



MEGAWATTS AHEAD



ESPOON SÄHKÖ | ANNUAL REPORT 2001



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### ESPOON SÄHKÖ OYJ

*Espeen Sähkö produces, purchases and sells electricity, district heat and natural gas, and offers comprehensive services to meet its customers' energy needs. Espoon Sähkö Group consists of Espoon Sähkö Oyj and Joensuu Energia Oy.*

KEY INDICATORS	2001	2000	change%
Net sales, EUR million	196.4	156.9	25
Profit before extraordinary items, EUR million	21.9	14.6	49
Return on investment (ROI), %	11.4	9.4	21
Solvency ratio, %	40.6	43.5	-7
Electricity sales, TWh	2.9	2.7	8
Electricity transmission, TWh	2.4	2.2	9
Heat sales, TWh	2.4	2.0	18
Permanent employees, 31 Dec.	410	486	-15.6

## FROM THE CHIEF EXECUTIVE: LAST YEAR WAS A TIME OF RESTRUCTURING

A long period of economic growth leveled off very rapidly in the year under review. However, consumption of electricity in Finland continued to grow, by about one percent.

The average temperature during the year was close to the long-term average. The demand for heat was about 11 percent higher than the year before, which had been very warm. Construction remained extremely brisk in Espoo, which was clearly reflected in the number of new connections. The total district-heating load rose by a record 45 MW. In Espoo the amount of electricity transmitted increased 7.6 percent and sales of district heat 14 percent.

### CONTINUING CONSOLIDATION OF CORE OPERATIONS

For Espoon Sähkö the past year was a time of significant restructuring. In April we completed the purchase of the Joensuu biomass and peat-fired power station from Fortum. This investment raises the amount of electricity generated by the group by about a third.

In the beginning of October Espoon Sähkö's network contracting operations were outsourced to Suomen Energia-Urakointi Oy. At the same time Espoon Sähkö acquired 30 percent of SEU's share capital. The reorganization clarified our operating structure, resulting in an even tighter focus on core operations.

From the start of September we began to implement a phased voluntary retirement plan for employees. As a result, about seven percent of employees of the parent company will take early retirement by the end of 2002.

Within the group, management and operational integration were intensified between the parent company and Joensuu Energia. Among other things, we have introduced a joint customer database and an intranet.

### CHANGE IN OWNERSHIP STRUCTURE

The most far-reaching change resulted from measures agreed in the autumn concerning the structure of ownership. The City of Espoo decided to sell half of its shareholding – 34 percent – to the German company E.ON Energie. The reorganization involved a shareholders' agreement between the buyer and seller, in which the parties set joint principles for the administration and objectives of the company.

An extraordinary general meeting of the company, held in November, elected a new board of directors in response to the planned ownership structure, to which the City of Espoo and E.ON each nominated half the members.

More changes to the ownership structure are coming during the first half of this year, following E.ON's public bid for the shares of all other Espoon Sähkö shareholders.

### PROFIT UP ON 2000

The group's result developed favourably, rising by about 50 percent compared with the previous year.

Prices for electricity transmission were kept unchanged throughout the year. The price of district heating was raised at the start of the year in line with fuel cost rises. Public retail electricity prices were raised at the start of July because of a sharp increase in the wholesale market price of electricity.

The result in the year under review was curbed by the Joensuu power station investment in the first half of the year. The Joensuu power station did not contribute to heating output in the early year because it did not come under group ownership until April. The early retirement plan, which was recorded entirely as expenditure in 2001, formed another non-recurring cost item.

The result from electricity operations was weakened by a very rapid rise in the wholesale electricity price in the early year and an unexpectedly high price level during the summer period.

"FUTURE PROSPECTS ARE GOOD BECAUSE ESPOON SÄHKÖ'S OPERATING AREA IS ONE OF THE FASTEST GROWING IN THE COUNTRY AND HAVING A FOREIGN SHAREHOLDER HAS REINFORCED THE COMPANY'S COMPETITIVE POSITION."



#### MAJOR CHANGES IN THE ENERGY SECTOR

The future of the energy sector holds several significant changes.

The Electricity Market Act and the regulation of the market are being reformed; electricity transmission operations will have to be demerged and a new method for measuring efficiency will be adopted for evaluating the yield level permitted in transmission.

We can also assume that national mechanisms for resolving the climate issue will start to become clearer this year. The structure of the energy sector in Finland is still very diverse and contains an extremely large number of players. In this respect restructuring can be expected to continue for a long time.

#### COOPERATION WITH THE NEW SHAREHOLDER

With its broad international shareholder, Espoo Sähkö's fundamentals have been strengthened. We expect to see benefits in many ways. In particular the production of new services, marketing, research and development and a strong ability to invest in new capacity and corporate reorganizations will be some of the areas of future focus influenced by cooperation with the new owner:

The group's sales and number of customers increased far more rapidly than the average for the sector. I would like to thank our customers and partners for their confidence. The successful completion of many changes and projects in 2001 has depended on the flexibility and teamwork of all employees. In this connection I want to express my warm appreciation.

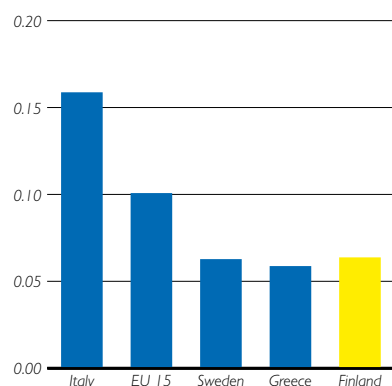
Espoo, March 2002

*Matti Manninen*  
President and CEO

# SUCCESS IS THE SUM OF MANY FACTORS

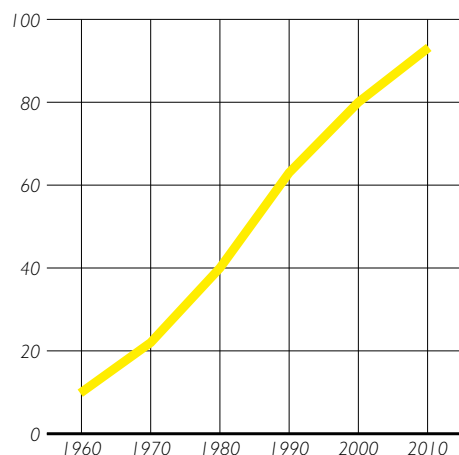
*THE BUSINESS ENVIRONMENT HAS EXCEPTIONALLY GREAT IMPACT ON THE ENERGY SECTOR. AN INCREASING AMOUNT OF REGULATION IS MAKING MANAGEMENT MORE COMPLEX. FURTHERMORE, THE PREDICTABILITY OF OPERATIONS IS DIFFICULT BECAUSE INTERNATIONAL MECHANISMS FOR IMPLEMENTING ACCORDS ON CLIMATE CHANGE HAVE NOT YET ASSUMED PRACTICAL FORMS.*

ELECTRICITY PRICE IN EUROPE, EUR/kWh



*Finnish households enjoy the third lowest electricity prices in Europe. The average price in European countries (EU 15) is clearly higher. Source: Eurostat, 1/2001.*

USE OF ELECTRICITY IN FINLAND, %



*Between 2000 and 2010 industrial consumption of electricity is estimated to rise 1.5 percent and other consumption 1.1 percent annually. Source: Finergy.*

To prepare for internationalization imposes new demands on management and services. The corporate image is the more important because some negative images are associated with the energy sector and its companies. By bearing its own social responsibility, Espoon Sähkö has a favourable impact on the whole sector and on the company's own image.

## EFFICIENT SINGLE MARKET STILL DISTANT

European Union markets are being opened to competition in all sectors. The energy sector, traditionally more protected than the others, is no longer the exception. It has been regarded as part of national infrastructure, in which the share of state ownership has been dominant. Today its structure is extremely incoherent and there are large differences between different countries.

The Nordic electricity markets have coalesced into a market area where there are no significant limitations on cross-border transmission. Similar developments are under way outside the Nordic countries. However, a single, EU-wide market is still a goal that lies far in the future.

## ELECTRICITY GENERATION IS PRICE-SENSITIVE

More than half of Nordic electricity is generated by hydropower. Last year was the fifth year in succession of above-average rainfall, which is statistically rare.

The market price of electricity is still low although it did rise distinctly from the exceptionally low level of 2000. However the market price remains extremely sensitive to the level of hydroelectrical output and reacts rapidly to changes in rainfall.

During the period of a deregulated electricity market, prevailing conditions and the price level have been exceptionally inexpensive. Customers have gained from greater efficiency and competition in this sector. Finland has benefited



from Nordic trade in electricity and especially from the high output of hydroelectricity.

#### NO ECONOMIC GROWTH WITHOUT ENERGY

Does the use of electricity grow automatically? With the rising level of technology in society, its use has increased at the same rate as GDP. However this growth rate is expected to level out as the focus of the business activity moves towards services and the production of information technology.

In order to be able to maintain the present welfare services in society, pay pensions and foster employment, GDP has to rise at an annual rate of about three percent. With economic growth, use of electricity will increase.

#### CLIMATE QUESTIONS STILL UNRESOLVED

The Kyoto protocol of the international convention on climate change contains obligations that are hard to meet in the Nordic countries, as in the EU countries.

It is still difficult to implement the mechanisms of the Kyoto agreement and to predict what their effect will be. We do already know, however, that meeting the demands of the agreement will create upward pressure on the price of electricity.

#### WHO IS RESPONSIBLE FOR THE SUPPLY OF ELECTRICITY?

In Finland no individual organization is responsible for ensuring that there is enough electricity. The dependability of supply now rests with market mechanisms. It can be guaranteed only with adequate reserve generating capacity but the principles for creating and financing it need political solutions. Agents operating in the market have no economic justification for providing this capacity.

Because the environmental licensing process and the construction of a power plant takes 4-6 years, long-term decisions are needed.

#### WHERE WILL SKILLED STAFF COME FROM?

Over the past ten years, the sector has raised its efficiency and boosted productivity greatly and no extra employees have been recruited. By the end of the decade a quarter of the employees working in the energy sector will retire.

The opportunities for greater productivity have mostly been exhausted and skilled, motivated professionals will be needed in future. It will be a major challenge to convince young people that the electricity and energy sector offers professions of the future.

#### THE ENERGY SECTOR IS SUBJECT TO TOUGHER REGULATION

Although electricity markets were opened up in the middle of the 1990s, the sector is subject to more regulation than before. Trading and generating electricity take place on market terms but it was not regarded as sensible to open electricity transmission to competition because it might have led to overlapping investment.

Regulations are still being refined, among other things by requiring transmission operations to be hived off into separate companies and applying mechanisms for assessing efficiency.

There is a danger that excessive regulation will curb and hinder the development of efficient business operations. This would hardly be to the benefit of the customer, either. A worldwide change that began in the last decade is leading to the increasing transfer of previously regional energy infrastructure into the hands of large, active companies.

An example is Espoon Sähkö's new owner, E.ON Energie, formed by the merger of two major corporations and with operations in 17 countries. The E.ON Energie Group focuses on the energy sector and has the aim of growing on a firm footing.

# E.ON ENERGIE

*BASED IN MUNICH, E.ON ENERGIE IS EUROPE'S LARGEST PRIVATELY OWNED ELECTRICITY, GAS, AND WATER UTILITY. THE COMPANY IS WELL ESTABLISHED IN THE NORDIC ELECTRICITY MARKET AND IS EXTENSIVELY ENGAGED IN THE BALTIC SEA REGION, INCLUDING LATVIA, LITHUANIA AND ST. PETERSBURG.*

The E.ON Energie Group comprises 80 consolidated companies and is a highly efficient and profitable enterprise. E.ON Energie was formed as a result of the merger between PreussenElektra and Bayernwerk, which was part of a greater merger of the former parent companies VEBA and VIAG. The new parent company, E.ON AG, was formed in July 2000.

E.ON Energie is an internationally-oriented power company with activities in 17 different countries. Among the 41,000 employees – of which 25% live and work outside Germany - ten different languages are spoken. In its traditional domestic market in Germany E.ON Energie has shareholdings in twelve major regional supply companies and owns, via its subsidiary Thüga, about 120 shareholdings in municipal utilities.

E.ON Energie owns a majority shareholding in the Swedish utility Sydkraft, a holding in Gräninge, and is one of the largest foreign investors in Sweden. Sydkraft, in turn, is active in the Norwegian energy market as well. The entrance into Finland is a crucial step for E.ON Energie in building up and expanding its already strong position in the almost fully-integrated Northern European electricity markets.

For several years E.ON Energie has been engaged in the Baltic Sea Region as well. Based on shareholdings in Latvia, Lithuania and St. Petersburg, E.ON Energie is making a contribution toward the improvement of the electricity systems of these countries. From the very beginning the vision of the so-called Baltic Ring was supported.

Moreover, E.ON Energie is already one of the four largest electricity generators in the Netherlands, the largest foreign investor in the electricity sectors of Hungary and the Czech Republic, and is also active in Switzerland, Poland and Italy.

