapid transformation of the market is leading to increased investment and an intensified internal focus on approaches and leadership to best adapt to the fast-changing world around us.

There is a great deal of interest from electricity-intensive industries in finding possible establishments in northern Sweden. Skellefteå Kraft Elnät AB continues to reinvest in and develop the electricity grid to enable more electricity production in the electricity price area.

Skellefteå Kraft's work of listening to and conducting a dialogue with politicians continues, so as to create good conditions for taking the business forward. Issues being pursued by the Group include the role of hydropower in the energy system, mechanisms that create the conditions for investments in both renewable energy production and in output and securing the transfer link from north to south.

Skellefteå Kraft has a clear vision of the future and a positive view on the transition that is taking place in the energy system.

Risk management

Skellefteå Kraft's risk framework is based on a risk management policy adopted by the board of directors. It defines risk as the effect of uncertainty on the objectives of the business. Objectives may exist in different areas and at different levels. The Group actively focus on risk management to control the risks that must be taken in a responsible and controlled manner in order to achieve the agreed objectives.

Strategic and operational risks

Significant risks, uncertainties and examples of risk management measures are summarised in this section. In addition, financial risks are addressed separately in later sections. Financial risks are further described in the following sections. The sustainability report contains additional information on risks related to issues such as the environment, social conditions, respect for human rights and the prevention of corruption.

Risks related to the objective to create an attractive workplace

Risks related to the supply of expertise

Skellefteå Kraft operates in a region and industry with fierce competition for critical skills. The risks related to

the supply of expertise is linked to many of the business objectives. During the year, the Group has been reinforced with a project manager for coordination of activities and strategic work related to the Group's supply of expertise.

The challenge is as much to retain existing employees as it is to attract new ones. In a rapidly growing organisation, the risk that not all employees will find their role to develop in may increase. Skellefteå Kraft works continuously with induction and career programmes, benefits and good opportunities for skills development. Annual employee surveys, with the employee index as priority KPI, form the basis for the improvement work.

Psychosocial risks

Substantial and rapid changes in the world around us and in our own operations risk producing effects in the form of unsustainable workloads and a negative impact on the psychosocial work environment. Risks are managed with a focus on improving management processes and working methods, combined with regular follow-up and measures based on individual needs and circumstances.

Physical work environment risks

Some of the Group's activities also entail a relatively high risk of accidents, which means that ongoing risk awareness and a focus on safety are essential in routine and non-routine activities. Skellefteå Kraft has a zero-accident culture in the workplace, continuously tracking the relevant KPIs. Electrical work must always be carried out in accordance with ESA (the industry's electrical safety instructions), and applicable work environment rules and internal procedures must be followed for all types of work. The process of systematic improvement involves subcontractors as well as our own employees. In 2022, the health and safety organisation has been further strengthened to improve the prevention of injury and ill health.

Disease transmission risks

Since Covid-19 is no longer considered to be a disease of public and societal concern, operations have been able to return to normal relatively smoothly. The transmission of the disease persists in the community, as does the risk of new outbreaks or completely novel and altered viruses. Skellefteå Kraft maintains a continued risk awareness, monitoring of global developments and preparedness.

Risks related to profitability and growth

Strategic, external and market risks

The risk of a recession has progressively increased during the year and, together with high levels of inflation, it has contributed to the risk of a negative impact on the Group's financial targets. The geopolitical unrest and the risk of its escalation have been a driving and persistent factor of uncertainty. High energy prices, thanks to existing price hedging strategies, have overall been economically favourable, but Skellefteå Kraft is also at risk of being noticeably affected by rising costs, reduced demand, supply difficulties, deferred investments and loss of accounts receivable.

At the same time, regardless of where we are in the economic cycle and the geopolitical situation, the Great Energy Transition, largely driven by climate change, remains a major uncertainty. Externally, there are significant market changes, new market entrants and rapid technological developments. Internally, there are corresponding strategic challenges with high risks linked to numerous investment decisions and business priorities.

