

STATNETT WILL RANK AMONG EUROPE'S LEADING AND MOST EFFICIENT TRANSMISSION SYSTEM OPERATORS



The General Meeting | Statnett SF is organised pursuant to Act no. 71 of 30 August 1991 relating to State-Owned Enterprises. Its supreme authority is the general meeting, i.e. the Minister of Petroleum and Energy.

The Board | Pursuant to the decision of the general meeting, the board shall consist of between seven and nine members, one of which must be a representative of the power supply industry. Two or three members of the board must be elected by Statnett's employees from among their own number.

The board had the following members in 1999: Anders Utne

(Chairman), Elisabeth Berge (Deputy Chairman), Bente Holm Akselsen, Elisabeth Wille, Jonfinn Fløtre, Sverre Aam.

Elected by the employees: Rolf M. Nyheim, (Kåre M. Storvik, deputy member), Bengt Øverli, (Hallvard D. Thommessen, deputy member), Ole Bjørn Kirstihagen, (Bjørn Solberg, deputy member).

The User Council | Statnett's Memorandum and Articles of Association stipulate that it shall have a User Council. The purpose of the User Council is to contribute to the efficient control of the power grid enterprise's affairs. The Council, in which the most important Main Grid users

participate, has the right to make proposals and recommendations to Statnett's governing bodies. The User Council shall comprise five members, to be appointed by the general meeting.

The User Council had the following members in 1999:

Atle Neteland (Chairman), Willy Bowitz (Deputy Chairman), Håkon Egeland, Helge Stanghelle, Karsten P. Sandvik. The User Council appoints its own Chairman and Deputy Chairman.

Auditor | PricewaterhouseCoopers DA, represented by state authorised public accountant Johnny Skaug, has been elected Statnett's auditor.

Statnett's mission statement | Statnett will rank among Europe's leading and most efficient transmission system operators.

Statnett's business concept | The rational and creative expansion of the infrastructure will yield satisfactory delivery quality and a smooth-running market.



statnett

Electricity cannot be stored and must be used the moment it is generated. A system operator must therefore ensure that supply and demand are in balance at all times. In Norway, Statnett is responsible for co-ordinating supply and demand in the power system. Being a transmission system operator, Statnett owns and operates large sections of the main Norwegian power grid and the Norwegian section of power lines and subsea cables to other countries. Its subsidiary, Statnett Entreprenør AS, carries out assignments in planning, construction and maintenance of Statnett's and other companies' transmission facilities at home and abroad. Statnett owns 50 per cent of the Nordic power exchange, Nord Pool ASA. Statnett SF's operations cover large parts of Norway. Its head office is located in Oslo and its regional offices are in Alta, Sunndalsøra and Oslo. Employees' meeting points for sub-stations can also be found at various locations around the country.

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Highlights 1999

Acquisitions and disposals | **January** | Statnett purchases the 300 kV line between Rendalen and Fåberg from Kraftlaget Opplandskraft. | **June** | Hafslund asa and Viken Energinett AS combine forces to acquire the shares in Energiselskapet Asker og Bærum Nett as. At the same time, Viken Energinett AS and Statnett enter into an agreement whereby Statnett takes over Viken's Main Grid power lines. This applies to the lines from Gudbrandsdalen, Aurland and Hallingdal to Oslo. Hafslund, Viken Energinett and Statnett also sign a letter of intent with Drammen Energinett and Buskerud Energi regarding collaboration. | **December** | Statnett purchases Fåberg sub-station from Hamar-regionen Energiverk (HrE) and K/L Opplandskraft, and at the same time sells sections of the 132 kV Gjøvik-Furnes power line and Furnes sub-station to HrE.

Licences | **January** | Statnett is granted a licence by the Norwegian Water Resources and Energy Directorate (NVE) for the construction and operation of a new 420 kV power line between Skåreheia in Birkenes municipality and Holen power station in Bykle municipality. | Statnett, Sogn og Fjordane Energiverk AS and Firdakraft send pre-notification to NVE of commencement of the concrete planning of a new power line from Fardal to Mel and from Skei to Stakaldefossen. | **May** | Statnett applies for a licence to build and operate an electrode system in Stolsfjorden in Flekkefjord municipality in conjunction with the planned cable interconnectors between Norway and Germany. | The Ministry of Petroleum and Energy upholds NVE's decision to grant a licence for the Follum-Hadeland power line. | Statnett applies for a licence to construct a new 300 kV power transmission line between Verdalen and Fiborgtangen in conjunction with plans for a gas power station and new paper-making machine at Norske Skog's plant in Skogn.