## CHANGING LANDSCAPE OF THE EUROPEAN ELECTRICITY MARKET

The European electricity market is undergoing rapid and fundamental change. Due to regional differences in regulation, varying degrees of liberalisation, privatisation and consolidation taking place in Europe, there is not yet a single European electricity market, but that is the direction these develop-

ments are clearly headed. Electricity market regulatory and liberalisation guidelines imposed by the EU on its member states and the introduction of the Euro as the common currency of the European Union, contribute to making the European electricity market a more uniform and competitive business environment.

There are also signs that the existing overcapacity in electricity generation will be reduced in the not-too-distant future. This will be effected by means of cross-border consolidation of energy companies, increased electricity trading and inefficient power plants being taken out of operation.

In those European countries with de-regulated electricity markets, energy companies are confronted with risks formerly unknown. For instance, while electricity prices have become extremely volatile in liberalised markets, producers have to deal with high investment volumes and consequently long amortisation periods and therefore need relatively stable future returns. Furthermore, customers now demand a service level that requires high product development skills by the suppliers. Electricity companies that are able to utilise the immense resources of an international energy company, combined with local expertise, are better able to survive in this new competitive environment.

## GLOBAL STRATEGIES, LOCAL ISSUES

E.ON Energie's international strategy is based on the same structural principles pursued in affiliated companies in different regions of Germany: decentralisation, partnership and self-responsibility are the key elements of the E.ON Energie Group. Electricity strategies may become global but the front-line electricity business is still based – to a large extent – on local and regional issues.

E.ON Energie has a strong management conviction: if we are to be successful in international markets, we have to let the domestic companies do their job in their respective countries and regions as they see fit. Those companies know the country, have the necessary market experience and are familiar with the customers.



## CUSTOMER OPINION IS OUR COMPASS

When the staples of life – heat and light – are at stake, there can be no compromises with service. Customers expect security of supply and, especially when things go wrong, rapid service. But these alone are not enough. The customer looks for a great array of extra services from a modern electricity company, because there are so many different kinds of customer relationship.

The clientele of Espoon Sähkö ranges from summer cottage dwellers to large corporations. The location of a customer for electricity can be anywhere in Finland. Most of the customers of our subsidiary, Joensuu Energia, are from the town of Joensuu. There are customers for power transmission and district heating in Espoo, Kirkkonummi, Kauniainen and Joensuu.

Espoon Sähkö regularly studies the satisfaction of different groups of customers. During 2001, surveys were carried out by the Taloustutkimus market research company to explore customer views about the services they receive. The same surveys gave valuable information for creating new services.

The results provide unambiguous evidence that customer satisfaction with Espoon Sähkö is high.

### CUSTOMERS APPRECIATE SMOOTH, RAPID SERVICE

When does a customer make contact with Espoon Sähkö? The most common situations, where electricity is concerned, are when an electricity supply contract is signed or changed, when invoices are dealt with and when customers seek competing bids.

Customers gave Espoon Sähkö higher marks than in 2000 for its customer service, public information and invoicing. Information is disseminated in the customer magazine and in brochures accompanying invoices. Nine out of ten customers read, or at least browse, the customer magazine. Private customers expressed appreciation for the fact that they can now choose the frequency of invoicing and the dates that payments are due.

Use of services via the Internet increased rapidly during the year. The most common on-line application is for making a contract for electricity supply. This service can use authentifica-



tion provided by Finnish banks, and growing demand for it is expected.

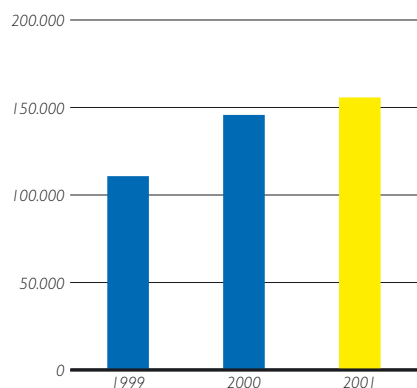
For corporate customers the best source of information is their contact person at Espoon Sähkö, while the web site is a useful extra.

### DEPENDABILITY VITAL IN TRANSMISSION

Espoon Sähkö has made quality its first priority because one of the most important things for the customer in electricity transmission is dependability. The network unit works hard to minimize factors that can disrupt transmission; building the network, raising the proportion of ground cables and planning new substations.

Espoon Sähkö has adopted a method for locating line breaks, one of the innovations in its field in Finland. When a fault occurs, fault current data is relayed automatically to the central control room, which can pinpoint the location of the fault with an accuracy of a few pole spans. A repair team is quickly on the spot.

#### ELECTRICITY CUSTOMERS



The number of electricity customers has grown steadily. The figure shot up in 2000 when the business operations of Joensuu Energia were acquired.

#### 24-HOUR FAULT CENTRE

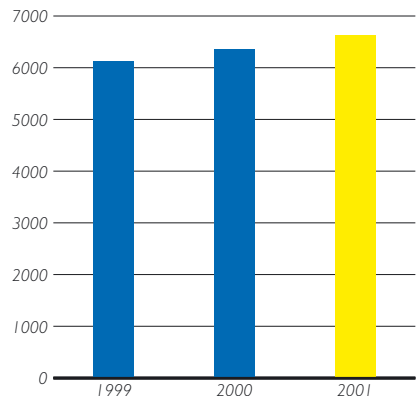
For problem situations, customers are served by a round-the-clock fault centre. There is also an automatic fault announcement system capable of handling as many of 2000 callers an hour.

Espoon Sähkö warns of interruptions caused by maintenance and other work, plus their duration, on its web pages. The customers directly affected by network maintenance work are also informed by letter in advance. In 2002, text messaging and e-mail will also be used as channels of information.

When new connections are being built, customers have expressed the desire for shorter waiting periods. Now that network construction has been outsourced by Espoon Sähkö to Suomen Energia-Urakointi Oy from the start of last October, we will be able to respond to this even better because extra capacity is available via the new company.

#### “CUSTOMER POLLS PROVIDE VALUABLE INFORMATION FOR CREATING NEW SERVICES”

#### DISTRICT HEATING CUSTOMERS



In 2001, 268 new customers joined the district heating network of Espoon Sähkö.

#### HEAT – THANK YOU

Three out of every four inhabitants of Espoo live in a house warmed by district heating. Espoon Sähkö is a familiar name to people living in single-family houses, but apartment owners have to consider heating matters perhaps only once a year, in the annual meeting of their housing company.

Espoon Sähkö's district heating gets top points from customers for dependability and quality.

Customers also appreciate the variety of advisory and expert services. One example is the chargeable quarterly consumption report, which lets a property-owner compare his use of heat with that of comparable properties. Almost half of district heating customers buy this report.

The weekly reading of the meter and the sending of the figures to the district heating company has been simplified with an automatic remote reader. Using GSM modems, Espoon Sähkö already reads the district-heating meters of several hundred of its customers. Alongside remote metering, other services can also be created, such as remote monitoring. If the customer's readings show unexplained deviations, a message about them can be sent to a mobile telephone.

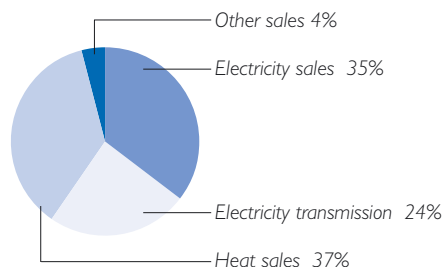
Building developers and companies in the field of heating, water and ventilation would like to be able to access maps of the district heating network via the web. Consumers would like to be able to read their own records from the net. Both wishes are being closely considered in the projects now under planning and under way.



BUSINESS OPERATIONS IN 2001

# ESPOON SÄHKÖ

ESPOON SÄHKÖ TURNOVER BY BUSINESS DIVISIONS



Espoo is a city of rapid growth. While growth improves the home market position of Espoon Sähkö, it increases the need for investment and construction, especially for the local generation of electricity and heat.

Of the electricity sold by the Espoon Sähkö group, a third is generated in the group itself and the rest obtained through the Nordic power exchange, Nordpool.

Most of the heat and electricity produced by the group is the result of cogeneration, where electricity and heat are generated in the same process. Electricity from cogeneration, marketed under the name "Efficient Power", accounts for about a third of the company's total power procurement.

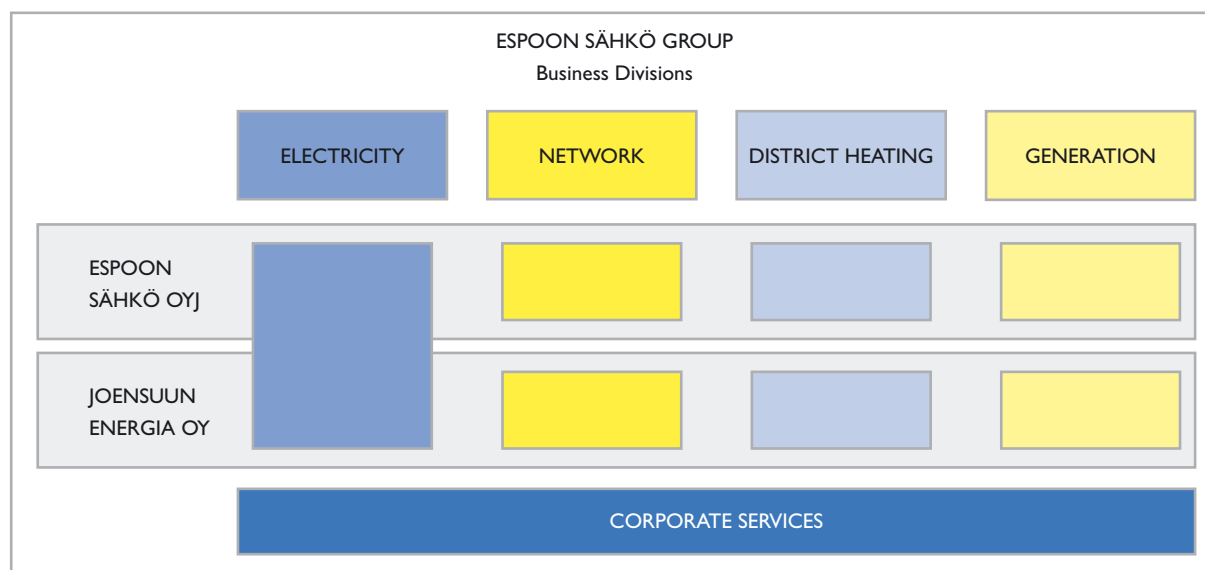
The cogeneration plants at Suomenoja in Espoo are a steam-powered unit and a natural gas-fired gas turbine, plus a fluidized bed boiler that produces heat only. The company has in addition heating centres in Espoo and in Kirkkonummi.

In April a power station in Joensuu was acquired from Fortum that is fired by biomass and peat. The investment raised electricity generated within the group by a third.

Of major importance for the future were the decisions reached last autumn changing the ownership structure of the company. The City of Espoo decided to sell half of its holding, 34 percent of the shares, to the German company E.ON Energie.

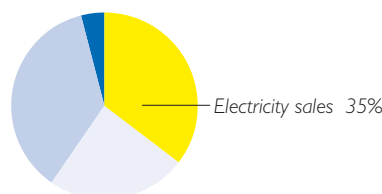
The company was established in 1918 and obtained a listing on the Helsinki Stock Exchange in 1994.

The Espoon Sähkö group consists of Espoon Sähkö Oyj plus the subsidiaries Joensuun Energia Oy, Koskelon Lämpö Oy and the property companies Piispankylä 4 and Espoon Energiatalo. The Group owns electricity transmission and district heating networks in Espoo, Kauniainen, Kirkkonummi and Joensuu as well as cogeneration and heating plants in Espoo and Joensuu.



# ELECTRICITY HYDROPOWER FALL RAISED NORDIC MARKET PRICE OF ELECTRICITY

SHARE OF TURNOVER



Of the changes in the electricity market, the most substantial was the rise in the Nordic market price. Between the start of the year and the summer, the market price rose about 40 percent. The main reason was a drop in the amount of hydroelectricity being generated. Output from hydroelectric power stations in 2000 set an all-time record.

The higher market price led to the first general increase in electricity selling prices since the electricity market was opened to competition in the mid-1990s.

Retail prices paid for electricity by private customers of Espoon Sähkö and Joensuu Energia were increased from the start of July. The price paid by corporate customers had already been increased in the spring. The change in the market situation also led to improved profitability in corporate sales.

Espoon Sähkö was an active player in the Nordic electricity market; on the financial side the trading volume rose to 125 TWh. Physical sales of electricity was 2,9 TWh. Both figures showed a clear increase from the preceding year.

## PRIVATE CUSTOMERS HARD TO ATTRACT

There has been consolidation in Finland's electricity market, with nationwide activities increasingly concentrated in the hands of 5-8 players. The majority of sellers focus on local customers only.

One prevailing feature of the market is still unchanged; private customers tend not to change their electricity company. One sign of this in the market was that advertising and marketing by sellers of electricity became significantly less enthusiastic as the year went on.

Espoon Sähkö picked up a substantial share of the small customers that changed supplier. In the main part this was due to teamwork in sales and marketing with chains and labour unions.

