

Press release (RNS 215711)

Interim report, January-June 2002

- Profit for second quarter on a par with previous year
- Continued lower sales of heating due to mild weather
- A second fire in the Akalla tunnel
- Fortum harmonises operations under joint company identity, and Birka Energi changes its name to Fortum

SEK M	Jan-June 2002	Jan-June 2001	Whole year 2001
Net turnover	7,705	7,303	14,110
Operating profit	1,709	1,800	3,045
Profit after financial items	717	872	1,229
Operating margin, %	22.2	24.6	21.6

The Group's profit after financial items for the second quarter is basically on a par with that of the previous year. The first-quarter drop in profit that has resulted in the SEK 155 million lower profit after financial items for the first half year compared with the corresponding period of the previous year. Heating and power operations and lower capital gains are mainly responsible for this decrease in profit.

Temperatures during the first half of the year were consistently above normal, resulting in a lower demand for heating compared with the previous year. In addition, a shortage of biofuels pushed fuel costs higher than predicted. Taken together, these two factors explain the drop in sales and profits shown by the heating business.

Compared with the previous year, the hydrological balance during the first half of the year has, on the whole, been stronger. Plentiful supplies of hydroelectric power due to above normal inflows brought electricity spot prices down. At the end of June, water levels in Swedish and Norwegian reservoirs were still higher than normal. Lower electricity prices are responsible for the deterioration in the power production business's profits compared with the previous year.

The work to harmonise Birka Energi's operations into the new pan-Nordic energy group, Fortum, has continued. Consequently, since 1 July, the Group's business has been run on the basis of Fortum's operational business structure. Creating a joint company identity is seen as an important step towards full harmonisation, and, from 1 September, Birka Energi will therefore be known as Fortum Power and Heat AB. The change of name and operational control will not affect the Birka Energi Group's legal structure, which remains intact.

On 29 May, a second fire broke out in the Akalla tunnel, resulting in a major power failure in the northwest of Stockholm. Following an impartial investigation, the cause was pronounced

to be defective repairs at the time of the previous fire. Birka Nät AB has therefore assumed “supervisory responsibility” in relation to private consumers and has settled the claims of around 2,000 domestic customers. On the business side, the company has assumed responsibility for material damage and will be settling claims for proven damage to property. All network customer affected by the power failure will also be entitled to power failure compensation, to be offset against the fixed network charge and calculated according to a special rate structure.

Aiming to effectively prevent any further power failures, Birka Nät AB is also speeding up repairs of the back-up supply in the relevant area.

Energy

Heating sales, which during the first half of the year amounted to 5.0 TWh (5.4), have decreased by 0.4 TWh compared with the corresponding period of the previous year. The drop in sales is primarily due to the weather in the Stockholm region, which during the first half of the year was milder than during the corresponding period of the previous year when relatively normal temperatures prevailed.

Efforts are continuing within the heating business to increase the proportion of renewable fuels used. The proportion of renewable energy sources and recycled energy used in own production amounted to 67 per cent compared with 64 per cent the previous year. However, during the first half of the year, the short supply of biofuels resulted in a one per cent reduction – to 28 per cent – in the proportion of biofuels used in production compared with the previous year.

As regards the heating business, the Group operates on the basis of a certain flexibility within production, which means that electricity can either be used for heat production, or be generated by simultaneous production of electricity and heat. The mild weather has resulted in a reduction in the possibility to use back pressure as a basis for producing power within heating operations, which has, in turn, caused a slight decrease in electricity production compared with the previous year.

The cooling business continues to expand with sales of cooling, which during the first half of the year amounted to 142 GWh (111), increasing by 31 GWh compared with the previous year. On the other hand, at 211 GWh (232), gas sales were somewhat down compared with the previous year.

At 12.8 GWh (12.7), the Group’s sales of electricity are essentially at the same level they were the previous year. Nuclear power production was around 0.8 TWh lower than the previous year, as a result of the shutting down of the Oskarshamn 1 plant. Hydroelectric power production was approximately 0.5 TWh lower than the previous year. This means that own power production amounted to 11.2 TWh (12.4) and the Group’s total electricity turnover, including own use for heat production and for covering network losses, amounted to 14.4 TWh (14.3).

The volume of the Group’s power distribution in part- or fully-owned network areas amounted to 16.2 TWh (17.1). The mild weather that prevailed during the first half of the year resulted in a slight reduction in volume compared with the corresponding period of the previous year.

Economy and finance

Turnover and profit

The Group's net turnover, which amounts to SEK 7,705 million (7,303), shows an increase of SEK 402 million compared with the previous year. This increase is mainly due to higher levels of turnover from electricity sales as well as to increased turnover generated by complementary products such as telephony services. Milder weather has resulted in the income from heating being around SEK 20 million down on the previous year.