main figures key ratios

Main figures for Statnett SF					
(Amounts in NOK million)	1999	1998	1997	1996	1995
Operating revenues	3 390	3 381	3 311	3 312	3 244
Operating profit	765	807	690	827	654
Profit before tax	551	569	450	587	338
Profit for the year	402	389	359	467	218
Total assets	11 361	11 344	10 543	10 556	11 197
Key ratios for Statnett SF					
	1999	1998	1997	1996	1995
Return on total assets before tax	7.8%	8.1%	7.1%	8.7%	6.6%
Return on equity after tax	10.0%	10.1%	9.4%	13.0%	6.0%
Equity ratio	36.4%	34.4%	36.6%	35.5%	30.8%

Our own facilities | **January** | A 2 x 15 MVar capacitor bank at Istad sub-station near Molde is put into operation. | **March** | A 3 x 25 MVar capacitor bank at Aura sub-station in Sunndalsøra is put into operation. | **April** | The 420 kV power line between Kristiansand sub-station and Skåreheia in Birkenes becomes operational. | A new operations control centre for Region Southern Norway is opened. | **August** | The rebuilt control system at Røykås sub-station starts up. | **November** | The Aslaksrud – Hadeland line, which is included in the reinforcement measures from Follum via Hadeland to Roa, is put into operation. | A new control system for 132 kV at Flesaker sub-station is put into operation.

Transition to the year 2000 (Y2K) | **March** | Companies important to the running of the Norwegian Main Grid report on their preparations for the transition to the year 2000. Statnett is assigned an extended system-wide responsibility by the NVE to supervise the power supply's Y2K preparations. | **August** | The Norwegian power supply passes its first pre-millennium hurdle on 22 August without a hitch. On the night of 21 August, the satellite-based Global Positioning System reaches a critical point for the synchronisation of time in a number of control systems. | **September** | 1 September is the energy companies' deadline for submitting the latest status reports to Statnett. Statnett completes the work on the Y2K audit. The transition to the date 090999 passes smoothly. | **November** | Completion of the work to upgrade, replace and test critical systems in Statnett's stations, telecommunications facilities and operations control centres in order to meet the year 2000. | **December** | The companies with system-wide responsibility in the Nordic region – Statnett, Elkraft, Eltra, Fingrid and Svenska Kraftnät – enter into an

Definition of key ratios

Return on total assets:	$\frac{\text{Operating profit} + \text{financial income}}{\text{Average total assets}}$
Return on equity:	$\frac{\text{Profit for the year}}{\text{Average equity}}$
Equity ratio:	$\frac{\text{Equity at 31 December}}{\text{Total assets at 31 December}}$

Key information for Statnett SF

Number of employees: 528
Rating, short-term: A-1+
Rating, long-term: AAA
Guarantee from the state: NOK 10 billion if the value of the assets exceeds this.
Insurance valuation of our assets in the grid, at May 1999: NOK 29.4 billion.
Dividend policy 1999–2002: A dividend of around 50 per cent of the group's profits after tax is expected (cf. Proposition no. 1 to the Storting 1999–2000).

agreement for a joint operating strategy for the year 2000 changeover. On New Year's Eve, Statnett's information centre reports on how the millennium changeover is proceeding in the countries that lie east of Norway. The reports are conveyed via e-mail and the internet. Some 150 of Statnett's employees are at work on New Year's Eve. The transition to the year 2000 proceeds without a hitch for the Norwegian power system.

Power trading | **April** | The agreement between the parties for the exchange of power between Norway and Germany via Eurokabel is terminated. Statnett and the Dutch company N.V. Sep (Samenwerkende elektriciteitsproductiebedrijven) cancel the development agreement with the Danish cable manufacturer NKT Cables. | **December** | Statnett will now be laying two cables to the Continent, not three as before, because the power trading parties for Eurokabel have terminated the agreement between themselves. This means that there will be no DC installations in the municipalities of Farsund, Flekkefjord and Sirdal. The NorNed cable and the Viking Cable will be routed to Kvinesdal.

Contracts | **December** | Statnett and the Federation of Norwegian Process Industries (PIL) negotiate a new contract for connection to the Main Grid.