An increasing amount of weather-dependent power in the energy system has at the same time contributed to extreme fluctuations in electricity market prices. In addition to daily risks in electricity trading with increasing requirements for high levels of financial collateral, the necessity of new business strategies for reduced electricity price dependency has become increasingly evident. This includes support services to the electricity market and long-term price hedging strategies, as well as innovation efforts and the development of new customer offerings.

High energy prices create and accelerate new behaviours among customers who want to control and reduce their consumption. This creates new business opportunities, but also the risk that existing and potential customers will choose alternative, tailor-made solutions from innovative competitors.

Through active external monitoring, strategic partnerships, participation in external networks, organisational adjustments and the implementation of innovative projects, the organisation continues to develop and adapt to the future. And by also communicating Skellefteå Kraft's attitude and positions to the outside world actively and clearly, we can make use of opportunities to influence a sometimes volatile discourse in the direction the Group wants it to go.

Political and regulatory risks

Energy supply in Sweden and Europe has been a major focus during the year. This has resulted in many political initiatives and increasing uncertainty in the energy sector. These include permanent profit caps, changing electricity areas, energy efficiency requirements, price equalisation schemes, transmission constraints, technology subsidies and many other measures that affect the market.

Skellefteå Kraft actively monitors the external environment, engages in advocacy work and is involved in referrals relevant to its operations. There are also high risks associated with new and changing requirements for governance, performance and reporting in the area of sustainability. Changing policies, conflicting requirements, long processing times and restrictive authorisation procedures still risk stalling progress. This will require ongoing skills upgrading, effective dialogue with authorities and foresight in projects that depend on reviews and permits.

Infrastructure and distribution risks

Power shortages due to bottlenecks in the electricity grid pose a business risk in the medium term, which can partly be addressed with our own investments and measures but which also depends on components owned by Svenska Kraftnät.

For the relatively new investment in charging infrastructure, there is a risk of local capacity shortages and long lead times for new connections.

In the fibre network, there is a risk that hardware restrictions will affect the achievement of future business objectives. This risk can be largely managed internally through the implementation of the proposed reinvestment programme. During the year, funding was granted by the Swedish Post and Telecom Authority which allows for further expansion with reduced business risk. Further expansion of the district heating network has also been made possible through state subsidies.

Risks related to technology and IT

Risks of technical breakdowns in production plants, resulting in unplanned maintenance costs and loss of production, require ongoing preventive measures and monitoring. That explains the focus on shutdown planning, risk assessments and condition monitoring in existing plants. Weatherproofing is also becoming increasingly important as a result of climate change with the risk of extreme weather events. To some extent, the economic risk of damage can be limited by insurance solutions, but such solutions are difficult to find when it comes to for example nuclear power.

As a result of increasing digitalisation, IT infrastructure and support systems are becoming increasingly critical to the entire organisation. There is a high risk that development and maintenance will be neglected. During the year, a Group-wide project has been initiated to address long-term governance and management.

Security risks

As technology evolves, so do cyber threats and digital security risks. They can lead to loss of information as well as direct operational disruptions. Physical security and protection against external threats have also been in focus during the year, not least due to geopolitical concerns. Critical public services are particularly at risk. Security and information management are therefore becoming an increasingly important part of the way we work.

Brand risks

Alongside daily customer contact, the management of major adverse events is a significant brand risk. Risks related to reputation, image and brand are expected to grow in an era of rapid and multifaceted information dissemination. Skellefteå Kraft has a very strong brand and is constantly striving to preserve and develop its value. This involves, among other things, having good crisis preparedness, being open and clear in external dialogue and communication, building strong relationships with our stakeholders, being active on new and social media, and being responsive and adaptive to changes in the world around us.

Risks related to climate, environmental and social responsibility objectives

Climate and environmental risks

The risk of unwanted impacts on climate, environment and biodiversity is present throughout the entire value chains and life cycles of the business. During the year, initiatives have been taken to enhance the life-cycle approach in the critical business processes.

