



GRANINGE

Interim report for January-June 2003

- Income was up by 30 per cent, mainly as a result of high electricity prices.
- Profit rose by 16 per cent to MSEK 453.
- Excluding non-recurring items of MSEK 25 that were included in the year-earlier figure, profit improved by 24 per cent.
- Profit corresponded to earnings per share of SEK 4.80 (4.20).
- High electricity prices and stronger margins in electricity sales compensated for the low production of hydropower.
- District heating operations in Nordmaling were sold to Sydkraft Värme AB.

The Group – dramatic rise in profit

The Group's net sales for the first six months of the year amounted to MSEK 2,122 (1,632), up 30 per cent over the corresponding period of 2002. This growth is mainly attributable to the sharp increase in electricity prices compared with the year before.

Profit before tax is reported at MSEK 453 (389), an increase of 16 per cent. The figure for the preceding year included non-recurring items of MSEK 25. Excluding these, profit improved by 24 per cent.

Production in the Group's hydropower plants during the first six months was significantly lower than in the previous year and lower than normal. The high electricity prices and stronger margins for the Group's CHP power made up for the fall-off in production of hydropower.

Profit for the first half of the year corresponds to earnings per share after tax of SEK 4.80 (4.20).

Return on capital employed was 12 (12) per cent calculated as an average for the past four quarters, while return on shareholders' equity was 10 (13) per cent.

Net sales for the second quarter reached MSEK 839 (629), an increase of 33 per cent. Profit before tax improved by 41 per cent and is reported at MSEK 182 (129).

Electricity operations – prices still high

The Group's electricity operations consist of power production in Sweden and Finland, sales of electricity and energy services to small and medium-sized customers and trading of electricity derivatives.

Net sales in electricity operations amounted to MSEK 1,221 (810), an increase of 51 per cent. Profit after depreciation improved by 38 per cent to MSEK 347 (251).

The improvement in profit is the result of stronger margins in electricity sales. The Group's production of condensing power also showed a substantial rise in earnings over the preceding year due to higher electricity prices in the first six months. For the hydropower plants, the improvement reached 7 per cent, a modest improvement that should be

seen in light of the very strong first half in 2002 owing to abundant production of hydropower.

The Group's electricity sales amounted to 3,881 (3,744) GWh, of which 3,759 (3,497) GWh referred to contract deliveries and 122 (247) GWh to sales of spot power. Contract deliveries were up by 262 GWh or 7 per cent due to higher sales of electricity to small and medium-sized customers in the Group's own and external networks in Sweden. Among other things, a successful collaboration with Spray has been launched. Sales in Finland declined as a result of continued fierce competition.

The Group's own power plants produced a total of 1,665 (2,127) GWh, of which the hydropower plants accounted for 1,275 (1,749) GWh, down 27 per cent compared with the preceding year and 25 per cent lower than normal.

The decrease should be seen in light of the unusually dry summer and autumn of 2002 which meant that the reservoirs were only 42 per cent full at the beginning of the year, which is 20 percentage points or 200 GWh less than normal. The low level at year-end meant that the reservoirs were depleted more than normal. Since the spring flood was comparatively short and was also followed by a very dry period, the reservoirs have not been refilled to the normal extent. The current level is 70 per cent, more than 20 percentage points less than normal.

In order to make up for the fall-off in hydropower production, purchases of spot power increased by 686 GWh to a total of 2,071 GWh. Gräninge continuously price hedges all electricity sold on fixed-term contracts. For electricity sold on open-ended contracts, price hedges are taken from time to time. Consequently, the periodically exorbitant prices on the spot market have not had any appreciable impact on profit. In addition, prices fell back somewhat at the beginning of May. After this they have climbed to unusually high levels for the season due to continued hot and dry weather, particularly on the continent. Rising demand for electricity and difficulty in cooling the CHP plants has driven up the spot price in Germany to levels corresponding to SEK 1,000/MWh as a daily average. In connection with this, the Nordic region has become a net exporter of power to Germany.

Prices in the end-user market have followed the trend in the spot market. The reduction in end-user prices which many anticipated after the spring flood has thus failed to arrive. Furthermore, electricity prices could rise this autumn if the warm and dry weather continues. On the other hand,

it is fully possible that heavy autumn rains could restore the current deficit of nearly 20 TWh in the hydrological balance.

Return on capital employed amounted to 14 (15) per cent calculated as an average for the past four quarters.

Net sales in electricity operations during the second quarter totalled MSEK 469 (286) with a profit after depreciation of MSEK 136 (105), an increase of 30 per cent.