International organisations | **May** | Statnett's President and CEO, Odd Håkon Hoelsæter, is elected as the new chairman of Nordel, the organisation for Nordic electric power cooperation, for the term until May 2002. | **July** | President and CEO, Odd Håkon Hoelsæter, is elected chairman of a new organisation for transmission system operators in Europe, ETSO (European Transmission System Operators). ETSO consists of 35 transmission system operators in the EU, Norway and Switzerland. □

Primary objectives

Finance and capacity | We will :

- achieve a minimum 8.3 per cent return on total assets
- meet the targets of the "Statnett 2000" rationalisation programme
- increase the load limits in the Main Grid by 10 per cent and reduce the unit capacity costs in the grid by 15 per cent by 2008
- increase our holding in the Main Grid to 100 per cent and continuously adapt to developments in the Nordic grid structure

Quality and reliability | We will :

- ensure that the number of faults in the Main Grid involving disruptions to the end user do not exceed 20 and do not produce more than 1000 MWh undelivered energy annually
- ensure that each Main Grid connection point has an acceptable voltage level and no more than one disruption per year due to faults in Statnett's own facilities

Customers and the market | We will :

- gain acceptance of our role as a transmission system operator and be the preferred owner of Main Grid installations
- ensure that our customers are satisfied with our openness and collaboration

Employees | We will :

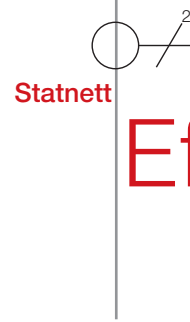
- employ highly-qualified staff who are open and committed to working as part of a team
- employ managers who motivate their staff, set clear goals and follow these up
- be a workplace that boasts a minimal risk of personal injury, with an injury-absentee frequency (H-value) below 5

Environment and society | We will :

- attach as much importance to nature and the environment as to operational, technical and financial considerations
- communicate with the general public to create greater understanding of our activities
- pursue a constructive dialogue with the authorities to develop our general and business economic framework conditions □



we will: be a workplace that boasts a minimal risk of personal injury



Efficient infrastructure

Electricity cannot be stored, but must be generated at the same time as it is to be used. And the only way in which we can transport this commodity, is through a transmission network of power lines. Statnett is the

Norwegian, national co-ordinator monitoring that power is generated in equal amounts as is used and providing buyers and sellers with the necessary transport route. Statnett makes the grid available for an

open power market and ensures that physical limitations are kept to. This transmission system is the physical marketplace for electric power.

Statnett is a transmission system operator. The company owns approximately 80 per cent of the electricity supply's "highways", i.e. the Main Grid, and conducts the electricity in this transmission system in such a way that the system is utilised to its fullest. Statnett's business concept is that the rational and creative expansion of the infrastructure will yield satisfactory delivery quality and a smooth-running power market. Statnett's clients are power producers, large energy companies and a handful of large industrial clients who are directly connected to the nation-wide Main Grid.

Leading-edge expertise | Statnett attaches great importance to displaying leading-edge expertise in the transmission and co-ordination of power. The enterprise is organised in such a way as to maximise the exploitation of synergies through a strong, unified professional environment in order to operate and develop this infrastructure. This, in turn, yields efficiency gains and contributes to a rational low-cost transmission system. For several years, Statnett has particularly concentrated on rationalising the enterprise, e.g. through the "Statnett 2000" programme. This concentrated focus on efficiency is now yielding impressive results in comparison with

other similar enterprises in Europe and indeed the rest of the world.

Neutrality | A strong and neutral transmission system operator is a prerequisite for the further development of the power market. The fact that the various players in this market – producers, sellers and consumers alike – do not have the opportunity to unduly influence the power transmission system is important if there is to be confidence in the market. Moreover, a nation-wide Main Grid for the transmission of electricity has a price-levelling effect. Thus, geographical location will not affect competitive chances. The system is designed to facilitate the establishment of regional companies. | Gradually, as more and more European countries prepare for a competitive power market, we are seeing that transmission system operators of the same type as Statnett are being set up in order to make the newly opened markets work.