The Group's operating profit amounted to SEK 1,709 million (1,800), which is SEK 91 million down compared with the previous year. The Group's power sales operations shows a significant improvement in profits compared with the previous year, while power and heat production operations are responsible for the main drop in profits. The short supply of biofuels has resulted in higher fuel costs, which, together with the mild weather, explain the significant drop in first-quarter profits shown by the heating business. Now working to full capacity, the operation and maintenance business is also showing an improvement in profits compared with the previous year. Operating margin has decreased and amounts to 22.2 per cent (24.6).

As a result of lower indebtedness, the Group's net interest shows an improvement compared with the previous year. Negative exchange rate differences resulting from currency hedging, primarily of NOK, have had a somewhat adverse affect on net financial items compared with the previous year. Capital gains resulting from the sale of AB Avesta Energi and Renea AB had a positive effect on net financial items. However, these items are lower than the capital gains reported during the first half of 2001, resulting in total net financial items taken as a whole being lower compared with the previous year. Profit after financial items, which amounted to SEK 717 million (872), was down by SEK 155 million compared with the previous year, due mainly to lower operating profit as well as to lower capital gains.

Acquisitions and sales

	Company	Share	New holding	Business
Jan Sales	AB Avesta Energi	100%	-	Electricity sales
Mar Acquisition	Hofors Energi AB	-	49%	District heating
Mar Sales	Renea AB	91%	-	Heat pump services
Apr Acquisition	Puab Projektutveckling AB	60%	100%	Technical consultancy services

During the second quarter, Birka Energi acquired the remaining 40 per cent of the technology consultancy Puab Projektutveckling AB, thereby making it a fully-owned subsidiary. No further acquisitions or sales were undertaken during the second quarter.

Cash flow and financing

SEK M	Jan-June 2002	Jan-June 2001	Whole year 2001
Net investments	917	248	1,545
Cash flow after financing activities	2,656	2,262	2,605
Net debt	31,133	33,633	33,893
Balance sheet total	76,890	77,650	79,424

The Group's total net investments in intangible and tangible fixed assets – excluding company acquisitions – amounted to SEK 917 million (248) for the period. Net investments have been affected by the sale of plant assets amounting to SEK 12 million (530). Investments in the business, excluding acquisitions and divestments, therefore amount to SEK 929 million (778). Birka Värme and Birka Nät were responsible for the major part of investments. Birka Värme's investments relate mainly to the expansion of the heating and cooling businesses. The investments in network activities are essentially in the form of reinvestments in already existing networks. The impact on cash flow resulting from the sale of shares in subsidiaries amounted to SEK 1,007 million (787) for the period, of which SEK 1,000 million relates to the change of ownership in Birka Värme Holding, effected by a new share issue to the minority shareholder.

The Group's net debt has decreased as a result of the positive cash flow from operations, and by the SEK 1,000 million from the new share issue in Birka Värme Holding. Amounting to SEK 31,133 million (33,633), net debt has decreased by SEK 2,500 million compared with the corresponding period of the previous year.

Of the total loan liability, loans amounting to SEK 5,792 million will mature during the coming twelve-month period. As at 30 June, Birka Energi had approximately SEK 10,000 million in committed loan facilities at its disposal, none of which had been utilised. The average term for the Group's loan liability amounted to 3 years and 7 months, and the average fixed interest term was approximately 2 years.

Since the end of the previous year, the balance sheet total has decreased by SEK 2,534 million. Equity capital has increased by SEK 488 million. The equity/assets ratio amounts to 34.6% (32.4).

Ecology

Birka Energi has produced a "Green Book", which describes both the global and local challenges involved in developing a more sustainable energy system. Using the concept "Energy in balance with Ecology and Economy", the Green Book also describes the Group's ambition to work with customers and other interested parties in order to develop the business along such lines. The aim is to promote closer co-operation regarding the choice of energy solutions.

In the Hammarby Sjöstad area of Stockholm, a new district is under construction, the aim being that it should be twice as environmentally friendly as any similar area. During the

spring, an information centre called GlashusEtt was opened, where residents and other interested parties can find out more about the “Hammarby model” with its integrated energy, water and waste disposal solutions. Birka Energi also uses GlashusEtt to demonstrate solutions of the future based on solar cells, hydrogen gas and fuel cells. In conjunction with JM, solar cells have been integrated in the roof structure of two buildings in a unique manner. Neste Advanced Power System, a subsidiary of the Fortum Group, has supplied the solar cells.

Emissions of carbon dioxide have fallen somewhat compared with the first half of 2001. The proportion of renewable and waste-based fuels is slightly lower than planned, due primarily to the shortage of biofuels.

Over a period of several years, Birka Energi has taken steps in order to keep the carbon dioxide emissions from waste incineration in Högdalen at a constant level. During the spring, this programme successfully resulted in substantially reducing the number of hours where the levels are high.