Network operations – stable earnings

The Group's network operations include electricity distribution in Sweden and Finland and sales of network services in Sweden. Local networks are found in central Norrland, the Stockholm-Mälardalen area, Småland and the Kajanaland region of Finland. The business area also includes a few small regional networks in Sweden and Finland.

Net sales during the first six months amounted to MSEK 506 (504) with an operating profit after depreciation of MSEK 152 (170), which is 11 per cent lower than in the corresponding period of 2002. The year-earlier figure included non-recurring items of MSEK 10. The decrease should otherwise be seen in light of the fact that the cost of replacement power to cover transmission losses on the local networks has risen as a result of high spot prices and the cold weather in January.

Transmission on the Group's local networks amounted to 2,335 (2,298) GWh, an increase of 2 per cent.

Transmission on the regional networks declined by 26 per cent to 1,004 (1,356) GWh. The decrease is mainly explained by lower production in the Group's hydropower plants, but also by the fact that a certain load shedding took place during the coldest periods of the winter.

Return on capital employed was 12 (11) per cent calculated in the same manner as above for the Group.

In the second quarter, network operations reported net sales of MSEK 214 (207) and a profit after depreciation of MSEK 65 (52).

Heating operations – increased deliveries

The Group's heating operations consist of production, distribution and sales primarily of district heating and ready heating, where Granninge takes responsibility for fuel supply, operation and financing. Since 1 July 2001, these operations include a leased cogeneration plant that produces steam.

Net sales during the first half of the year amounted to MSEK 436 (375), an improvement of 16 per cent over the same period of last year. Profit after depreciation is reported at MSEK 41 (51), down 20 per cent. The year-earlier figure included non-recurring items of MSEK 15. Excluding these, profit strengthened by 14 per cent. The improvement is mainly due to the acquisition of AB Gustaf Kährs' cogeneration plant in Nybro at the end of 2002.

Energy sales amounted to 1,725 (1,657) GWh, an increase of 4 per cent. Of this total, 1,083 (1,065) GWh referred to deliveries of steam. In the first six months of the year, deliveries of district heating rose by 8 per cent to 642 (592) GWh. The increase is a result of the cold weather at the beginning of the year.

Return on capital employed amounted to 7 (6) per cent calculated as an average for the past four quarters.

In the second quarter, heating operations achieved net sales of MSEK 175 (150) and a profit after depreciation of MSEK 14 (9).

Restructuring

In accordance with the agreement entered in December 2002 with Perhönjoki Oy, Granninge has signed over an additional 2.5 percentage points of its holding in Oy Alholmens Kraft Ab in Finland as of 1 May. Alholmen owns and operates the world's largest biofuel-fired power plant, located in Pietarsaari. The plant went into operation at the end of 2001 and has a capacity of close to 250 MW. After the transfer, Granninge owns 14.9 per cent of the shares in Alholmen and has the right to a production share equivalent to its holding. All in all, the transaction with Perhönjoki has generated a capital gain of MSEK 14 which is included in the result for 2002.

Granninge has sold its district heating operations in Nordmaling to Sydkraft Värme AB. The transaction was effected through the transfer of

Graninge's entire shareholding in Nordmalings Energiverk AB to Sydkraft for a price of MSEK 12. Nordmalings Energiverk, with annual sales of around MSEK 5, produces and distributes district heating in the municipality of Nordmaling. Energy deliveries to the company's customers amount to around 12 GWh.

Investments and net financial items

The Group's investments in new plant and property during the first half of the year totalled MSEK 118 (129), of which network operations accounted for MSEK 95 (82).

Net financial items are reported at MSEK –60 (-61). Since mid-year 2002, net debt has decreased by MSEK 105 and amounted to MSEK -2,061 as per 30 June 2003.

Parent Company

Net sales in the Parent Company during the first half of the year totalled MSEK 55 (38) and operating profit is reported at MSEK –36 (-33).

EDF leaves Graninge

Electricité de France (EDF) has signed an agreement with Sydkraft under which EDF will transfer all of its shares in Graninge to Sydkraft for a price of SEK 201 each. EDF's holding corresponds to 36.3 per cent of all shares in Graninge. The agreement is conditional on a non-intervention statement from the EU Competition Authority.

The sale has been preceded by a competitive international tendering procedure in which potential buyers have been given the opportunity to carry out a limited due diligence audit in accordance with the recommendations from the Swedish Industry and Commerce Stock Exchange Committee.