## AT THE FOREFRONT IN INTERNET SERVICES

During the financial year 2001, Espoon Sähkö gave special emphasis to modernizing its customer service using Internet-based solutions. The most important of these was to allow electricity supply contracts to be made on-line, the first bank-authenticated electronic signature application in Finland.

Customer data systems were improved to allow the customer to choose a personally suitable due date for payments. At the same time the customer databases of Espoon Sähkö and Joensuu Energia were merged, which will allow, among other things, a more consistent group product range.

For the future, Espoon Sähkö will ensure that operations, service and pricing are at a level that meets customer expectations. To assure competitiveness, it must be possible to lower fixed costs per customer in the years ahead. Efficient operations must also be publicized through marketing communications, thus raising the company's profile still higher.

### BUSINESS CONCEPT

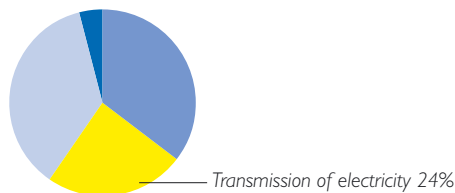
- We offer customers competitive and high-quality services related to electrical energy.

### VISION

- We are the most customer-driven and efficient supplier of electricity.
- We are a major, growth-oriented player in the electricity market.

# NETWORK CONCENTRATION ON QUALITY AND EFFICIENCY

SHARE OF TURNOVER



The shape of network operations changed when electrical network contracting operations was transferred at the start of October to Suomen Energia-Urakointi Oy, in which Espoon Sähkö has a 30-percent holding. At the same time, 72 employees moved to work for SEU.

Building and maintaining an electrical network and some of its operating services are done using outside contractors. The adequacy of network construction is ensured using not just SEU but also several network contractors operating in the area, which have brought effective competition to the field of contracting.

Network operations concentrate on efficient use of the capital invested in the transmission and distribution networks and on attaining an ever-higher quality of electrical supply.

## COOPERATION HELPS CLEAN UP AFTER JANIKA

The storm of mid-November, christened Janika, caused serious difficulties for electricity distribution in Espoo and even more so in Kirkkonummi. In the course of 24 hours, an estimated 3000 trees fell across power lines and almost half of customers were affected by power cuts.

### BUSINESS CONCEPT

- We offer electrical distribution and related services to users of electricity in Espoo, Kauniainen and Kirkkonummi, as well as Joensuu, and we connect new users of electricity to the network in our operating areas.

### VISION

- We are an efficient and progressive network company meeting the quality requirements of customers.

Systematic work to improve the quality of power transmission helped to ensure a speedy recovery. At the same time, outages were significantly shortened by a spirit of cooperation between employees correcting the faults, officials and customers.

Good-quality, uninterrupted electricity is a basic commodity in a functioning society. The most important means of achieving this, but also a slow way, is to put an increasing proportion of the electricity network into underground cables, instead of in the air. So far electricity in a large part of the region is transmitted above ground.

## MODELING TO EVALUATE NETWORK OPERATIONS

The Energy Market Authority, set up to oversee network operations, is devising a measure for efficiency of network operations when assessing reasonable performance. This method for measuring the yield from network operations in proportion to the investment in it is due to be adopted in 2002 for evaluating operations. At this stage it is apparent that it does not fully take into account the special features of the region, especially its vigorous growth and the consequent special features of network construction.

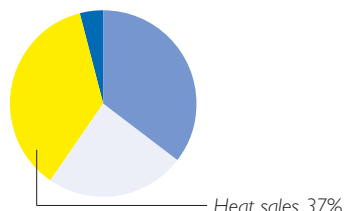
The amount of electricity transmitted was 9 percent greater than the year before, which is substantially more than over twice as much as nationwide growth. Electricity transmitted in the regions for which Espoon Sähkö and Joensuu Energia are responsible totaled 2,371 GWh.

Investment in the network rose to 12.1 million euros. In addition to maintaining and raising transmission capacity, the bulk of investment was in measures to improve the quality of the electricity.

An energy conservation plan, part of the energy savings agreement for the power plant sector, was completed at the end of the year. The plan includes internal company projects as well as projects connected with energy use and saving.

# DISTRICT HEATING RECORD NUMBER OF NEW CUSTOMERS

SHARE OF TURNOVER



From the viewpoint of district heating operations, 2001 was a record year in many respects. In the metropolitan region new buildings continued to rise at a furious pace. 215 new customers joined the district heating network of Espoo Sähkö. It was the greatest addition since the start of the 1980s, when most of the existing stock of old buildings was linked to the network.

Furthermore, many of the new customers in 2001 consisted of unusually large premises, such as shopping centres and office blocks. This is why the district heating load rose by a record 45 MW. Total contracted heat output at the end of the year was 997 MW.

The growth in district heating meant a need to build new peak and reserve heating centres on a rather rapid schedule. Finding sites for the new heating centres emerged as a problem.

In Joensuu the high oil price induced many old premises to switch from oil heating to district heat. Joensuu also experienced a record number of new customers, 53. At the end of the year, contracted heat output was 348 MW.

## EXPENSIVE COAL FORCES A PRICE RISE IN ESPOO

The year under review was warmer than average. Despite this, group sales of heat rose 18 percent from the previous year to 2,358 GWh, divided between 1,878 GWh in Espoo and 480 GWh in Joensuu. At the end of the year the group had 6,641 district heating customers.

Because of the higher fuel price level, energy charges for district heating had to be increased. In Espoo the large coal price hike was a significant element in the 18-percent increase imposed at the start of the year, but it was possible to keep the basic charge unchanged. In Joensuu the energy charge was raised by five percent in line with the price level for biomass fuels and the basic charge by five percent because of a rise in fixed operating costs.

28.4 kilometres of new heat distribution network were built, 23.6 in Espoo and 4.8 in Joensuu. In Espoo the main network expansion project was the building of a transmission line between the Tapiola and Otaniemi heating centres to ensure that the customers of both were fully supplied with heat.

In Joensuu the largest network construction work was to link the Marjala area to the main grid.

## SIZABLE INVESTMENT AHEAD

In Espoo the main district heating network is becoming cramped. District heating operations face some rather sizable investments in transmission lines in the near future.

Modernization of Espoo's road network requires lines to be moved and increases the amount of investment.

However, it is hard to judge the capacity of transmission lines required and compare their routing alternatives because of uncertainty about the future shape of power generation.

In line with the new Natural Gas Market Act, transmission and sales of gas must be separated. For this reason new tariffs for natural gas distribution were drawn up and adopted at the start of December.

An experiment for remote reading of natural gas meters was continued using new GSM modems. About 350 premises are already served by remote meter reading.

### BUSINESS CONCEPT

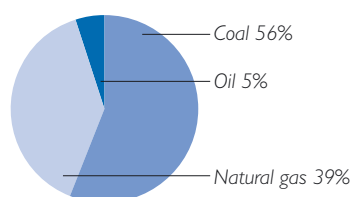
- We offer district heat and gas as well as related services to premises requiring heat.

### VISION

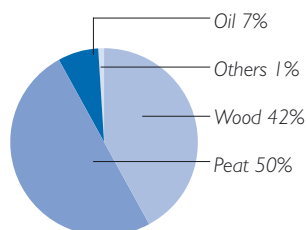
- In all areas covered by a district heating network, district heating is the logical solution, regardless of the size and type of building.

# GENERATION PURCHASE OF THE JOENSUU POWER PLANT BOOSTS OUTPUT AND DIVERSITY

GENERATING FUELS USED, ESPOO



GENERATING FUELS USED, JOENSUU



*In Espoo the proportion of oil was greater than the year before mainly because of greater demand for heat and the more competitive fuel oil price.*

The most important event of the year was the purchase of Kontiosuo power plant in Joensuu from Fortum. It came under group ownership from 2 April 2001. In connection with the purchase, it was agreed that Fortum would continue to be responsible for operation and maintenance of the plant.

Following this takeover, the amount of electricity generated by the group rose from an annualized 0.8 TWh to about 1.1 TWh. At the same time the range of fuels expanded because the main fuels used in Joensuu are wood and peat. In Espoo, coal and natural gas are used.

Thanks to the growth of district heating operations, Espoo recorded an all-time record peak load in February of 653 MW. Joensuu's greatest peak load, 174 MW, came in December.

Compared with 2000, the warmest year for a decade, the procurement of district heating rose 13 percent in Espoo and 12 in Joensuu. Some of Espoo's heating procurement was, for the first time, covered by a fixed purchase of heat from Helsinki Energy lasting throughout the winter period.

Higher growth in demand for heat will present continuing challenges to the adequacy of generating capacity in Espoo as well as Joensuu.

## ENVIRONMENTALLY FRIENDLY COGENERATION

In Espoo 68 percent of heat is produced jointly in connection with the generation of electricity. In Joensuu the proportion is 86 percent. Because of the very warm autumn, Espoo's coal-fired power unit was not started up until the second half of September yet, even so, electricity produced in Espoo reached the same level as in the previous year.

As a consequence of the stronger market price for electricity, condensing electricity generation was viable in Joensuu practically all year. This and the fact that cogeneration was in use only part of the year meant that half of the electricity produced in Joensuu was generated separately.





Plans for raising the capacity of the Tapiola district heating centre came to nothing after application for permission to raise the height of its smoke stack were denied. To ensure an adequate supply of heat, one of the two boilers intended for Tapiola was installed in Otaniemi in the place of an old steam boiler removed from service. At the same time the company renewed its application for environmental permission for a taller smoke stack in Tapiola.

There was some progress in a joint project by power companies in the Helsinki metropolitan region to obtain a site for processing ash and sulphur extraction waste from coal power stations, with the completion of an assessment of the environmental impact of alternative sites. However, further progress was halted by the conflicting views of local municipalities about the site's possible location.

#### OBJECTIVES ACHIEVED

Among the more important goals set for operations in 2001 were high efficiency in basic production, the control of outages and flue gas emissions and an expansion of heat-producing capacity. All these objectives were achieved.

Dust emissions by the power plant in Suomenoja, Espoo declined seven percent. In contrast, sulphur emissions were three percent higher than the year before but were still more than 20 percent below emission limits. A new heating centre became ready for use in Joensuu, serving the Noljakka area.

Among the challenges for 2002 worth special mention are the introduction of a new generating control system and

equipment for making process water from seawater at Suomenoja.

On the basis of a preliminary report completed in 2001, a project is under way to burn wood as a supplementary fuel in the Suomenoja coal-fired boiler. The project, being offered as an EU project, will conduct burning tests. A final assessment of the method's suitability will be made during 2002. Joensuu aims to increase the proportion of wood in its fuels to above 50 percent.

A longer-term production challenge is to improve readiness to build a new cogeneration power plant in Espoo.

#### BUSINESS CONCEPT

- We are responsible for procuring district heating for the company.
- In connection with generating heat, we exploit the possibility for generating inexpensive electricity.

#### VISION

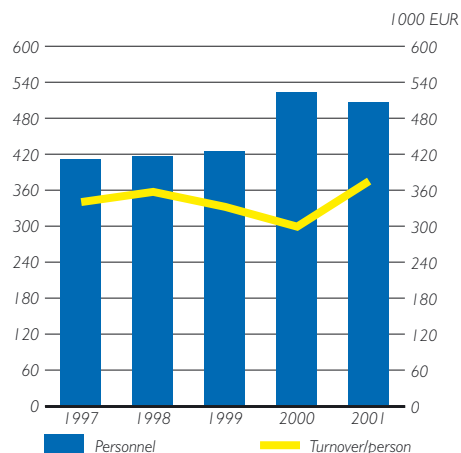
- We are in the forefront of national development in generating electricity and district heat.

# PERSONNEL SENSING ATTITUDES IS IMPORTANT FOR MANAGEMENT

NUMBER OF PERMANENT EMPLOYEES  
31 DECEMBER 2001

ESPOON SÄHKÖ GROUP	410
Espoon Sähkö Oyj	319
Joensuun Energia Oy	91

PERSONNEL AND  
TURNOVER / PERSON



The increasing average age of employees and impending retirement is a major challenge to the power sector. Of the employees of Espoon Sähkö, one in four will reach retirement age in the second half of this decade.

To allow the recruitment of enough new workers, Espoon Sähkö offered early retirement to all employees born no later than 1944. The offer applied to 44 people and was accepted by 29 of them.

The total number of group employees declined by 81 during the year under review. Most of the reduction was caused by a business reorganization of network construction and maintenance operations, which resulted in 72 installation staff moving to employment with Suomen Energia-Urakointi Oy, an affiliate of Espoon Sähkö, at the start of October.

At the end of the year, the group employed 410 (491) people on a permanent basis, of whom 91 (95) worked for Joensuu Energia. The group recruited ten new employees.

## DEVELOPMENT REVIEWS LOOK BACK AND FORWARD

Duties that are varied and difficult make tough demands on employees. The annual survey of employees, conducted for the seventh time, has become an important way of charting the working atmosphere throughout the group. The survey gives employees the opportunity to influence working conditions that affect them and those around them. The sources of problems can be identified, at the same time as good practices can serve as examples to other business units.