Construction, power exchange and telecommunications | In addition to its core operations, Statnett offers to build, operate and maintain power lines through its subsidiary Statnett Entreprenør AS, and also to carry out other activities that utilise the company's expertise. The Statnett Rederi AS

subsidiary owns two vessels, the cable-laying vessel Skagerrak and the heavy-transport vessel Elektron. Statnett also owns 50 per cent of the Nordic power exchange, Nord Pool ASA, and around 14 per cent of the telecommunications company Enitel.

Framework and risk | Statnett was formed on 20 December 1991, is owned by the Norwegian State and is organised as a state-owned enterprise (SF), in accordance with the act relating to State-Owned Enterprises of August 1991. The Ministry of Petroleum and Energy administers the responsibilities of the state as the owner. The State-Owned Enterprise Act and the Norwegian Companies Act have much in common. One important difference, however, is that the state guarantees that it will meet the state-owned enterprise's obligations. This guarantee is part of the enterprise's Memorandum and Articles of Association. | Statnett's core operations are monopoly-based, and the revenues are regulated by revenue ceilings set by the Norwegian Water Resources and Energy Directorate (NVE). Operations exposed to competition are organised as separate companies. Statnett SF has been awarded the highest possible credit rating (AAA) by the rating agency Standard & Poor's. □

President and CEO Odd Håkon Hoelsæter:



Serving the market

The objective of all our activity is to lay the foundations for the optimum functioning of the power market. Our stake in the nationwide Main Grid for electric power as well as our responsibility for the development and co-ordination of the Norwegian power system are important tools in this respect. With both system-wide responsibility and our own grids, we have a wide range of means from which to choose – whether this entails building facilities for the transmission of electricity or agreements with producers and consumers. We will select the option that gives the market the best financial solution.



we will: ensure that our customers are satisfied with our openness and collaboration

The overall operations will be as efficient as possible by striking a co-ordinated and unified balance between increased utilisation of existing grids and expansion. At the same time, this ensures that socio-economically correct investments have the shortest possible implementation times. | As a transmission system operator, we are also able to guarantee neutrality. For example, we prevent individual players from influencing the running of the Main Grid to the detriment of other players. | Our emphasis on socio-economic criteria does not conflict with commercial considerations, provided the system of revenue regulation set by the Norwegian Water Resources and Energy Directorate (NVE) facilitates a structure for investments that complies with socio-economic developments such as these.

Quality in the short-term | Our aim is to develop and operate the Main Grid for electric power to the advantage of Norwegian consumers – whether this is the business sector, the public sector or households. Maintaining a high quality “transmission service” is therefore a major concern. | By high quality we mean that Norwegian consumers will be given satisfactory access to electricity in the short and long-term. Statnett’s task in this respect is to satisfy the need of the various players in the power market for power transmission, and to ensure that the technical quality requirements for frequency, voltage and risk of disruptions are met. | In the short term, Statnett paves the way for an efficient power market and co-ordinates the generation and consumption of electricity in line with NVE’s guidelines for system-wide responsibility. As part of this, Statnett must secure access to sufficient reserves from the power producers to be able to swiftly increase power production when faults or other special

circumstances disturb the equilibrium the system requires. We have also hammered out agreements with major consumers in the industry for them to be disconnected in the event of unforeseen events such as these.

Quality in the long-term | In the long term, this quality will be maintained by implementing socio-economically sound investments in power lines, cables and stations for the transmission of power. Statnett also assesses the future balance of output and energy, warns the authorities of any unfortunate developments and proposes necessary measures. | We are now seeing a risk of a future shortfall of power – both energy and output – in Norway. In the event of extremely cold weather across large parts of Scandinavia, we are already at risk of there being insufficient production capacity to meet the immediate need. This, combined with the growth of the European power markets, means that we need improved capacity to exchange power with abroad. In this context, Statnett considers securing the construction of subsea cables between Norway and the Continent extremely important. We are also looking into the possibility of a cable between Norway and the UK. | We are also working on improving conditions in the Nordic power market, through a closer collaboration between the transmission system operators. | Part of the work to secure the quality of the power supply in the long term is also our commitment to improving the current method of regulating the grid companies’ revenues. We believe that the current model must be adapted so that it is profitable to invest in higher capacity and improved grids when there is a socio-economic need for this.

We will suggest concrete proposals and continue our talks with NVE to achieve this.