Renewable energy production from wind and water has great advantages, but involves some interference with the natural environment. Skellefteå Kraft invests in environmentally sound technologies, expertise and measures to minimise the negative impact and contribute positively to natural values, flora and fauna.

Social and ethical risks

Skellefteå Kraft is committed to maintaining good relations with those affected by the Group's activities. In line with increasing requirements and awareness, the Group focuses on managing risks related to human rights violations in the production chain and in relations with the local population, as well as anti-corruption and business ethics risks in relations with suppliers and other business partners. Taking responsibility for an open and honest dialogue is a prerequisite for developing the business in line with our goals and values.

Skellefteå Kraft's long-term strategy is based on a strong commitment to social responsibility and renewable energy. In order to manage the risks associated with the changing world around us, the Group has an active and forward-looking approach to monitoring, debate and skills development. Sustainability activities are a natural part of the business and are reinforced every year. It is further detailed in the Group's sustainability report.

Societal risks

As a supplier of electricity, heat, communications and infrastructure, large parts of Skellefteå Kraft's core business are vital to society and form part of the overall risk management of society. This includes crisis preparedness, business continuity planning and improvement work in collaboration with government authorities, municipalities and other societal stakeholders. Risk and vulnerability analyses are carried out as part of the electricity preparedness work.

Network restrictions, authorisation processes and reassessments present societal risks related to the long-term supply of electricity. Here, too, there is a need for continuous active external work and collaboration with authorities and other relevant parties.

In addition to serious operational disruptions, which are a societal risk in themselves, major dam failures are one of the most serious risks associated with Skellefteå Kraft's operations. The risk is managed and minimised through ongoing dam safety work supported by a quality system in accordance with RIDAS, the industry guidelines for dam safety, which also includes regular external audits.

Financial risks

The financial risks are regulated at an overall level by the governing documents Finance Policy for the Skellefteå Municipality Group and the Rules for Financial Operations in the Skellefteå Municipality. For Skellefteå Kraft, the electricity trade in particular is subject to specific financial risks, and the management of these risks is of material importance for the Group's financial performance.

Interest rate and liquidity risk

The liquidity risk is reduced by the internal bank of Skellefteå Stadshus AB guaranteeing Skellefteå Kraft's liquidity, based on established needs forecasts.

The Skellefteå Kraft AB Group's external loan liabilities amounted to SEK 3,211 million (3,778) as of 31 December 2022, with an average fixed interest rate period of 2.3 years (2.1). 15% (20) of borrowing had a variable interest rate.

Interest rate risk is handled by the internal bank of Skellefteå Stadshus AB by spreading interest rates in the debt portfolio over time. Most of the fixed interest rate position is distributed relatively evenly over a six-year period, and the market situation affects the current fixed interest rate position. A benchmark is that the average fixed interest rate period should be between 1.5 and 4 years.

Of the company's borrowing, 85% is at fixed rate. A change in the interest rate of +/- 1% would affect net financial items by +/- SEK 4.8 million (7.6) in the short term if no measures were taken. A long-term change in interest rates would affect net financial items by +/- SEK 32 million (38) under the same circumstances.

Credit risk

Rising prices and inflation as well as market uncertainties increase the risk of loss of accounts receivable, which is managed in the operational organisation and regulated by credit management guidelines. Credit risks associated with bilateral trade in electricity are treated as counterparty risks and are regulated in the guidelines for power trading.

Counterparty risk

Stricter financial security requirements for trading on the Nord Pool and Nasdaq electricity exchanges create incentives for additional bilateral agreements with new counterparties. This means a reduced overview of the risk exposure of the various players. It also results in the absence of an underlying security fund that exists when trading on a regulated exchange and which provides protection in the event that any party experiences liquidity problems or fails to meet other requirements for trading on the exchange. Overall, counterparty risks can be expected to increase due to a changing market.