The results of the atmosphere survey in 2001 were largely in line with those of other years. In contrast to the previous year, though, employees feel that goals and values should be defined more clearly and concretely. Training is another of the things in need of development. With the company's new shareholder, language teaching was highly ranked and several courses will be arranged in 2002. There will be training in data processing techniques to expand

“ESPOON SÄHKÖ’S VALUES – SUCCESS, ENJOYMENT OF WORK, ENTHUSIASM AND RESPONSIBILITY – UNDERLINE THE INDIVIDUAL’S RESPONSIBILITY FOR CREATING SUCCESS IN AN INCREASINGLY TOUGH BUSINESS ENVIRONMENT. OUR VALUES ALSO EMBODY THE PLEASURE WE TAKE IN WORKING TOGETHER TOWARDS THE PRIMARY AIM OF SATISFYING OUR CUSTOMERS’ NEEDS.”



understanding of information technology, and courses for managers will be held to boost management skills.

Every manager holds regular annual talks with subordinates about their personal development. These interviews concentrate on evaluating objectives agreed the previous year, setting new objectives and exchanging views.

The largest individual training project was a course of training to BSc (Engineering) level designed for technicians. Ten Espoon Sähkö technicians have taken part in this joint programme, undertaken with Laurea Polytechnic in autumn 1992. It produced its first graduate in December 2001, Tony Reikko of the Suomenoja power station. Graduates of the programme are able to apply for more demanding jobs within the company as they become available.

A training simulator was completed at Suomenoja in spring 2001, which will allow existing and new employees to study how the power station operates in various situations.

In 2001 training costs of the group, excluding wage costs, were about 336,000 million euros. In addition to training, occupational health and a pleasant working atmosphere were promoted by organizing common sporting events.



*In the back: Seija Virkajärvi (legal scholar, secretary), Khennet Tallinger, Jan Bengtsson, Martti Merra, Sirpa Hertell, Yrjö Rossi and Markus Bokelmann. In the front: Reiner Lehmann, Olli Männikkö and Matti Manninen.*

## GROUP MANAGEMENT

### BOARD OF DIRECTORS 1999–11.4.2001

Chairman  
Olli Männikkö  
B.S. in Soc.

Deputy Chairman  
Martti Kaasinen  
Deputy Director

Ulf Johansson  
Editor-in-Chief

Anne Leppälä-Nilsson  
Director

Heidi Mikkola  
Lic.Phil.

Marja Rahkonen  
Journalist

Yrjö Rossi  
Managing Director

Jukka Uosukainen  
Director General

### BOARD OF DIRECTORS 11.4.–13.11.2001

Chairman  
(resigned 30.9.2001)  
Anne Leppälä-Nilsson  
Director

Deputy Chairman  
Sirpa Hertell  
Secretary General

Ulf Johansson  
Editor-in-Chief

Martti Kaasinen  
Deputy Director

Ritva-Liisa Luomaranta  
LLM

Martti Merra  
Senior Account Manager

Marja Rahkonen  
Journalist

Yrjö Rossi  
Managing Director

### BOARD OF DIRECTORS 13.11.2001–

Chairman  
Olli Männikkö  
B.S. in Soc.

Deputy Chairman  
Reiner Lehmann  
Doctor

Jan Bengtsson  
M.Sc.(Econ.)

Sirpa Hertell  
Secretary General

Martti Merra  
Senior Account Manager

Yrjö Rossi  
Managing Director

Rolf Schmitz  
Doctor

Khennet Tallinger  
Director

Deputy Member  
Markus Bokelmann  
Director

Deputy Member  
Anders Wikholm  
Sales Manager

### OPERATIONAL MANAGEMENT

Matti Manninen (1993–)  
M.Sc.(Eng.)  
President and CEO

Seppo Alanen (1999–)  
M.Sc.(Eng.)  
Director, District Heating Division

Erkki Ala-Risku (1994–)  
B.Sc.(Eng.)  
Director, Electricity Division

Mauri Hätönen (1994–)  
M.Sc.(Eng.)  
Director, Network Division

Matti Kuusisto (1994–)  
M.Sc.(Eng.)  
Director, Generation Division

Reija Väätäinen (1996–)  
M.Sc.(Econ.)  
Chief Financial Officer

Markku Ryymin (1996–)  
M.Soc.Sc  
Managing Director, Joensuu Energia Oy

AUDITORS  
Arthur Andersen Oy  
Authorized Public Accountants

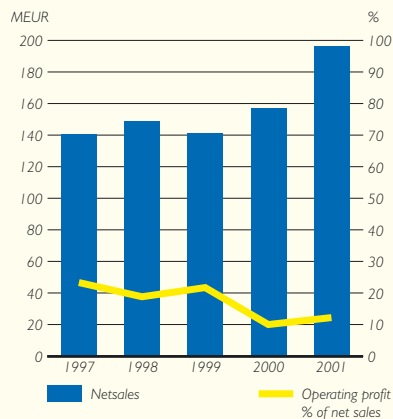
Jarmo Lohi  
Authorized Public Accountant



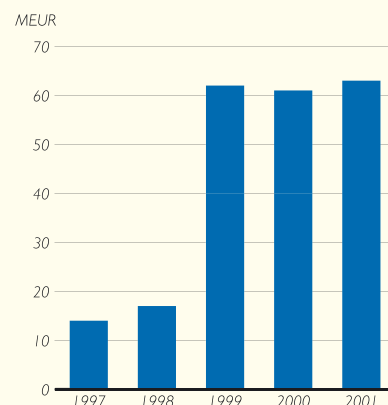
FINANCIAL STATEMENTS 2001

# KEY FIGURES

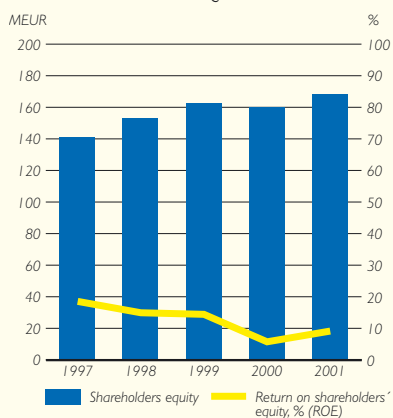
NET SALES AND OPERATING PROFIT % OF NET SALES



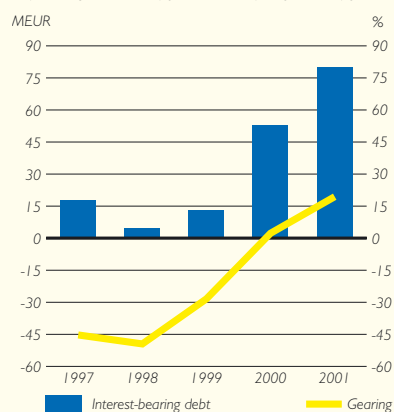
INVESTMENTS



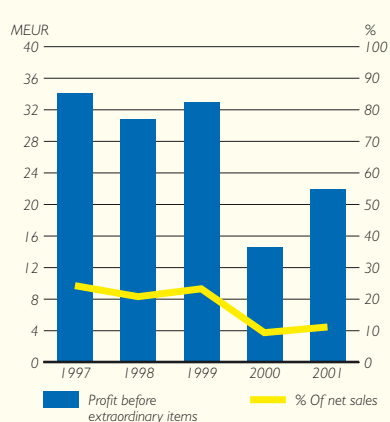
SHAREHOLDERS' EQUITY AND RETURN ON SHAREHOLDERS' EQUITY



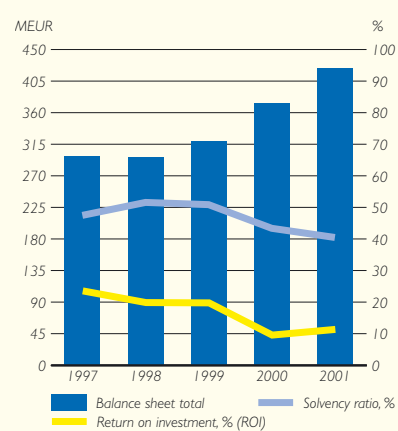
INTEREST-BEARING DEBT AND GEARING



PROFIT BEFORE EXTRAORDINARY ITEMS, % OF NET SALES



BALANCE SHEET TOTAL, SOLVENCY RATIO AND RETURN ON INVESTMENT



# BOARD OF DIRECTORS' REPORT

## 1 JANUARY - 31 DECEMBER 2001

### REVIEW OF GROUP'S BUSINESS OPERATIONS

The Group's sales of electricity increased by 8% to 2.9 TWh. Sales of electricity by the parent company Espoon Sähkö Oyj totalled 2.5 TWh (2.4 TWh in 2000). Sales of electricity by its subsidiary Joensuun Energia were 0.4 TWh. The Group had about 154,000 customers for electricity.

The Group distributed 2.4 TWh of electricity during the year. The amount of electricity distributed in the parent company's operating area (Espoo, Kauniainen and Kirkkonummi) increased by 8% on the previous year. Growth was considerably higher than national growth (3%). In the Joensuu area, the amount of electricity distributed rose by about 1% to 0.4 TWh. Unusually heavy autumn storms affected electricity distribution in November. The storm caused numerous power cuts and repairing these faults resulted in extra costs.

The company's power plants in Espoo generated 0.8 TWh of electricity, the same as the previous year. The Joensuu power plant, which was acquired by Joensuun Energia on 2 April 2001, generated 0.2 TWh in the period April - December. This raised the amount of electricity generated by the Group to 33% (28%) of all electricity procurement during the year. Most electricity was purchased on the Nordic Power Exchange, NordPool. Espoon Sähkö also generated hydroelectric power in its Jokioinen power plant, purchased wind-generated electricity from its associated company Suomen Hyötytuuli Oy and procured bioelectricity from Espoon Vesi Oy.

Sales of district heat rose 18% to 2.4 TWh. Heating requirements in 2001 were in Espoo about 2% less than for an average year, but were considerably higher than in 2000, when heating requirements were 12% less than for an average year. An unusually high number of new customers were connected to the district heating network in the Espoo area.

On 1 October 2001, Espoon Sähkö Oyj acquired 30% of the shares of Suomen Energia-Urakointi Oy and sold its entire electricity network contracting operations to the new associated company. In connection with the transfer of

business operations, a total of 72 Espoon Sähkö employees were transferred to Suomen Energia-Urakointi Oy (SEU). The other owners of SEU are Helsinki Energy (49%) and Vantaa Energy (21%).

On 8 October 2001 the city council of the City of Espoo approved the proposal of the city board to sell 34.01% of the shares of Espoon Sähkö Oyj to E.ON Scandinavia AB, a subsidiary of the German company E.ON Energie AG. The transaction came into effect on 24 January 2002 and had a total value of EUR 160,555,740 or EUR 30 per share.

E.ON Scandinavia AB is making a public offer to Espoon Sähkö's shareholders, offering to purchase all the shares of Espoon Sähkö. The redemption price is EUR 30 per share and the offer is in force during the period 25 February - 25 March 2002. Should E.ON Scandinavia AB obtain a majority holding during the offer period, the redemption price will rise by EUR 3 per share. Under the terms of the shareholder agreement, the City of Espoo has the option until 31 December 2004 to sell the remaining shares (34.01%) at a price of EUR 33 per share.

### SALES

Espoon Sähkö's consolidated net sales increased 25% to EUR 196 (157) million. The subsidiary Joensuun Energia's had net sales of EUR 31 million, which are included in the consolidated financial statements.

The Group's net sales of electricity rose by 39% to EUR 69 (50) million. The considerable increase was due partly to higher sales volumes but also to a price increase during the summer.

The consolidated net sales generated by electricity transmission grew by 9% to EUR 48 (44) million. This growth was attributable to higher sales volumes. The parent company's net sales from electricity transmission totalled EUR 40 million and Joensuun Energia's net sales amounted to EUR 8 million.

The Group's net sales from district heat grew by 27% on the previous year to EUR 72 (57) million. This growth was due to higher heating requirements and to a rise in the selling price of district heat from the beginning of 2001.

# BOARD OF DIRECTORS' REPORT

## 1 JANUARY - 31 DECEMBER 2001

The parent company's net sales of district heat totalled EUR 59 million and those of Joensuun Energia amounted to EUR 13 million.

Other net sales, including contracting operations and sales of natural gas, totalled EUR 8 (7) million.

### PERFORMANCE

The consolidated operating profit increased 52% to EUR 24.1 (15.9) million and the profit before extraordinary items and taxes was EUR 21.9 (14.6) million. A total of EUR 1.3 million was recorded under extraordinary items for one-time pension payments arising from an early pension arrangement. The consolidated profit before taxes increased 41% to EUR 20.6 (14.6) million. Earnings per share totalled EUR 0.96 (0.60).

The main reasons for the improvement in the Group's performance were the success of the district heating and electricity transmission businesses, which was due to strong growth of sales volumes and the rise in energy charge in district heat.

The Electricity Unit's result remained weak. Calculated separately, electricity sales generated a pretax profit of EUR 0.2 (0.03) million. The weak result was caused by continuing strong competition and by a lower profit from trading activities than in the past.

The pretax profit posted by the parent company's Network Unit improved by 7% compared to the previous year and amounted to EUR 13.6 (12.9) million. The increase was due in particular to good volume growth. The pretax profit posted by Joensuun Energia's Network Unit was EUR 1.3 million.