Increased efficiency | In order to do our job not only to a high standard, but also at a low cost, we will continue our work to rationalise our core operations. In this respect, we will complete “Statnett 2000”. The aim of this programme is to reduce annual costs by NOK 200 million by the year 2002. | Risk assessment is important to cost-efficient operations. Furthermore, co-ordination and synergies are key words for our method of organising the tasks as a transmission system operator. We are working to further improve our organisation according to this principle in order to achieve additional increased efficiency gains. | We also believe that we can run the Main Grid more cost-efficiently if we own the entire grid. We currently own around 80 per cent, and 26 other owners have a varying share of the remaining 20 per cent. By becoming the sole proprietors of the grid at this level, we can both operate more efficiently, in pure administrative terms, and more easily further develop the grid as a whole from an overall socio-economic standpoint.

Environmental responsibility | Statnett also has a duty to the environment. Our activities have impacts on the environment, the most important probably being that power lines take up free land. We will prioritise nature and the environment on an equal footing with operational, technical and financial considerations. Our work to increase the utilisation of existing capacity is also important in an environmental context, as it reduces the need for new lines. Statnett pursues an aggressive environmental policy and publishes its own environmental report.

we will: employ managers who motivate their staff, set clear goals and follow these up



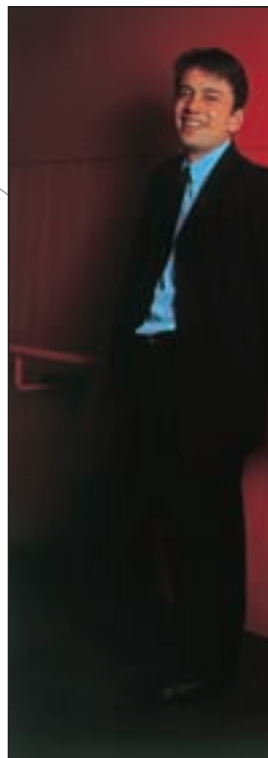
Elisabeth Berge
Deputy Chairman



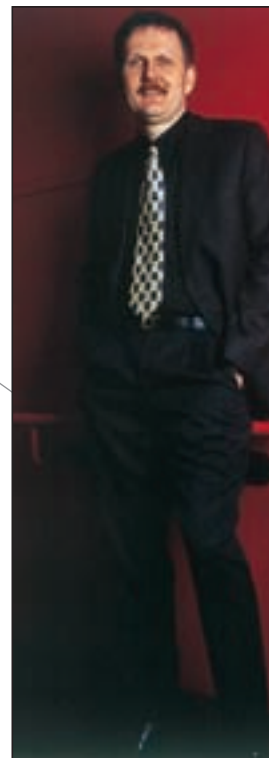
Sverre Aam
Member of the Board



Bente Holm Akselsen
Member of the Board



Rolf Magne Nyheim
Member of the Board



Ole Bjørn Kirstihagen
Member of the Board



Bengt Øverli
Member of the Board

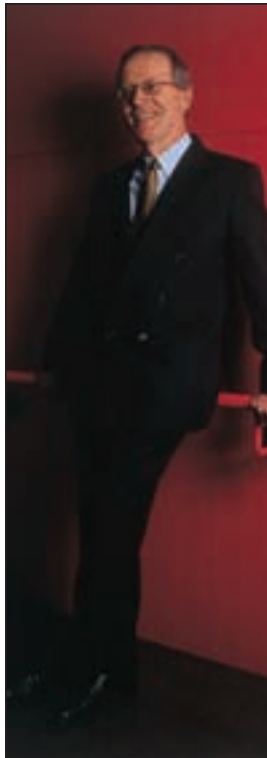


Elisabeth Wille
Member of the Board



Jonfinn Fløtre
Member of the Board

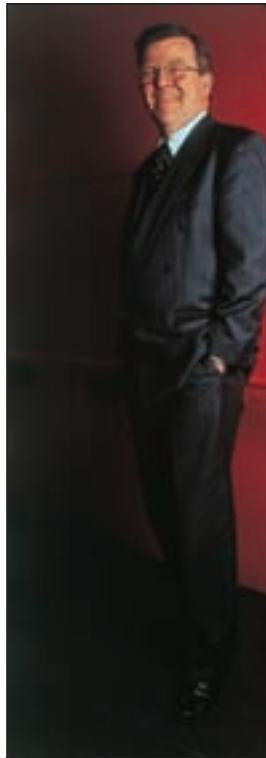
• Report of the board



Anders Utne
Chairman of the Board



Atle Neteland
Chairman of the User Council



Odd Håkon Hoelsæter
President & CEO

Norway's access to electric power; both immediate production capacity and the supply of energy over time presents major challenges for Statnett as the transmission system operator. Sufficient availability of electricity, coupled with a high quality and low-cost transmission service, is a constant focus area for the Board of Statnett. The company attaches great importance to helping to solve these challenges in partnership with customers and authorities.