If Sydkraft acquires EDF's shares in Graninge, Sydkraft intends to direct an offer to the other shareholders.

Full-year forecast

At the beginning of July Granninge announced that the year's profit could be around 10 per cent better than in 2002.

This forecast still applies, provided that run-off is normal throughout the remainder of the year.

Sollefteå, 22 August 2003

Lars Enslöf
Managing Director & CEO

**Consolidated profit and loss
account in summary**

MSEK	April- June 2003	April- June 2002	Jan-June 2003	Jan- June 2002	Full year 2002
Net sales (excl. power tax)	839	629	2,122	1,632	3,391
Operating expenses *)	<u>-624</u>	<u>-463</u>	<u>-1,582</u>	<u>-1,160</u>	<u>-2,544</u>
Operating profit	215	166	540	472	847
Net financial items	<u>-25</u>	<u>-36</u>	<u>-60</u>	<u>-61</u>	<u>-107</u>
Profit after net financial items	190	130	480	411	740
Minority shares	-8	-1	-27	-22	-39
Net profit before tax	182	129	453	389	701
Tax	<u>-60</u>	<u>-36</u>	<u>-134</u>	<u>-109</u>	<u>-203</u>
Net profit for the period	122	93	319	280	498
*) Operating expenses include planned depreciation of	-67	-65	-129	-132	-259
Earnings per share (66,446,687), SEK	1.85	1.40	4.80	4.20	7.50

**Net sales by area of
operation**

MSEK	April- June 2003	April- June 2002	Jan-June 2003	Jan- June 2002	Full year 2002
Electricity	469	286	1,221	810	1,723
Networks	214	207	506	504	1,020
District Heating	175	150	436	375	742
Intra-group deliveries	-19	-14	-41	-57	-94
Total	839	629	2,122	1,632	3,391

**Operating profit by area
of operation**

MSEK	April- June 2003	April- June 2002	Jan-June 2003	Jan- June 2002	Full year 2002
Electricity	136	105	347	251	413
Networks	65	52	152	170	349
District Heating	14	9	41	51	85
Total	215	166	540	472	847

**Consolidated balance sheet
in summary**

MSEK	30 June 2003	30 June 2002	31 Dec. 2002
<i>Assets</i>			
Fixed assets	9,034	8,602	9,064
Cash and bank	270	279	471
Other current assets	1,199	1,060	1,134
<i>Total assets</i>	<i>10,503</i>	<i>9,941</i>	<i>10,669</i>
<i>Shareholders' equity, provisions and liabilities</i>			
Shareholders' equity	5,097	4,853	5,044
Minority interests	403	279	376
Provisions	40	32	34
Deferred tax	1,676	1,488	1,685
Long-term liabilities	1,291	1,378	1,388
Interest-bearing current liabilities	1,054	1,129	1,064
Other current liabilities	942	782	1,078
<i>Total shareholders' equity, provisions and liabilities</i>	<i>10,503</i>	<i>9,941</i>	<i>10,669</i>

Shareholders' equity

MSEK	30 June 2003	30 June 2002
Opening balance	5,044	5,212
Dividends	-266	-365
Reversal of write-up and other		-274
Net profit for the period	319	280
Closing balance	5,097	4,853

Cash flow statement in summary

MSEK	Jan-June 2003	Jan-June 2002	Full year 2002
Cash flow from operating activities before change in working capital	209	44	875
Cash flow from change in working capital	-204	292	292
Cash flow from operating activities	5	336	1,117
Cash flow from investing activities	-107	-315	-577
Cash flow from financing activities	-99	22	-305
Increase in liquid assets	-201	43	235

Key ratios

	30 June 2003	30 June 2002	Full year 2002
Visible equity, %	48	49	47
Equity per share, SEK	77	73	76
Return on capital employed, %	12	12	11
Return on equity, %	10	13	10

The key ratios have been calculated according to the recommendations of the Swedish Society of Financial Analysts. In calculating return on shareholders' equity and capital employed, the result for the past four quarters has been used.

Accounting principles

The Group follows all the applicable recommendations of the Swedish Financial Accounting Standards Council. None of these recommendations has had any material effect on the Group's profit or financial position. In all other respects the report has been prepared according to the previously applied accounting principles.

Financial calendar

Review report

We have carried out a review of this interim report in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants (FAR). A review is significantly limited in comparison with an audit.

Nothing has come to our attention which would cause us to believe that the interim report does not meet the requirement of the (Swedish) Securities Exchange and Annual Accounts Acts.

Stockholm, 22 August 2003

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