Price risk

The price risk mainly concerns the risks associated with unfavourable price movements for electricity. Price movements for fuel, Guarantees of Origin and emission

allowances, for example, may also have a direct or indirect impact on the Group's results. Prices change due to fundamental reasons as well as market dynamics. The economy, precipitation, temperature and power plant failures are examples of fundamental factors that affect the price of electricity. The future expectations of different actors also have a major impact, as do political decisions at national or EU level. Volatility is very high and future prices are difficult to predict. Skellefteå Kraft is constantly subject to price fluctuations due to its ownership of production facilities and its sales activities.

There are internal guidelines that describe how risk management should be handled, and they clarify roles and responsibilities and establish a trading mandate. Awarding the mandate for optimisation makes price hedging possible for production and sales volumes. This reduces the risk of being affected by unfavourable price changes and prevents unacceptable fluctuations in earnings.

Skellefteå Kraft is generally an active player in the electricity market and in order to reduce the risk of negative impact, the price hedging strategy is continuously fine-tuned and improved. Broadly speaking, the strategy means that prices for future production and sales are hedged in the futures market. The strategy generally concerns commodities which may have an impact and for which price hedging is possible, in particular electricity futures on Nasdaq OMX. Physical and financial long-term customer contracts are also concluded in order to meet customers' needs but also to manage our own risks in electricity production and supply that extend beyond the periods applicable to standardised electricity futures on the Nasdaq OMX.

The price hedging strategy is also based on the fact that the level of uncertainty is lower in the short term. As a result, price hedging is applied according to a sliding scale, with most of the volume hedged for the next few years and falling volumes towards the end. To measure electricity price risks, we use methods including Value at Risk (VaR).

The trading activities in Skellefteå Kraft divide all flows into a structure built up of several portfolios that represent different parts of production and sales. This is to allow risks to be managed in individual portfolios, but also to allow risks to be balanced against each other between different portfolios where applicable.

Risks related to electricity price areas

Risks related to electricity price areas exist because the electricity market is divided into different price areas and physical transmission constraints exist in the electricity network between these areas. Sweden currently has four electricity areas which may have significant price differences. The risk lies in the difference between the system price, which is determined on the Nord Pool electricity exchange without regard to transmission constraints and against which purchased electricity futures are settled, and a subsequently determined spot price for the electricity area to which electricity is to be delivered.

In order to manage the risk, hedging of production or consumption can be done by means of EPAD-contracts (Electricity Price Area Differential), which are financial contracts on Nasdaq Commodities.

Volume risk

Volume risk refers to the risk of differences between the expected and actual volumes delivered. The volume risk is greatest in the production portfolio. In hydropower production, it is based on a normal annual production, which is the volume expected to be produced in the coming year. The normal annual production figure is calculated from large amounts of historical weather data, including precipitation, snowmelt and temperature.

The volume risk arises when, for example, precipitation or temperature deviates from normal, creating a surplus or deficit in production. In order to reduce volume risks, previous expectations are continuously checked against current expectations, and production is compared month by month, all based on intensive monitoring and forecasting work. Wind power carries a particularly challenging volume risk, in essence up until the point of delivery, as it is difficult to accurately forecast the wind. District heating volumes are managed by improving and developing the forecasts for heat consumption.

Volume risks also arise in sales because there is always a risk that more or less electricity may be needed than expected. The most effective risk management tools for sales activities are improved continuous measurement and monitoring of end customers' usage patterns, as well as boosted forecasting capacity. With extreme prices in the electricity market, prices for regulating power and system services also increase, which in turn can make it very costly to consume or produce more than forecast.

Profile risk

In addition to volume risk, profile risk has also increased during the year. Profile risk arises when production or consumption deviates on an hourly basis. For example, the total volume during a day may be entirely as forecast, while the specific hours of the day may deviate. As new technologies allow for shifting consumption to less expensive hours, profile risk is becoming more difficult to manage.