Statnett is the transmission system operator in Norway. Through the rational development of the infrastructure the company will optimise the conditions on the power market and ensure the reliable transmission of electric power. Statnett's head office is in Oslo, whilst the nation-wide network of power lines is operated across large parts of Norway. In conjunction with its consideration of the energy report (White paper no. 29 (1998-99)) the Norwegian Parliament (Storting) reiterated Statnett SF's responsibility for system security in the Norwegian power system both in the short and the long-term, and the company's responsibility for investments in the Main Grid. Statnett's core

operations are divided into two business areas; System Operator and Grid Owner. Both business areas aim to pave the way for a smooth-running power market. The System Operator business area has been accorded overall responsibility for co-ordinating the operation of the Norwegian power system, power system planning and the role of operator of the Main Grid. The Grid Owner function comprises activities relating to the planning, construction and operation of the company's own power lines, cables and stations for the transmission of electric power. Statnett also has the wholly-owned subsidiaries Statnett Entreprenør AS and Statnett Rederi AS, and owns 50 per cent of the Nordic power exchange Nord Pool ASA. Statnett also carries out a range of other tasks relating to the co-ordination of the Norwegian power system.

Statnett's financial situation

Financial performance The Statnett group recorded a profit after tax of NOK 415 million in 1999, against NOK 475 million in 1998. Grid Owner achieved an operating profit of NOK 812 million, whilst System Operator suffered a loss of NOK 57 million. The System Operator's poor results are due in part to the higher costs resulting from the co-ordination of the power sys-

tem than allowed for in the authorities' revenue ceiling and in part due to a repayment of the System Operator's distributed lower revenues for previous years to other owners of Main Grid installations. The Engineering and Construction activities are divided into two companies; Statnett Entreprenør AS and Statnett Rederi AS. Whilst Statnett Entreprenør performed well in 1999, Statnett Rederi suffered a loss. The disappointing results are attributable to low rates due to stiff competition for the shipping company's typical assignments in 1999. In total, the engineering and construction operation contributed with a pre-tax loss of NOK 48 million, following around NOK 43 million in write-down of vessels. The Power Exchange business area (50 per cent of Nord Pool ASA) recorded a higher than expected profit of NOK 23 million before tax. The Main Grid accounts are to break even over time. Deviations from this are recorded as higher or lower revenues and are normally incorporated in the following year's budget in the form of higher or lower prices for energy transmission. In 1999, the Main Grid Commercial Agreement produced higher revenues of NOK 155 million. The agreement accumulated lower revenues of NOK 446 million at the beginning of the year were down to almost NOK 291 million by the end of the year. The accounts are based on the premise of the company's continued operation.

Balance sheet, cash flow and liquidity At the turn of the year Statnett's total assets amounted to NOK 11,361 million, NOK 7,137 million of which was debt. Interest rate and currency swaps are used to reduce financial risk. At 31 December 1999 the company's equity totalled NOK 4,131 million, giving an equity ratio of 36.5 per cent. Statnett's anticipated future investments will mean a substantial increase in total assets over the next five years. This applies to investments in new cable interconnectors to the Continent and reinforcements of our domestic grid. Solid finances combined with a good equity ratio and the fact that as our owner the government guarantees our

liabilities within set limits, create a crucial basis for raising new loans. Statnett now has the highest possible credit rating from two rating agencies for its long-term loans. Our major foreseeable future investments will produce a slightly lower equity ratio at times. However, our financial strength is expected to remain satisfactory throughout the whole of the coming investment period. Statnett SF's net cash flow for 1999 showed a deficit of NOK 16 million. Statnett's operations showed a positive cash flow of NOK 1,023 million, NOK 730 million of which was used for investments. Financing activities including dividends led to net payments totalling NOK 309 million. At the turn of the year, the current assets in Statnett SF amounted to NOK 1,555 million, NOK 883 million of which were liquid assets. Other current assets mainly consist of trade accounts receivable. The company's current liabilities totalled NOK 1,146 million. The Board regards the company's cash position as sound.