### CAPITAL EXPENDITURE

Investments in fixed assets amounted to EUR 63.4 (60.6) million in 2001. The largest single investment was the acquisition in April of a power plant from Fortum Power and Heat Oy by Joensuun Energia. The Kontiosuo power plant has an electricity output of 55 MW in cogeneration and a district heat output of 100-120 MW. The plant runs on peat and wood-based biofuel.

Approximately EUR 12.1 million was spent on the electricity network during the year. Construction of the district heating network accounted for EUR 6.7 million of capital expenditure.

### FINANCING

The company's financial position changed as a result of the acquisition of the power plant by Joensuun Energia. The investment was financed by both loan capital and the company's own liquid assets. Interest-bearing liabilities at 31 December 2001 amounted to EUR 80 million and cash reserves totalled EUR 48 million. The company's solvency ratio at the end of 2001 was 41 (44) %.

Other key indicators describing the company's financial performance and information on the company's shares are given elsewhere in this Annual Report.

### PERSONNEL

The company made an offer to employees approaching retirement age to take early retirement. The offer affected 46 people who were born in year 1944 or earlier. The offer was accepted by 29 people, who will start their retirement between 1 September 2001 and 31 December 2002. This arrangement causes the company extra pension costs, which are recorded as a one-time cost under extraordinary items. In connection with the transfer of business operations, a total of 72 Espoon Sähkö employees transferred to Suomen Energia-Urakointi Oy retaining their existing employee status.

The average number of personnel during the review period was 506 (523). The number of permanent employees at the end of the year was 410 (486), of whom 91 were employed by Joensuun Energia.

### SHARES

During 2001 altogether 91,827 shares (0.6% of the share stock) were traded on the Helsinki Exchanges for a total value of EUR 2,443,846. The average quoted price was EUR 26.61 per share. The highest quoted price during the year was EUR 29.99 and the lowest quoted price was EUR 15.



The closing price quoted on the balance sheet date was EUR 29.99, according to which the market capitalization was EUR 468.7 million.

The Annual General Meeting in April 2001 authorized the Board of Directors to use distributable funds for one year to purchase the company's own shares. The company did not purchase any of its own shares on the Helsinki Exchanges during 2001. At the end of the year the company held a total of 107,397 shares, which represent 0.68% of the company's shares and voting rights.

#### COMPANY ADMINISTRATION

The Annual General Meeting of Espoon Sähkö Oyj was held on 5 April 2001. The meeting elected new Supervisory Board and Board of Directors for a two-year term. The meeting appointed the firm of public accountants Arthur Andersen Oy as the company's auditors.

An Extraordinary Shareholders' Meeting was held on 13 November 2001. The meeting decided to accept the proposal of the Board of Directors to amend the company's Articles of Association. According to the new Articles of Association the Company has no Supervisory Board. The meeting elected a new Board of Directors for the remainder of the period of office, which will end at the Annual General Meeting to be held in the spring of 2003. The following were elected as full members of the new Board: Jan Bengtsson, Sirpa Hertell, Dr Reiner Lehmann, Martti Merra, Olli Männikkö, Yrjö Rossi, Dr Rolf Schmitz, Khennet Tallinger, and as deputy members: Markus Bokelmann and Anders Wikholm.

The new Board elected Olli Männikkö as chairman and Dr Reiner Lehmann as deputy chairman.

The company did not issue any bonds with warrants or convertible bonds during the review period. The Board of Directors has no authorization from the Annual General Meeting to issue shares.

#### ENVIRONMENTAL REPORT

Espoon Sähkö will publish its Environmental Report on the company's Internet website in the spring of 2002. The report

will describe the company's activities from the environmental perspective and provide information on the environmental impact of energy generation, transmission and consumption.

#### PROSPECTS FOR 2002

The market price of electricity on the Nordic market fell appreciably in February 2002 from the level at the beginning of the year. This is because of the heavy snow and rain and warm weather conditions at the start of the current year.

Espoon Sähkö's Electricity Unit aims to continue profitably increasing its market share of electricity end users. The value of the company's open position in electricity derivatives for 2002-2004, which stood at a profit of EUR 17 million at the closing date, has fallen because of the decline in the market price of electricity. The decline of the value of the open position concerns mainly the years 2003 and 2004. We estimate that the Electricity Unit's result will improve slightly on last year, based on our current assessment of market developments.

The Network and District Heating Units are forecast to increase their volume of sales in 2002 compared to the previous year because of favourable prospects for growth in the company's distribution area, assuming that heating requirements are like in the average year.

For the above reasons, Espoon Sähkö Group's performance this year is expected to be better than last year. However, this assessment is subject to a number of external factors, including general economic developments, competition trends and weather conditions.

#### PROPOSED DISTRIBUTION OF DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.48 per share be paid for the financial period 1 January - 31 December 2001, totalling EUR 7,501,695.84 and that the sum of EUR 77,105,423.60 be carried forward to the retained earnings account. The Board of Directors decided that the settlement date for the distribution of dividend shall be 22 April 2002 and the payment date shall be 29 April 2002.

# CONSOLIDATED INCOME STATEMENT

(EUR 1,000)	1.1.-31.12.2001	%	1.1.-31.12.2000	%
<b>Net sales</b> <sup>(note 2)</sup>	<b>196,434</b>		<b>156,922</b>	
Other operating income <sup>(note 3)</sup>	1,236		1,158	
Share of associated companies' profit	243		0	
Materials and services <sup>(note 4)</sup>	113,004		85,952	
Personnel expenses <sup>(note 5)</sup>	22,101		21,107	
Depreciation <sup>(note 6)</sup>	25,771		23,252	
Other operating expenses	12,896		11,869	
	-173,772		-142,180	
<b>Operating profit</b>	<b>24,141</b>	<b>12</b>	<b>15,900</b>	<b>10</b>
Financial income and expenses <sup>(note 7)</sup>	-2,283		-1,266	
<b>Profit before extraordinary items</b>	<b>21,858</b>	<b>11</b>	<b>14,635</b>	<b>9</b>
Extraordinary item expenses <sup>(note 8)</sup>	-1,296		0	
<b>Profit before taxes</b>	<b>20,562</b>	<b>10</b>	<b>14,635</b>	<b>9</b>
Income taxes	-7,254		-5,236	
Change in deferred tax liability	437		25	
	-6,817		-5,210	
<b>Net profit for the year</b>	<b>13,745</b>	<b>7</b>	<b>9,425</b>	<b>6</b>

# CONSOLIDATED FUNDS STATEMENT

(EUR 1,000)	2001	2000
<b>Cash flow from operating activities</b>		
Operating profit	24,141	15,900
Adjustments to operating profit	24,232	23,252
Financial income and expenses	-2,283	-1,266
Taxes	-7,254	-5,236
Cash generated from operating activities, total	38,836	32,651
Increase (-) / decrease (+) in net working capital	-5,222	-1,835
<b>Net cash from operating activities</b>	<b>33,615</b>	<b>30 816</b>
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets	63,442	60,631
Sale of fixed assets	-103	-289
Net cash used in investing activities, total	63,339	60,342
<b>Cash flow before financing activities</b>	<b>-29,724</b>	<b>-29,525</b>
<b>Cash flow</b>		
Long-term loans, increase (+) / decrease (-)	3,741	11,089
Short-term loans, increase (+) / decrease (-)	30,000	19,923
Dividend distribution	-5,651	-11,439
Purchase of own shares	0	-138
Net cash used in financing activities, total	28,089	19,436
<b>Net cash reserves, increase (+) decrease (-)</b>	<b>-1,635</b>	<b>-10,090</b>
<b>Cash reserves on 1 Jan.</b>	<b>49,321</b>	<b>59,411</b>
<b>Cash reserves on 31 Dec.</b>	<b>47,687</b>	<b>49,321</b>
	<b>-1,635</b>	<b>-10,090</b>

# CONSOLIDATED BALANCE SHEET, ASSETS

(EUR 1,000)	31.12.2001	%	31.12.2000	%
<b>Fixed assets</b> <small>(note 9)</small>				
Intangible assets				
Intangible rights	3,489		3,884	
Group goodwill	40,582		43,219	
Other long-term expenses	2,557		2,578	
	46,628	11	49,681	13
Tangible assets				
Land and water	9,810		9,473	
Buildings and structures	51,149		47,889	
Power and district heat equipment	53,040		25,629	
Transmission and distribution network	82,951		80,114	
District heating network	55,710		55,065	
Machinery and equipment	5,378		5,476	
Other tangible assets	248		277	
Advance payments and work in progress	7,935		3,253	
	266,221	63	227,176	61
Investments				
Shares in associated companies	1,813			
Other shares and holdings	1,710		1,705	
Other long-term investments	56		56	
	3,579	1	1,761	0
Fixed assets, total	316,428	75	278,617	75
<b>Current assets</b> <small>(note 10)</small>				
Inventories	17,131	4	14,912	4
Short-term receivables				
Accounts receivable	37,219		25,275	
Receivables from associated companies	419			
Loans receivable	177		197	
Other receivables	2,566		2,222	
Prepaid expenses and accrued income	2,395		2,717	
	42,775	10	30,411	8
Financial assets				
Other securities	30,962	7	34,664	9
Cash in hand and at bank	16,725	4	14,657	4
Current assets, total	107,593	25	94,644	25
<b>Assets, total</b>	<b>424,021</b>		<b>373,261</b>	

# CONSOLIDATED BALANCE SHEET, SHAREHOLDERS' EQUITY AND LIABILITIES

(EUR 1,000)	31.12.2001	%	31.12.2000	%
<b>Shareholders' equity</b> <sup>(note 11)</sup>				
Shareholders' equity	5,293		5,293	
Share capital	23,791		23,791	
Accumulated retained earnings	125,410		121,637	
Net profit for the year	13,745		9,425	
Shareholders' equity, total	168,239	40	160,145	43
<b>Liabilities</b> <sup>(note 12)</sup>				
Long-term liabilities				
Connections charges	113,345		106,732	
Loans from financial institutions	3,472		5,231	
Other long-term loans	13,762		14,876	
Deferred tax liability	25,605		26,042	
	156,184	37	152,880	41
Short-term liabilities				
Loans from financial institutions	60,841		30,841	
Advances received	9,566		4,954	
Accounts payable	12,680		10,927	
Accounts to associated companies	870		0	
Accrued expenses and prepaid income	7,172		6,298	
Other current liabilities	8,469		7,216	
	99,598	23	60,236	16
Liabilities, total	255,782	60	213,116	57
<b>Shareholders' equity and liabilities, total</b>	<b>424,021</b>		<b>373,261</b>	

# PARENT COMPANY'S FINANCIAL STATEMENTS

(EUR 1,000)	1.1.-31.12.2001	%	1.1.-31.12.2000	%
<b>Net sales</b> <sup>(note 2)</sup>	<b>172,952</b>		<b>136,823</b>	
Other operating income <sup>(note 3)</sup>	421		177	
Materials and services <sup>(note 4)</sup>	103,515		75,832	
Personnel expenses <sup>(note 5)</sup>	18,026		17,857	
Depreciation <sup>(note 6)</sup>	17,544		17,455	
Other operating expenses	11,155		10,697	
	-150,241		-121,842	
<b>Operating profit</b>	<b>23,133</b>	<b>13</b>	<b>15,158</b>	<b>11</b>
Financial income and expenses <sup>(note 7)</sup>	1,093		175	
<b>Profit before extraordinary items</b>	<b>24,225</b>	<b>14</b>	<b>15,332</b>	<b>11</b>
Extraordinary item expenses <sup>(note 8)</sup>	-1,296		0	
<b>Profit before appropriations and taxes</b>	<b>22,930</b>	<b>13</b>	<b>15,332</b>	<b>11</b>
Appropriations				
Change in depreciation difference	1,829		1,580	
Income taxes	-7,374		-5,196	
<b>Net profit for the year</b>	<b>17,385</b>	<b>10</b>	<b>11,716</b>	<b>9</b>

# PARENT COMPANY'S FUNDS STATEMENT

(EUR 1,000)	2001	2000
<b>Cash flow from operating activities</b>		
Operating profit	23,133	15,158
Adjustments to operating profit	16,248	17,455
Financial income and expenses	1,093	175
Taxes	-7,374	-5,196
Cash generated from operating activities, total	33,100	27,592
Increase (-) / decrease (+) in net working capital	-11,295	5,523
<b>Net cash from operating activities</b>	<b>21,805</b>	<b>33,115</b>
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets	21,347	58,192
Sale on fixed assets	-79	-235
Net cash used in investing activities, total	21,267	57,957
<b>Cash flow before financing activities</b>	<b>537</b>	<b>-24,842</b>
<b>Cash flow</b>		
Long-term receivables, increase (-) / decrease (+)	-31,436	783
Long-term loans, increase (+) / decrease (-)	5,017	4,726
Short-term loans, increase (+) / decrease (-)	30,000	19,082
Dividend distribution	-5,651	-11,439
Purchase of own shares	0	-138
Net cash used in financing activities, total	-2,071	13,014
<b>Net cash reserves, increase (+) / decrease (-)</b>	<b>-1,534</b>	<b>-11,828</b>
<b>Cash reserves on 1 Jan.</b>	<b>47,181</b>	<b>59,010</b>
<b>Cash reserves on 31 Dec.</b>	<b>45,648</b>	<b>47,181</b>
	<b>-1,534</b>	<b>-11,828</b>