Risks related to balancing costs

Under the Electricity Act, electricity suppliers have a responsibility to supply the electricity system with the same amount of electricity as is consumed by the customers. Skellefteå Kraft has also signed balancing responsibility agreements with other electricity suppliers. Incorrect forecasts leading to differences between the electricity supplied and consumed results in additional fees having to be paid to Svenska Kraftnät for restoring the balance. High volatility and high electricity prices therefore also carry the risk of high balancing costs.

Currency risk

Currency risk arises because electricity and other related commodities are traded, physically and financially, in euros. The corporate currency of Skellefteå Kraft is SEK. The currency risk is managed by hedging with currency and electricity futures concurrently.

Consolidated Income Statement, SEK million

	2022	2021
OPERATING INCOME		
Net sales	7,571.1	5,443.2
Capitalised work on own account	42.6	39.6
Other operating income	79.4	23.9
	7,693.1	5,506.7
OPERATING EXPENSES		
Energy and production expenses	-3,918.7	-2,849.9
Other external expenses	-555.1	-545.8
Personnel expenses	-645.2	-598.3
Depreciation and impairment	-543.6	-472.4
Other operating expenses	-1.6	-7.6
Share of associated company profit	-26.6	26.2
	-5,690.8	-4,447.8
OPERATING PROFIT	2,002.3	1,058.9
PROFIT FROM FINANCIAL ITEMS		
Profit from other securities and receivables that are fixed assets	9.6	8.8
Other interest and similar income items	4.3	1.1
Interest and similar income items	-43.3	-46.9
	-29.4	-37.0
PROFIT AFTER FINANCIAL ITEMS	1,972.9	1,021.9
Appropriations	-120.0	0.0
Tax on profit for the year	-234.3	-83.5
PROFIT FOR THE YEAR	1,618.6	938.4

Consolidated Balance Sheet, SEK million

	31/12/2022	31/12/2021
ASSETS		
Non-current assets		
<i>Intangible fixed assets</i>		
Capitalised development costs	2.4	5.0
Concessions and similar rights	5.8	5.8
Acquired customer values	7.0	17.4
Goodwill	22.9	26.4
	38.1	54.6
<i>Tangible fixed assets</i>		
Buildings	1,008.8	1,014.0
Land and other immovable property	2,045.2	2,057.4
Machinery and other technical facilities	6,510.0	5,896.5
Equipment, tools and installations	161.8	159.5
Construction in progress	1,603.9	1,365.3
	11,329.7	10,492.7
<i>Financial assets</i>		
Receivables from group companies	0.0	80.0
Shares in associated companies	142.9	130.4
Receivables from associated companies	116.8	116.8
Other securities held as non-current assets	118.3	108.5
Other non-current receivables	1,873.7	1,138.8
	2,251.7	1,574.5
TOTAL NON-CURRENT ASSETS	13,619.5	12,121.8
Current assets		
<i>Goods in stock etc</i>		
Raw materials and consumables	284.9	229.2
<i>Current receivables</i>		
Accounts receivable	412.9	266.0
Receivables from group companies	49.6	44.4
Receivables from associated companies	20.3	0.5
Other receivables	198.0	44.9
Prepaid expenses and accrued income	1,468.5	971.0
	2,149.3	1,326.8
Cash and bank deposits	247.1	25.1
TOTAL CURRENT ASSETS	2,681.3	1,581.1
TOTAL ASSETS	16,300.8	13,702.9