Revenue ceilings The revenue ceiling (upper limit for revenues derived from monopoly functions) is set annually by the authorities for each grid company. In conjunction with this, an increased-efficiency requirement of between 1.5 and 4.5 is also set. For 1999 the authorities initially set Statnett's increased efficiency requirement at 4.08 per cent for the operation of Statnett's own Main Grid and regional grid facilities and 1.5 per cent for the Skagerrak cables and the operator function respectively. Statnett disagreed with the level at which the requirements were set and lodged an appeal against the decision with the Norwegian Ministry of Petroleum and Energy. The matter has yet to be resolved. In November 1999, Statnett was awarded a new decision regarding the revenue ceiling for 1997-1999, which entailed two structural changes. Firstly the Skagerrak cables between Norway and Denmark were eliminated from revenue regulations and secondly the ceilings for Grid Owner and System Operator (with the exception of physical losses in the Main Grid) were merged,

and a new weighted efficiency requirement was set at 3.91 per cent. The increased efficiency requirement for losses in the Main Grid has been set at 1.5 per cent. During the course of 1999 Statnett acquired facilities from Viken Energinett AS, which had a lower efficiency requirement than its own facilities. To take account of this, the efficiency requirement for Statnett for 2000 has been set at 3.82 per cent. The increased efficiency requirement for losses in the Main Grid has stayed at 1.5 per cent.

Socio-economic profitability Statnett seeks socio-economically profitable solutions to its tasks, whilst at the same time conducting its operations according to commercial principles. Business-economic profitability will also depend on the general framework terms and conditions achieved by the company and the revenue system set up by the Norwegian Water Resources and Energy Directorate (NVE) for grid companies in particular. Statnett aims to implement socio-economically profitable projects and at the same time be instrumental in ensuring that the framework terms and conditions are formulated with the greatest possible degree of harmony between socio-economic and business-economic profitability. In its consideration of the energy white paper, the Norwegian Parliament stated that Statnett's investments must contribute to lower returns in some situations, but maintained that "However, over time, grid companies' revenues must cover the costs of the operation and depreciation of the grid, and also yield a reasonable rate of return on capital invested through efficient operations." The Board is pleased to note this.

Commercial transactions

Acquisition and disposal of transmission facilities In 1999 Statnett acquired numerous Main Grid facilities for the transmission of electric power and at the same time sold a number of regional transmission installations. The largest acquisition was the purchase of Viken Energinett's Main Grid lines. This coincided with Statnett, Viken Energinett and Hafslund signing a letter of

intent for a collaboration with Drammen Energinett and Buskerud Energi. Statnett also acquired the 300 kV power line between Rendalen and Fåberg from K/L Opplandskraft as well as Fåberg substation from Hamar-regionen Energiverk (HrE) and K/L Opplandskraft. Sections of the line between Furnes and Gjøvik together with Furnes substation were sold to HrE. Statnett aims to own the entire Main Grid.

Monitoring the operations

Rationalisation Increasing efficiency has been a priority area for Statnett for several years. The company aims to reduce the total annual costs by NOK 200 million compared with 1997 and to cut costs by NOK 150 million in 2000. Close to NOK 100 million will be cut from operating costs, whilst the rest will be made up from cuts in engineering and acquisition costs. The goal leading up to the year 2002 is to cut costs further to achieve the overall target of NOK 200 million. The approved plans for 2000 show that the rationalisation programme is on target.

Rationalisation measures have been implemented in close collaboration with the employees' organisations. One goal has been to avoid staff redundancies and to achieve the necessary staff cutbacks through natural departures and voluntary arrangements. We are therefore pleased to report that this goal has been achieved.

Stable operations In terms of operations, 1999 was a quiet year with no major events occurring. The weather presented few challenges, and no disruptions of facilities in the Main Grid had serious consequences. On the whole, temperatures were slightly higher than in the "base year", and together with sufficient precipitation meant that there was a satisfactory availability of energy. A period of slightly colder weather towards the end of the year caused consumption to approach the maximum availability of production capacity in the Norwegian market. At its peak, consumption reached some 21,000 megawatts (MW).