# PARENT COMPANY'S BALANCE SHEET, ASSETS

(EUR 1,000)	31.12.2001	%	31.12.2000	%
<b>Fixed assets</b> <small>(note 9)</small>				
Intangible assets				
Intangible rights	3,283		3,672	
Other long-term expenses	2,486		2,942	
	5,769	1	6,614	2
Tangible assets				
Land and water	5,837		5,837	
Buildings and structures	31,599		32,573	
Power and district heat equipment	20,999		23,605	
Transmission and distribution network	61,249		59,150	
District heating network	35,739		34,259	
Machinery and equipment	4,078		4,382	
Other tangible assets	148		223	
Advance payments and work in progress	6,654		3,250	
	166,304	42	163,279	46
Investments				
Shares in Group companies	90,851		90,851	
Receivables from Group companies	34,364		2,927	
Shares in associated companies	1,538		0	
Other shares and holdings	1,698		1,693	
Other investments	56		56	
	128,506	32	95,526	27
Fixed assets, total	300,579	75	265,419	75
<b>Current assets</b> <small>(note 10)</small>				
Inventories	16,194	4	14,328	4
Long-term receivables	177		177	
Short-term receivables				
Accounts receivable	31,245		20,142	
Receivables from Group companies	1,410		862	
Receivables from associated companies	419		0	
Other receivables	2,564		2,242	
Prepaid expenses and accrued income	2,088		2,673	
	37,726	9	25,920	7
Financial assets				
Other securities	30,962	8	34,664	10
Cash in hand and at bank	14,685	4	12,517	4
Current assets, total	99,745	25	87,605	25
<b>Assets, total</b>	<b>400,323</b>		<b>353,024</b>	



# PARENT COMPANY'S BALANCE SHEET, SHAREHOLDERS' EQUITY AND LIABILITIES

(EUR 1,000)	<b>31.12.2001</b>	%	<b>31.12.2000</b>	%
<b>Shareholders' equity</b> <small>(note 11)</small>				
Share capital	5,293		5,293	
Share premium fund	23,791		23,791	
Retained earnings	67,222		61,157	
Net profit for the year	17,385		11,716	
Shareholders' equity, total	113,691	28	101,957	29
Accumulated appropriations	81,705	20	83,534	24
<b>Liabilities</b> <small>(note 12)</small>				
Long-term liabilities				
Connection charges	109,981		104,046	
Loans from financial institutions	529		1,447	
	110,509	28	105,492	30
Short-term liabilities				
Loans from financial institutions	60,000		30,000	
Advances received	9,566		4,954	
Accounts payable	11,081		9,610	
Accounts payable to Group companies	1,173		7,080	
Liabilities in associated companies'	870		0	
Accrued expenses and prepaid income	5,823		5,406	
Other current liabilities	5,906		4,991	
	94,418	24	62,041	18
Liabilities, total	204,927	51	167,533	47
<b>Shareholders' equity and liabilities, total</b>	<b>400,323</b>		<b>353,024</b>	

# NOTES TO THE FINANCIAL STATEMENTS

## I. Accounting principles

### CONSOLIDATION

The consolidated financial statements include the parent company, Espoon Sähkö Oyj, and the subsidiaries Joensuun Energia Oy, Koskelon Lämpö Oy, Kiinteistö Oy Piispankylä 4, Kiinteistö Oy Espoon Energiatalo, Viikinki Energia Oy, Espower Ab and Espower As, which are fully owned by the parent company, and also associated company Suomen Energia-Urakointi Oy owned 30% by the parent company. The consolidated financial statements have been prepared by combining the income statements and balance sheets of the parent company and its subsidiaries using the purchase method. Associated company is consolidated using the equity method. Intragroup income and expenses, mutual receivables and liabilities, internal margins and the internal distribution of profits have been eliminated.

### RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are booked with annual expenses. Development expenses related to significant investments and made after an investment decision are capitalized at the acquisition cost of the investment. Research and development expenses are minor.

### DERIVATIVE FINANCIAL INSTRUMENTS

To hedge electricity price risks the company uses electricity forward contracts, electricity future contracts and electricity options. The premiums on the options are treated as advance payments until they mature or otherwise expire. The result of derivative contracts is shown as income or expense when the corresponding income or expense is recognized.

### EXTRAORDINARY INCOME AND EXPENSES

Essential and non-recurring items that do not concern Group's basic business are accounted in extraordinary items.

### PENSION ARRANGEMENTS

Pension coverage for the Group's personnel, the members of the Board of Directors, the chairman and vice-chairmen of the Supervisory Board, and the President of the company has been arranged through pension insurance.

### FIXED ASSETS AND DEPRECIATION ACCORDING TO PLAN

Fixed assets are entered in the balance sheet at direct acquisition cost less depreciation according to plan. Buildings include revaluations allowed by the Accounting Act, which are itemized in the notes to the financial statements. Other long-term investments include the parent company's receivable in the subsidiarys Joensuun Energia and Kiinteistö Oy Espoon Energiatalo. Depreciation is calculated on a straightline basis. The economic life of the fixed assets and long-term expenditure varies as follows:

### ANNUAL ACCOUNTS

- buildings 25–40 years
- electricity, district heat and gas network 20–30 years

- machinery and equipment 5–20 years
- other tangible assets 3–30 years
- goodwill on consolidation 5-20 years.

Joensuun Energia's group goodwill depreciation is based on estimated 20 year's economic long-term holding.

The difference between booked and planned depreciation is shown in the income statement as a change in the depreciation difference. Accumulated depreciation in excess of plan is shown as a separate item under accumulated appropriations in the parent company's balance sheet.

### DIRECT TAXES

The taxes are calculated as paid. The change in deferred tax liability is shown in the consolidated income statement and the deferred tax liability is shown in the consolidated balance sheet as a separate item under long-term liabilities.

### INVENTORIES

The value of the inventories follow the lowest value principles. In the financial statements supply stocks are valued at the average acquisition cost. Oil stocks are valued according to direct acquisition cost on a FIFO-basis and coal stock on replacement price. Work in progress is valued at variable expenses.

### PRINCIPLES OF SEPARATION

Electricity companies are required by the Electricity Market Act and Natural Gas Market Act to separate electricity sales, electricity network operations, electricity generation and natural gas network operations and sales from each other and from other activities in their financial accounts. Income statement for electricity sales and income statement and balance sheets for network operations, natural gas network and natural gas sales are public information.

The basis for separate accounting at Espoon Sähkö is its unit organization. The income and expenses of the units are booked as they occur. The corporate services unit, which provides administrative and financial services for the Group, has reorganized and priced its services as separate products. The divisions pay for these services as they are used. Management overheads are allocated to the units in proportion to number of personnel. In the balance sheets intangible and tangible assets, financial assets and long-term investments, inventories, sales receivables and deferred charges, and accounts payable and deferred liabilities are allocated as they occur. Shareholders' equity, provisions and loans were allocated in proportion to items on the assets side when the separation was first performed and cash reserves served as a balancing item.

Electricity and heat prices are based on market and reference prices. From own cogeneration 776 GWh of electricity was transferred for sale at a price of EUR 17.66/MWh and 1,391 GWh of heat for EUR 16.65/MWh respectively.

(EUR 1,000)	Group		Parent Company	
	2001	2000	2001	2000
<b>2. Net sales</b>				
Electricity sales	68,657	49,513	68,264	47,697
Electricity transmission	48,057	44,185	39,809	36,817
Heat sales	71,633	56,519	58,471	46,611
Other sales	8,088	6,705	6,407	5,698
Net sales, total	196,434	156,922	172,952	136,823
<b>3. Other operating income</b>				
Rents	1,119	816	305	67
Other income	117	342	116	109
Other operational income, total	1,236	1,158	421	177
<b>4. Materials and services</b>				
Purchasing of electricity	52,160	42,164	56,622	39,351
Purchasing of heat	6,314	8,435	3,611	2,712
Purchasing of fuels	44,820	29,727	38,177	29,262
Change in fuel stocks	-3,394	-1,573	-3,056	-1,661
Energy expenses, total	99,901	78,753	95,355	69,664
Materials and supplies purchases during the year	3,169	3,931	2,449	3,333
Change in stocks	1,175	-192	1,189	-197
Materials and supplies, total	4,344	3,739	3,638	3,136
External services	8,759	3,460	4,523	3,033
Material and services, total	113,004	85,952	103,515	75,832
<b>5. Personnel expenses</b>				
Wages and salaries	16,536	16,119	13,844	13,698
Pension expenses	3,904	3,302	2,776	2,707
Other personnel expenses	1,662	1,685	1,406	1,453
Personnel expenses, total	22,101	21,107	18,026	17,857
Fees and other remuneration received by the members of the Board of Directors, the Supervisory Board and the CEO	284	248	213	176
Other remuneration	16,252	15,871	13,631	13,521
Remuneration, total	16,536	16,119	13,844	13,698
Pension commitments for employees have been taken care of through outside pension insurance. Pension liabilities for Board members the CEO. The members of the board of Directors and the CEO have pension benefits corresponding to those of other personnel.				
Personnel on average				
Salaried employees	374	381	323	331
Wage earners	132	142	86	99
	506	523	409	430

## BALANCE SHEET, NOTES

(EUR 1,000)	Group		Parent Company	
	2001	2000	2001	2000
<b>6. Depreciation</b>				
<b>Depreciation according to plan</b>				
Other intangible rights	771	728	690	657
Write-down of group goodwill	2,636	2,449	0	0
Other long-term expenditure	262	233	681	212
Buildings and structures	2,984	2,644	2,266	2,083
Power and district heat equipment	5,257	4,264	3,233	3,877
Transmission and distribution network	6,754	6,168	5,351	4,964
District heating network	5,355	5,184	3,875	3,878
Machines and equipment	1,669	1,506	1,373	1,263
Other tangible assets	83	77	75	75
Depreciation according to plan, total	25,771	23,252	17,544	17,008
Tax depreciation			15,715	15,428
Depreciation difference, total			-1,829	-1,580
Depreciation of merger loss			447	447
Depreciation difference 1 Jan.			83,534	85,114
Change in depreciation difference			-1,829	-1,580
Depreciation difference 31 Dec.			81,705	83,534
<b>7. Financial income and expenses</b>				
Interest income	2,141	2,345	3,383	2,382
Interest expenses	-4,213	-3,023	-2,606	-1,569
Net interest	-2,072	-678	777	812
Exchange rate gains	421	825	421	825
Exchange rate losses	-285	-1,140	-285	-1,140
Exchange rate difference	135	-315	135	-314
Other financial income	84	60	612	50
Other financial expenses	-431	-332	-431	-373
Other financial income and expenses	-346	-272	181	-323
Financial income and expenses, total	-2,283	-1,266	1,093	175
<b>Intragroup financial income and expenses</b>				
Interest income from Group companies			1,260	138
Interest expenses to Group companies			99	197
<b>8. Extraordinary expenses</b>				
Early retirement pension decision	1,296	0	1,296	0

(EUR 1,000)	Group		Parent Company	
	2001	2000	2001	2000
<b>9. Fixed assets</b>				
<b>Intangible rights:</b>				
Acquisition cost 1 Jan.	55,287	8,072	8,099	5,962
Increases 1 Jan.-31 Dec.	375	47,282	301	2,203
Decreases 1 Jan.-31 Dec.	0	66	0	66
Acquisition cost 31 Dec.	55,662	55,287	8,400	8,099
Accumulated planned depreciation 31 Dec.	11,591	8,184	5,117	4,427
Book value 31 Dec.	44,071	47,103	3,283	3,672
<b>Other long-term expenditure:</b>				
Acquisition cost 1 Jan.	4,341	4,004	5,585	5,347
Increases 1 Jan.-31 Dec.	241	332	225	234
Decreases 1 Jan.-31 Dec.	0	4	0	4
Acquisition cost 31 Dec.	4,582	4,341	5,811	5,585
Accumulated planned depreciation 31 Dec.	2,025	1,764	3,325	2,634
Book value 31 Dec.	2,557	2,578	2,486	2,951
<b>Land and water areas:</b>				
Acquisition cost 1 Jan.	9,473	9,473	5,837	5,837
Increases 1 Jan.-31 Dec.	336	0	0	0
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	9,810	9,473	5,837	5,837
<b>Buildings and structures</b>				
Acquisition cost 1 Jan.	79,397	74,534	59,479	56,749
Increases 1 Jan.-31 Dec.	6,245	4,927	1,292	2,793
Decreases 1 Jan.-31 Dec.	0	64	0	64
Acquisition cost 31 Dec.	85,642	79,397	60,771	59,479
Accumulated planned depreciation 31 Dec.	34,493	31,508	29,172	26,906
Book value 31 Dec.	51,149	47,889	31,599	32,573
<b>Power and district heating equipment:</b>				
Acquisition cost 1 Jan.	95,369	90,497	92,886	90,424
Increases 1 Jan.-31 Dec.	32,669	4,872	627	2,462
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	128,038	95,369	93,514	92,886
Accumulated planned depreciation 31 Dec.	74,998	69,741	72,514	69,281
Book value 31 Dec.	53,040	25,629	20,999	23,605
<b>Transmission and distribution network:</b>				
Acquisition cost 1 Jan.	151,476	120,912	129,308	120,912
Increases 1 Jan.-31 Dec.	9,646	30,625	7,491	8,448
Decreases 1 Jan.-31 Dec.	56	61	41	52
Acquisition cost 31 Dec.	161,067	151,476	136,758	129,308
Accumulated planned depreciation 31 Dec.	78,116	71,362	75,509	70,158
Book value 31 Dec.	82,951	80,114	61,249	59,150