Consolidated Balance Sheet, SEK million

	31/12/2022	31/12/2021
EQUITY AND LIABILITIES		
Equity		
Share capital	204.0	204.0
Other equity including profit for the year	7,633.5	6,306.6
Total share capital attributable to the parent company's owners	7,837.5	6,510.6
TOTAL EQUITY	7,837.5	6,510.6
Provisions		
Provisions for pensions and similar obligations	15.0	14.7
Deferred tax liability	978.0	1,048.2
Other provisions	319.3	167.9
TOTAL PROVISIONS	1,312.3	1,230.8
Non-current liabilities		
Other liabilities to credit institutions	3,211.3	3,778.0
Other liabilities	1,001.2	169.0
TOTAL NON-CURRENT LIABILITIES	4,212.5	3,947.0
Current liabilities		
Advance payments from customers	1.7	36.8
Trade accounts payable	323.2	281.6
Liabilities to Group companies	131.9	54.6
Liabilities to associated companies	1.3	4.3
Current tax liability	305.7	3.0
Other liabilities	1,434.5	1,258.8
Accrued expenses and deferred income	740.2	375.4
TOTAL CURRENT LIABILITIES	2,938.5	2,014.5
TOTAL EQUITY AND LIABILITIES	16,300.8	13,702.9

Consolidated Cash Flow statement, SEK million

	2022	2021
CURRENT OPERATIONS		
Profit after financial items	1,972.9	1,021.9
Adjustment for items excluded from the cash flow		
Depreciation and impairment	543.6	472.4
Profit/loss on the sale of fixed assets	1.0	-2.4
Share of associated company profit	26.6	-26.2
Currency exchange difference for subsidiaries	1.3	0.1
	2,545.4	1,465.8
Income tax paid	-304.5	0.0
Cash flow from current operations before changes in working capital	2,240.9	1,465.8
Cash flow from changes in working capital		
Increase (-)/decrease in goods in stock etc.	-55.7	-38.0
Increase(-)/decrease in operating receivables	-822.5	-617.2
Increase/decrease(-) in provisions	-31.9	-114.9
Increase/decrease(-) in operating liabilities	924.0	1,303.9
Cash flow from current operations	2,254.8	1,999.6
INVESTMENT ACTIVITIES		
Acquisition of intangible assets	0.0	-14.0
Acquisition of tangible fixed assets	-1,204.3	-936.7
Sale of tangible fixed assets	22.8	17.4
Acquisition of associated companies	-39.1	-
Sale of associated companies	0.0	1.6
Acquisition of other long-term securities holdings	-9.8	-
Increase(-)/decrease in other non-current receivables	-654.9	-676.7
Cash flow from investment activities	-1,885.3	-1,608.4
FINANCING ACTIVITIES		
Increase/decrease (-) in utilised credit	-566.7	-241.4
Increase/decrease(-) in other non-current liabilities	832.2	27.5
Group contributions given (-)/received	-120.0	-
Dividends paid	-104.0	-95.5
Contributions to other activities of the municipality	-189.0	-167.0
Cash flow from financing activities	-147.5	-476.4
Cash flow for the year	222.0	-85.2
Cash and cash equivalents at start of year	25.1	110.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	247.1	25.1