Stockholm, July 2002

Susanne Jonsson
President and Chief Executive Officer

Profit and loss statement	Jan-June	Jan-June	Jan-Dec
SEK M	2002	2001	2001
Net turnover excluding energy tax	7,705	7,303	14,110
Other operating income	237	374	685
Operating expenses	-5,209	-4,843	-9,697
Depreciation	-1,034	-1,044	-2,085
Profit from participation in associated companies	10	10	32
Operating profit	1,709	1,800	3,045
Financial income	118	227	389
Financial expenses	-1,110	-1,155	-2,205
Profit after financial items	717	872	1,229
Minority shares	-37	-5	-14
Tax	-196	-335	-401
Profit for the period	484	532	814

Balance sheet	30-06-2002	30-06-2001	31-12-2001
SEK M			
Assets			
Fixed assets	72,626	72,614	73,535
Current assets	3,906	4,525	5,327
Liquid resources	358	511	562
Total assets	76,890	77,650	79,424
Equity capital and liabilities			
Equity capital	24,465	24,095	23,977
Minority interest	2,131	1,077	1,101
Allocation for deferred tax liability	11,155	10,478	10,970
Other allocations	903	1,021	913
Interest-bearing debt	34,953	37,423	38,811
Non-interest-bearing liabilities	3,283	3,556	3,652
Total equity capital and liabilities	76,890	77,650	79,424

Cash flow statement	Jan-June	Jan-June
SEK M	2002	2001
Current operations		
Cash flow before changes in working capital	1,875	1,989
Change in working capital	727	-304
Cash flow from current operations	2,602	1,685
Investment activities		
Investments in subsidiaries	-3	-1
Sale of subsidiaries	1,007	787
Net investment in intangible and tangible fixed assets	-917	-248
Net investment in other fixed assets	-33	39
Cash flow from investment activities	54	577
Cash flow after investment activities	2,656	2,262
Financing activities		
Loans raised and amortisations - net	-2,860	-1,324
Dividend	0	-800
Cash flow from financing activities	-2,860	-2,124
Net change in liquid resources	-204	138

Net turnover by line of business	Jan-June	Jan-June	Whole year
SEK M	2002	2001	2001
Electricity	3,471	3,218	6,371
Heating	2,199	2,182	3,905
Network services	2,040	2,019	3,887
Gas	120	121	222
Cooling	85	102	199
Contracting and consultancy services	349	339	877
Secondary income	144	51	181
Net turnover incl. energy tax	8,408	8,032	15,642
Energy tax on electricity	-703	-729	-1,532
Net turnover excl. Energy tax	7,705	7,303	14,110

Key indicators	Jan-June	Jan-June
SEK M unless stated otherwise	2002	2001
Net turnover excluding energy tax	7,705	7,303
Electricity sales, GWh	12,834	12,707
Heating sales, GWh	4,998	5,392
Gas sales, GWh	211	232
Cooling sales, GWh	142	111
Operating profit	1,709	1,800
Profit after financial items	717	872
Gross margin, %	35.5	38.8
Operating margin, %	22.2	24.6
Profit margin, %	9.3	11.9
Operating interest coverage ratio	2.76	3.05
Interest coverage ratio	1.65	1.75
Cash flow from current operations	2,602	1,685
Cash flow after investment activities	2,656	2,262
Investments excluding acquisitions	929	778
Balance sheet total	76,890	77,650
Equity capital	24,465	24,095
Equity/assets ratio, %	34.6	32.4
Net debt	31,133	33,633
Net debt / equity ratio	1.17	1.34

Change in equity capital	Jan-June	Jan-June	Whole year
SEK M	2002	2001	2001
Amount at start of year	23,977	24,359	24,359
Dividends		-800	-1,200
Translation differences	4	4	4
Profit for the period	484	532	814
Amount at end of period	24,465	24,095	23,977

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

The accounting and valuation principles applied conform to the provisions of the Annual Accounts Act, the recommendations of the Swedish Financial Accounting Standards Council and statements by the “Emergency Group” of the Swedish Financial Accounting Standards Council. From the fourth quarter of 2001 onwards, the Swedish Financial Accounting Standards Council’s recommendation RR9 Income Tax has been applied.

In the Group’s Profit and Loss statement, deductions for financial hedging transactions relating to power production and purchases are shown net on the expenses side. This method, introduced from the annual accounts and onwards, represents a change compared with the previous year. These items have previously been shown gross on both the income and expenses sides. Comparative figures previous years have been changed accordingly.

The Group has changed accounting principles to conform with accounting principles used in Fortum. Changes have been made regarding the consolidation of the Älvkraft Group, Mellansvensk Kraftgrupp AB and AB Aroskraft. These companies were previously accounted for as shares in associated companies, but are now accounted for as subsidiaries with minority interests. Changes have also been made regarding financial leases. The financial leases are now consolidated as fixed assets and interest bearing debt in the Balance Sheet with corresponding changes in the Profit and Loss statement. Comparative figures previous years have been changed accordingly.

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