BALANCE SHEET, NOTES

(EUR 1,000)	Group		Parent Company	
	2001	2000	2001	2000
<b>District heating network:</b>				
Acquisition cost 1 Jan.	113,110	86,723	90,262	86,028
Increases 1 Jan.-31 Dec.	6,001	26,387	5,357	4,235
Decreases 1 Jan.-31 Dec.	2	1	2	1
Acquisition cost 31 Dec.	119,108	113,110	95,617	90,262
Accumulated planned depreciation 31 Dec.	63,399	58,044	59,878	56,003
Book value 31 Dec.	55,710	55,065	35,739	34,259
<b>Machinery and equipment:</b>				
Acquisition cost 1 Jan.	24,511	22,085	23,098	21,899
Increases 1 Jan.-31 Dec.	1,612	2,522	1,102	1,235
Decreases 1 Jan.-31 Dec.	49	97	32	36
Acquisition cost 31 Dec.	26,073	24,511	24,168	23,098
Accumulated planned depreciation 31 Dec.	20,695	19,035	20,090	18,717
Book value 31 Dec.	5,378	5,476	4,078	4,382
<b>Other tangible assets:</b>				
Acquisition cost 1 Jan.	948	883	887	871
Increases 1 Jan.-31 Dec.	55	72	0	16
Decreases 1 Jan.-31 Dec.	0	7	0	0
Acquisition cost 31 Dec.	1,002	948	887	887
Accumulated planned depreciation 31 Dec.	754	671	739	664
Book value 31 Dec.	248	277	148	223
Group intangible rights include goodwill on consolidation totalling EUR 41 million.				
<b>From fixed assets</b>				
<b>Machinery and equipment's share of book value 31 Dec.</b>	<b>83,469</b>	<b>54,407</b>	<b>50,470</b>	<b>51,739</b>

	Number of shares	Holding %	Book value
<b>Stocks and other long-term investments</b>			
<b>Shares in subsidiaries</b>			
Joensuun Energia Oy	60	100	76,881
Kiinteistö Oy Piispankylä 4, Espoo	217,000	100	3,651
Kiinteistö Oy Espoon Energiatalo, Espoo	200	100	10,091
Viihinki Energia Oy, Espoo *)	100	100	17
Koskelon Lämpö Oy, Espoo	1,500	100	186
Espower Ab, Stockholm *)		100	12
Espower As, Oslo *)		100	13
			90,851

\*) Not active

	Shareholders' equity	Profit/loss for the year
Joensuun Energia Oy	29,217	82
Kiinteistö Oy Piispankylä 4	3,795	98
Kiinteistö Oy Espoon Energiatalo	9,838	129
Koskelon Lämpö Oy	19	9

<b>Shares in other companies:</b>	<b>Number of share</b>	<b>book value</b>
Suomen Energia-Urankointi Oy	141	1,538
Interkraft Trading ASA	1,514	1,095
Tapiolan monitoimiareena Oy	2	118
Helsingin Seudun Lämpövoima Oy	19	97
Kobholm Kraft As	378	90
Helsinki Exchanges Group Oyj	4,104	50
Kiinteistö Oy Irmelinpesä	13	49
Suomen Hyötytuuli Oy	3	34
Innopoli Oy	415	33
Pickala Golf Oy	0	21
Elisa Communications Oyj	274	15
Other companies		97
		3,236

(EUR 1,000)	<b>Group</b>		<b>Parent Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
<b>10. Inventories</b>				
Materials and supplies	1,178	1,946	888	1,670
Work in progress	0	407	0	407
Fuels:				
Coal stocks	11,131	8,495	11,131	8,495
Oil stocks	4,822	4,063	4,176	3,755
Fuel stocks, total	15,953	12,559	15,306	12,251
Inventories, total	17,131	14,912	16,194	14,328
<b>11. Shareholders' equity</b>				
Share capital 1 Jan.	5,293	5,293	5,293	5,293
Share capital 31 Dec.	5,293	5,293	5,293	5,293
Share premium fund 1 Jan.	23,791	23,791	23,791	23,791
Share premium fund 31 Dec.	23,791	23,791	23,791	23,791
Profit from previous years 1 Jan.	131,061	133,210	72,874	72,731
Dividends	-5,651	-11,436	-5,651	-11,436
Purchase of own shares	0	-138	0	-138
Profit from previous years 31 Dec.	125,410	121,637	67,222	61,157
Profit for the year	13,745	9,425	17,385	11,716
	139,155	131,061	84,607	72,874
Shareholders' equity, total	168,239	160,145	113,691	101,957
Distributable funds in shareholders' equity	79,409	70,248	84,607	72,874

## BALANCE SHEET, NOTES

(EUR 1,000)	Group		Parent Company	
	2001	2000	2001	2000
<b>Accumulated appropriations</b>				
Accumulated depreciation difference			81,705	83,534
Transfer to shareholders' equity	59,746	60,813		
Deferred tax liability	25,605	26,042		
Booked depreciation difference	85,351	86,855		
Change affecting net profit	1,067	62		
Change in deferred tax liability	437	25		
Change in booked depreciation difference	1,504	87		
<b>12. Liabilities</b>				
<b>Long-term liabilities</b>				
Connection charges				
Electricity connection charges 1 Jan.	49,012	45,632	48,016	45,632
Increase	2,360	3,380	2,112	2,385
Electricity connection charges 31 Dec.	51,372	49,012	50,129	48,016
Heat connection charges 1 Jan.	56,854	52,014	55,164	51,899
Increase	4,250	4,840	3,818	3,265
Heat connection charges 31 Dec.	61,105	56,854	58,983	55,164
Natural gas connection charges 1 Jan.	865	863	865	863
Increase	4	2	4	2
Natural gas connection charges 31 Dec.	869	865	869	865
Connection charges, total 31 Dec.	113,345	106,732	109,981	104,046
Other non-interest-bearing liabilities	25,605	26,042	0	0
Interest-bearing liabilities	17,234	20,115	529	1,455
<b>Short-term liabilities</b>				
Non-interest-bearing liabilities	37,838	29,395	33,477	24,323
Interest-bearing liabilities	62,873	32,765	60,918	37,740
Interest-bearing liabilities, total	80,106	52,881	61,447	39,195
<b>Receivables from and payables to Group companies:</b>				
<b>Receivables from Group companies</b>				
Long-term receivables			34,364	2,927
Short-term receivables			1,410	860
<b>Payables to Group companies:</b>				
Accounts payable			1,173	6,743



(EUR 1,000)

<b>Repayment schedule for long-term loans</b>	<b>Bank loans</b>	<b>Other loans</b>	<b>Total</b>
Repayments 2002	33,638	1,114	34,752
Repayments 2003	29,264	1,198	30,462
Repayments 2004	1,067	1,287	2,354
Repayments 2005	840	345	1,185
Repayments 2006	420	0	420
Repayments 2007-	0	10,932	10,932
Total 31 Dec. 2001	65,230	14,876	80,106

	<b>Group</b>		<b>Parent Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
<b>13. Pledges and contingent liabilities for own and consolidated's commitments</b>				
Bank loans	5,231	6,430	1,447	1,805
<b>Mortgages as security for loans</b>	16,314	16,314	7,905	7,905
<b>Pledges</b>	9,652	7,444	9,652	7,444
<b>Other collateral</b>				
Leasing commitments	679	626	679	563
Other financial commitments	823	1,010	0	0

#### **14. Derivative contracts** **Open position 31 Dec. 2001**

<b>Trading, external contracts</b>	<b>TWh</b>	<b>EUR 1,000</b>
Nordpool contracts	4	20.6
Bilateral contracts	2	-3.8
Forward contracts, total	6	16.8
Options contracts		-0.2
External contracts, total		16.6

## OTHER NOTES

### 14. Principles of risk management

The main objective of Espoon Sähkö's risk management is to support the company in carrying out its business strategy. The main areas in risk management are risks in electricity trading, foreign exchange and interest-rate risk, and investment risks. The company seeks to reduce other major risks to its business operations by in an active and cost-effective manner.

The Board of Directors has defined the organization of electricity trading and responsibilities and approved the related risk management policy. Financial risk management is defined as part of the company's financial strategy. The main method of risk management used by the company is to reduce risks. In addition, the company benefits from the electricity markets by pursuing a policy of active business-oriented risk-taking using its expertise.

#### ELECTRICITY TRADING

The objective of electricity trading is to benefit from the wide selection of Nordic electricity markets, which as they develop continuously create business opportunities. To exploit these opportunities successfully requires a sophisticated level of risk management expertise. By taking controlled risks in the electricity markets and applying market expertise closely related to its business operations, the company aims to increase owner value.

The company's physical production of electricity along with its electricity sales and trading activities exposed it to electricity price risks. The company actively uses electricity forward contracts, electricity future contracts and electricity options to hedge the electricity price risk. The company

systematically monitors the risk position arising from electricity trading and the risk position in derivatives. Limits have been set relating to electricity trading and they are monitored systematically. The company reacts immediately if these limits are exceeded, and corporate management is informed at once in such cases.

#### FOREIGN EXCHANGE AND INTEREST RATE RISKS

The role of foreign exchange and interest rate derivative instruments is to help business operations function cost-effectively. The objective here is to actively reduce the level of risk exposure. Foreign exchange risks in Espoon Sähkö's business operations arise mainly from cash flows denominated in NOK and USD. The foreign exchange position consists of trading commitments and hedging of these commitments in each currency. Interest rate exposure derives from the interest-bearing loans and investments in the company's balance sheet. Counterparty risk is monitored in accordance with the criteria laid down in the financial strategy.

#### INVESTMENT OPERATIONS AND LIQUIDITY MANAGEMENT

The objective of investment activities is to obtain a return that is comparable to the market return, taking into account the liquidity targets set out in the financial strategy. In its investment operations the company avoids taking risks that would have a significant impact on the company's business operations. Espoon Sähkö's liquidity is monitored using regular cash flow forecasts. Liquidity is assessed according to a defined level of liquid reserves including cash equivalents.

### 16. Parent Company's separated financial statements

#### Separated income statements 1 Jan. -31 Dec. 2001

(EUR 1,000)	Electricity sales		Electricity network		Natural gas	Natural gas
	2001	2000	2001	2000	network	sales
<b>Net sales</b>	<b>70,658</b>	<b>51,080</b>	<b>40,026</b>	<b>37,108</b>	<b>449</b>	<b>1,050</b>
Other income	0	12	46	29	0	0
Energy and fuels	65,569	45,840	8,204	8,132	241	658
Materials and supplies	0	-2	280	474	1	1
Personnel expenses	1,836	1,887	5,053	5,029	22	22
Depreciation	378	295	6,667	6,219	89	3
Other expenses	2,761	3,282	7,262	5,788	27	27
Expenses, total	70,543	51,302	27,466	25,641	381	712
<b>Operating profit</b>	<b>115</b>	<b>-209</b>	<b>12,606</b>	<b>11,496</b>	<b>68</b>	<b>338</b>
Share of financial income and expenses	109	236	1,235	1,361	29	0
Extraordinary expenses	21	0	241	0	0	0
<b>Profit before taxes</b>	<b>203</b>	<b>27</b>	<b>13,600</b>	<b>12,857</b>	<b>97</b>	<b>338</b>
Taxes	60	5	4,050	3,950	29	101
Profit after taxes	142	23	9,549	8,908	68	237

(EUR 1,000)

	<b>Electricity network</b>		<b>Natural Gas network</b>	<b>Natural Gas sales</b>
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2001</b>
<b>Network operation's balance sheet on 31 Dec.</b>				
<b>Assets</b>				
<b>Fixed assets</b>				
Intangible assets	2,572	2,862	174	3
Tangible assets				
Transmission and distribution network	61,249	59,150	653	0
Other tangible assets, total	20,208	16,968	2	2
Tangible assets, total	81,456	76,118	655	2
Fixed assets, total	84,028	78,980	829	4
<b>Current assets</b>				
Inventories	415	868	8	0
Receivables	8,413	7,988	48	183
Share of other cash reserves	24,712	27,342	734	70
Current assets, total	33,541	36,198	790	252
Total	117,569	115,178	1,619	257
<b>Liabilities</b>				
Share of shareholders' equity and capital	61,792	61,015	743	246
Connection charges	50,129	48,016	869	0
Share of current liabilities	5,648	6,146	7	11
Total	117,569	115,178	1,619	257
<b>Key financial indicators for Electricity network operations</b>				
Average personnel in network operations	180	185		
Investments in distribution and transmission network	7,450	8,396		
Other investments	4,266	2,450		
Return on investment at balance sheet values, % (investment including connection charges)	12.5	11.9		
Return on investment, % (network valued at the technical current value and depreciation is calculated at the replacement price)	7.3	6.6		