Multi-year Summary, SEK million

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FROM INCOME STATEMENT, SEK MILLIONS										
Net sales	7,571.1	5,443.2	3,333.2	4,436.0	4,420.8	3,464.9	3,369.3	3,458.5	3,800.1	4,249.8
Expenses incl. other operating items	-5,025.2	-3,911.9	-2,568.8	-3,526.3	-3,368.0	-2,582.3	-2,530.1	-2,594.6	-2,949.8	-3,367.6
Depreciation	-543.6	-472.4	-1,001.9	-407.4	-373.1	-545.4	-402.6	-372.8	-364.6	-555.6
OPERATING PROFIT (EBIT)	2,002.3	1,058.9	-237.5	502.3	679.7	337.2	436.6	491.1	485.7	326.6
Financial income etc.	13.9	9.9	11.1	19.2	32.7	29.9	36.0	255.2	26.4	-54.0
Financial expenses	-43.3	-46.9	-45.6	-56.6	-61.9	-78.1	-87.6	-97.5	-112.7	-116.0
PROFIT AFTER NET FINANCIAL ITEMS	1,972.9	1,021.9	-272.0	464.9	650.5	289.0	385.0	648.8	399.4	156.6
Group contributions	-120.0	-	80.0	21.6	-6.5	-6.4	-	-	-	-7.3
Taxes	-234.3	-83.5	76.7	-61.3	-54.2	-42.8	-71.9	-42.8	-39.1	-16.3
PROFIT FOR THE YEAR	1,618.6	938.4	-115.3	425.2	589.8	239.8	313.1	606.0	360.3	133.0
FROM THE BALANCE SHEET, SEK MILLIONS										
Intangible fixed assets	38.1	54.6	66.0	72.8	50.4	2.4	24.6	0.0	3.5	8.0
Tangible fixed assets	11,329.7	10,492.7	10,018.0	10,436.4	9,570.9	9,295.1	9,232.8	9,237.9	8,871.9	8,527.5
Financial assets	2,251.7	1,574.5	873.2	762.3	1,130.6	922.5	914.3	848.9	827.6	750.2
Current receivables and stocks	2,434.2	1,556.0	900.8	1,091.6	1,305.5	806.1	839.4	872.0	939.7	880.8
Cash/cash equivalents and investments	247.1	25.1	110.3	185.1	236.6	230.3	355.0	417.1	426.7	483.9
TOTAL ASSETS	16,300.8	13,702.9	11,968.3	12,548.2	12,294.0	11,256.4	11,366.1	11,375.9	11,069.4	10,650.4
Equity	7,837.5	6,510.6	5,834.6	6,202.3	6,057.8	5,720.5	5,662.6	5,497.4	5,085.4	4,936.1
Interest-bearing non-current liabilities and provisions	3,276.4	3,816.4	4,054.1	4,072.9	4,184.0	3,777.8	3,908.6	3,913.4	4,303.2	4,010.2
Non-interest-bearing non-current liabilities and provisions	2,248.4	1,361.4	1,369.0	1,410.1	1,183.4	1,072.3	1,016.1	932.3	905.9	850.8
Interest-bearing current liabilities	120.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0	5.4
Non-interest-bearing current liabilities	2,818.5	2,014.5	710.6	862.9	868.8	685.8	778.8	1,026.7	774.9	847.9
TOTAL EQUITY AND LIABILITIES	16,300.8	13,702.9	11,968.3	12,548.2	12,294.0	11,256.4	11,366.1	11,375.9	11,069.4	10,650.4
KEY FIGURES										
Return on equity (before tax), %	27.5	16.6	neg	7.6	11.0	5.1	6.9	12.3	8.0	3.2
Return on capital employed, %	18.7	10.6	neg	5.1	7.2	3.9	5.0	7.9	5.6	3.1
Return on total capital, %	13.4	8.3	neg	4.2	6.1	3.2	4.2	6.6	4.7	2.6
Operating margin, %	26.4	19.5	neg	11.3	15.4	9.7	13.0	14.2	12.8	7.7
Net margin, %	26.1	18.8	neg	10.5	14.7	8.3	11.4	18.8	10.5	3.7
Equity ratio, %	48.1	47.5	48.8	49.4	49.3	50.8	49.8	48.3	45.9	46.3
Self-financing rate, %	181.0	126.8	59.8	50.3	92.7	96.4	125.2	88.7	76.5	69.7
Interest coverage ratio, multiple	46.6	22.8	neg	9.2	11.5	4.7	5.4	7.7	4.5	2.4
Debt to equity ratio, multiple	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Capital turnover rate, multiple	0.70	0.54	0.33	0.43	0.45	0.36	0.35	0.37	0.41	0.48
OTHER INFORMATION (SEK MILLIONS)										
Capital employed	11,233.9	10,327.0	9,888.7	10,275.2	10,241.8	9,498.3	9,571.2	9,416.9	9,388.6	8,951.7
Net investment in plant	1,204.3	950.6	778.4	1,216.2	728.2	623.4	410.1	900.3	721.2	898.3
Net investment in shares	39.1	0.0	29.4	26.2	130.9	0.5	41.3	0.0	0.0	0.0
Contribution to other activities of the municipality	293.0	262.5	248.1	242.3	228.8	226.5	220.0	220.0	211.0	215.0



Skellefteå Kraft

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