## PRINCIPLES OF CALCULATION

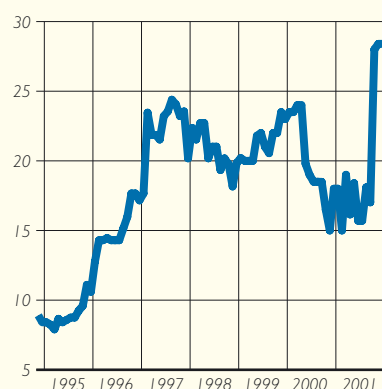
<b>Return on equity (ROE), %</b>	$\frac{\text{Profit after financial items (= profit before extraordinary items)} - \text{taxes for the year}}{\text{Shareholders' equity + minority interest (average)}} \times 100$
<b>Return on investment (ROI), %</b>	$\frac{\text{Profit after financial items (= profit before extraordinary items)} + \text{interest + expenses + other financial expenses}}{\text{Total assets – interest-free debts (average)}} \times 100$
<b>Solvency ratio, %</b>	$\frac{\text{Shareholders' equity + minority interest}}{\text{Total assets – advances received}} \times 100$
<b>Gearing, %</b>	$\frac{\text{Interest-bearing debt – cash funds}}{\text{Shareholders' equity + minority interest}} \times 100$
<b>Earnings per share (EPS), EUR</b>	$\frac{\text{Profit after financial items (= profit before extraordinary items)} + / - \text{Group share of profits/losses of associated companies less dividends received} + / - \text{minority interest in Group profit/loss less taxes for the year from which the effect of extraordinary income and expenses is eliminated}}{\text{Average adjusted number of shares}}$
<b>Shareholders' equity per share, EUR</b>	$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the year}}$
<b>Dividend per share, EUR</b>	$\frac{\text{Dividend for the year}}{\text{Adjusted number of shares at the end of the year}}$
<b>Dividend payout ratio, %</b>	$\frac{\text{Dividend for the year}}{\text{Earnings (calculated as in earnings per share)}} \times 100$
<b>Price/earnings ratio (P/E)</b>	$\frac{\text{Share price at 31 December}}{\text{Earnings per share}} \times 100$

## KEY INDICATORS

	1997	1998	1999	2000	2001
Net sales, MEUR _____	140.6	149.0	141.3	156.9	196.4
Operating profit, MEUR _____	32.9	28.2	30.8	15.9	24.1
% of net sales _____	23.4	18.9	21.8	10.1	12.3
Profit before extraordinary items, MEUR _____	34.1	30.8	32.9	14.6	21.9
% of net sales _____	24.2	20.7	23.2	9.3	11.1
Profit before taxes, MEUR _____	34.1	30.8	32.9	14.6	20.6
% of net sales _____	24.2	20.68	23.2	9.3	10.5
<b>Balance sheet items</b>					
Shareholders' equity, MEUR _____	140.8	152.8	162.3	160.1	168.2
Interest-bearing debt, MEUR _____	17.5	4.6	13.2	52.9	80.1
Interest-bearing debt / balance sheet total, % _____	5.9	1.5	4.1	14.2	18.9
Gross capital expenditure on fixed assets, MEUR _____	13.8	17.4	61.9	60.6	63.4
% on net sales _____	9.7	11.7	43.8	38.6	32.3
Balance sheet total, MEUR _____	297.8	296.5	318.8	373.3	424.0
<b>Key figures</b>					
Return on investment, % _____	23.6	19.9	19.8	9.4	11.4
Return on shareholders' equity, % _____	18.6	15.0	14.5	5.8	9.2
Solvency ratio, % _____	47.6	51.7	51.0	43.5	40.6
Gearing, % _____	-45.4	-49.6	-28.5	2.2	19.3
Average personnel _____	412	416	424	523	506
Dividend, MEUR _____	10.1	11.1	11.4	5.7	7.5
<b>Per share data</b>					
Earnings per share, EUR _____	1.56	1.40	1.46	0.60	0.96
Dividend per share, EUR _____	0.64	0.71	0.73	0.36	0.48
Dividend payout ratio, % _____	41.1	50.5	50.1	60.0	49.9
Price/earnings ratio (P/E) _____	13.0	14.2	15.8	30.1	31.4
Shareholders' equity per share, EUR _____	8.95	9.71	10.38	10.18	10.69
Adjusted number of shares _____	15,735,930	15,735,930	15,735,930	15,735,930	15,735,930
Number of shares at 31 Dec. (exclud. own shares) _____	15,735,930	15,735,930	15,634,844	15,628,533	15,628,533
Dividend yield, % _____	3.2	3.6	3.2	2.0	1.6
Share price on 31 Dec. _____	20	20	23	18	30
Market capitalization, MEUR _____	317.6	312.3	359.6	281.3	468.7
Trading volume, 1,000 _____	2,041	845	4474	28	92
Trading volume, % _____	13.0	5.4	28.4	0.2	0.6

## SHARES AND SHAREHOLDERS

DEVELOPMENT OF SHARE PRICE, EUR



The company's registered and paid-up share capital at the end of the financial period 2001 was EUR 5,293,186.88, divided into 15,735,930 shares. According to the Articles of Association the minimum share capital is EUR 3,400,000 and the maximum share capital is EUR 13,600,000. Within these limits the share capital may be raised or lowered without amending the Articles of Association. The shares are equal and each entitles the holder to one vote at general meetings.

### THE SHARES ARE HELD IN THE BOOK-ENTRY SYSTEM.

Espoon Sähkö Oyj shares were listed on the Helsinki Exchanges on 24 November 1994. During 2001 a total of 91,827 shares (0.6 percent of the share stock) were traded on the Helsinki Exchanges for a total value of EUR 2,443,846. The average quoted price was EUR 26.61. The highest price during the year was EUR 29.99 and the lowest EUR 15. The closing price on the last day of 2001 was EUR 29.99, giving the company a market capitalization of EUR 468.7 million.

The Annual General Meeting on 5 April 2001 authorized the Board of Directors to buy back a maximum of 786,796 of the company's own shares in public trading on the Helsinki Exchanges. No shares were bought back during 2001. At the end of 2001, the company held a total of 107,397 shares, which corresponds to 0.68% of the equity as well as of voting rights. Shares already held by the company carry no voting or dividend rights.

The company's Board of Directors and Managing Director together hold 450 Espoon Sähkö Oyj shares, which represent 0.003 percent of the total number of shares and voting rights.

The company has not issued bonds with warrants or convertible bonds. The Board of Directors has no current authorizations from the Annual General Meeting to issue new shares.

## BREAKDOWN OF SHARE OWNERSHIP

	Number of shareholders	% of shareholders	% of share and votes
<b>By shareholder category on 31 December 2001</b>			
Companies	36	7.7	28.5
Financial and insurance institutions	2	0.4	0.2
Public entities	4	0.8	69.2
Non-profit organizations	7	1.5	0.1
Private households	420	89.4	0.7
Outside Finland <sup>1)</sup>	2	0.4	1.3
	471	100.0	100.0

### By number of shares owned on 31 December 2001

1 - 100	260	55.2	0.1
101 - 1 000	182	38.6	0.4
1,001 - 10,000	21	4.5	0.4
10,001 - 100,000	4	0.9	1.4
100,001 - 1,000,000 <sup>2)</sup>	2	0.4	2.0
1,000,001 -	2	0.4	95.7
	471	100.0	100.0

	Numbers of shares	% of shares	% of votes
<b>Principal shareholders on 6 February</b>			
1. City of Espoo	5,351,859	34.0	34.2
2. E.ON Skandinavia Aktiebolag	5,351,858	34.0	34.2
3. Fortum Sähkösiirto Oy	4,348,560	27.6	27.8
4. City of Helsinki	70,026	0.4	0.4
5. Municipality of Kirkkonummi	61,572	0.4	0.4
6. City of Kauniainen	60,417	0.4	0.4
7. Avenir erikoissijoitusrahasto Oy	39,701	0.3	0.3
8. Takala Sauli	8,400	0.1	0.1
9. Tuutti Niilo	7,400	0.0	0.0
10. Scholarship fund of Helsinki University of Technology	7,200	0.0	0.0
Nominee-registered	204,950	1.3	1.3
Own shares owned by Company	107,397	0.7	
Principal shareholders, total	15,619,340	99.3	99.3

<sup>1)</sup> Includes shares held in nominee accounts.

<sup>2)</sup> Includes shares owned by Company and shares held in nominee accounts.

# BOARD'S PROPOSAL ON DISTRIBUTION OF PROFIT

The Group's non-restricted shareholders' equity according to the balance sheet on 31 December 2001 totalled 139,155,086.53 EUR, which included distributable funds totalling 79,408,825.93 EUR. Espoon Sähkö Plc's non-restricted shareholders' equity was 84,607,119.44 EUR, which included the profit for the year totalling 17,384,912.17 EUR. The Board of Directors proposes to the Annual General Meeting that a dividend of 0,48 EUR per share, totalling 7,501,695.84 EUR, be distributed on the financial year 1 January–31 December 2001 and that the sum of 77,105,423.60 EUR be carried forward to the retained earnings account.

Espoo, 6 March 2002

Olli Männikkö  
Chairman

Reiner Lehmann  
Deputy Chairman

Jan Bengtsson

Sirpa Hertell

Martti Merra

Yrjö Rossi

Rolf Schmitz

Khennet Tallinger

Matti Manninen  
President and CEO



# AUDITOR'S REPORT

We have audited the accounting records, the financial statements and the administration of Espoon Sähkö Oyj for the accounting period from 1 January to 31 December 2001. The financial statements prepared by the Board of Directors and the President provide a review of operations together with an income statement, balance sheet and notes for the Group and parent company. Based on our audit we express an opinion on these financial statements and on the company's administration.

We have conducted the audit in accordance with the Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. The purpose of our audit of administration is to establish that the Supervisory Board, the Board of Directors and the President have legally complied with the rules of the Finnish Companies Act.

In our opinion the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of

financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations and financial position. The financial statements including the statements for the Group can be approved and the members of the Supervisory Board, the Board of Directors and the President can be discharged from liability for the financial period audited by us. The proposal made by the Board of Directors for the distributable assets is in compliance with the Finnish Companies Act.

We have reviewed the income statements, balance sheet and supplementary information for the separated operations in the notes to the financial statements. In our opinion they have been prepared in accordance with the Electricity Market Act and the Natural Gas Act and the regulations and stipulations required by them.

Espoo, 13 March 2002

Arthur Andersen Oy  
Authorized Public Accountants

Jarmo Lohi  
Authorized Public Accountant

# INFORMATION FOR SHAREHOLDERS

## ANNUAL GENERAL MEETING

The Annual General Meeting of Espoon Sähkö Oyj will be held on Thursday 17 April 2002, beginning at 9.00 pm at the Company's head office, Piispanportti 10, Espoo, Finland. To be entitled to attend the Annual General Meeting, shareholders must be registered in the Company's list of shareholders maintained by the Finnish Central Securities Depository Ltd no later than 5 April 2002.

Shareholders whose shares have not yet been transferred to book-entry accounts are also entitled to attend the Meeting provided they were registered in the Company's share register before 30 September 1994. In this case shareholders must present their share certificates or other evidence that the right to shares has not been transferred to a book-entry account.

Shareholders wishing to attend the Annual General Meeting must notify the Company by 3.00 pm (Finnish time) on Friday 12 April 2001 either in writing to Espoon Sähkö Oyj, Share Register, P.O. Box 109, FIN-02201 Espoo, Finland; or by telephone on +358 (0)205 205 901. Shareholders wishing to vote at the meeting by proxy are kindly requested to ensure that the Company receives their letters of authorization before this deadline.

## PAYMENT OF DIVIDEND

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.48 per share be distributed for the financial year 2001. The record date for dividend payment will be 22 April 2002 and the dividend payment date will be 29 April 2002, should the Board's proposal be approved. Shareholders who have not transferred their shares to the book-entry system by the record date will be paid their dividends when their shares have been transferred to the system.

## FINANCIAL PUBLICATIONS IN 2002

Espoon Sähkö Oyj's annual report is printed in English and Finnish. The Company will also publish quarterly interim reports:

January-March on 14 May 2002,  
January-June on 13 August 2002 and  
January-September on 8 November 2002.

To receive these publications, please contact the Company:  
Espoon Sähkö Oyj, Piispanportti 10, P.O. Box 109,  
FIN-02201 Espoo, Finland.  
Phone +358 (0)205 2050 and  
fax +358 (0)205 205 888.

Financial information on the Company is also posted on its website, <http://www.espoonsahko.fi>



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Scenes: Everyday life in Espoo from morning till evening. In photos: Highway west (Länsiväylä), Emil Halme bakery, Frenckell Printing Works Ltd, building site at Leppävaara, Hyökyvuori Children's theatre (receiver of Espoon Sähkö grant, 2001), a home, and Vermo race track.

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