Availability of production capacity Statnett closely moni-

tors the relationship between the mounting demand for power featuring high consumption peaks and available production capacity (balanced capacity). At current capacity, a simultaneous spell of cold weather in Sweden and Norway would create problems in meeting the demand in Norway. The problem of a marginally balanced capacity has been raised with the authorities on several occasions. Statnett has been in contact with NVE to look into measures that can be implemented to improve the capacity balance and deal with any difficult operational situations that may arise in the future due to high consumption or other factors. The Ministry of Petroleum and Energy has granted Statnett the authority to disconnect consumption should this be necessary. Statnett is also working to forge agreements with major consumers, to enable them to disconnect or reduce their consumption as required. In January/February 2000, agreements such as these were signed with Norsk Hydro and Norske Skog. Work has also been undertaken to develop a separate regulating power market in which major consumers can report the price they want to be paid to disconnect or reduce their consumption, as a supplement to the ordinary regulating power service whereby producers quote prices in order to regulate power generation. Agreements for reducing and disconnecting consumption are important alternatives and supplements to the expansion of both transmission facilities and production capacity. In order to come up with arrangements that can also exploit the potential in the end user market, it is vital that systems for two-way communication are developed. With this in mind, Statnett, in association with other energy companies, has initiated a project at SINTEF Energy Research.

Working with our customers A new contract was signed in 1999 regarding connection to the Main Grid for those of Statnett's customers who are members of the Federation of Norwegian Process Industries (PIL). The agreement can also

be used by other customers. Collaboration was also initiated with the customer organisations PIL and SFO (organisation for Statnett customers) with a view to changing the current pricing structure for use of the Main Grid. This work is due to be completed during the course of 2000.

Priority areas in 1999

Cables to the Continent and grid reinforcements Measures to reinforce the Main Grid in conjunction with power trading with the Continent have been instigated, and a new 300 (420) kV line between Kristiansand substation and the Evje area was put into operation in April. Other grid reinforcements are being planned in line with the progress of these cable projects. The joint venture between the cable companies Viking Cable and EuroKabel for the construction of a bipole interconnector between Norway and Germany has been terminated following the German company EST EuroStrom Trading's cancellation of the power trading agreement with EuroKraft Norge. Consequently, all practical project work at EuroKabel was called to a halt. Following the cessation of the joint venture with EuroKabel, Viking Cable has decided to implement the Viking Cable project as a monopolar link with metallic return between Fedaa in Norway and Brunsbüttel in Germany. This means that the licence application must be amended for a new route to be brought ashore in Norway. Viking Cable has entered into an agreement with Pirelli and Alcatel for cable supplies. Agreements for supplying rectifiers and installation work are expected to be entered into before the end of 2000. The project is scheduled for completion at the end of 2004. The development contract with the cable supplier NKT Cables for the NorNed project was cancelled due to delays in the development work and a lack of construction licences in the Netherlands. The most important licences have now been obtained. The parties have decided to report the project to the EU authorities, which means that the project will not be com-

pleted until the end of 2004 at the earliest. Whilst the EU has been notified, negotiations are underway to purchase the remaining supplies for the project.

Commercial telecom operations Statnett played a pivotal role in the formation of the telecom company Enitel, and channels all of its commercial telecommunications business through this company. Statnett owned approximately 30 per cent of the company when it started up in 1996. By the turn of the year, the company had reduced its stake to around 14 per cent. This reduction is a result of issues in the company in which Statnett has not participated. The capital invested in the company by Statnett has seen a substantial increase in value in the last year.

Transition to the year 2000 Power supply is essential to most vital functions in society. Our industry has therefore invested heavily in preventing and solving IT problems that could otherwise threaten delivery reliability in the transition to the year 2000 (Y2K). It gives us great pleasure to be able to report that the Norwegian power supply had a smooth transition to the year 2000.

The environment In its environmental strategy, Statnett stresses the importance of the efficient and environmentally-friendly development and utilisation of the electric power system. The environmental strategy requires environmental considerations to be treated on the same level as operational, technical and financial considerations in the planning, construction and operation of transmission systems. Statnett considers it extremely important to identify solutions that exploit today's network of power lines to the greatest extent possible,

in order to avoid or postpone the expansion of new power lines and stations. The company also strives to take aesthetic considerations into account when choosing routes, pylons and lines, and has used dark-coloured materials on the line between Kristiansand and the Evje area to make some stretches as inconspicuous as possible. Environmentally-harmful substances are disposed of in accordance with the authorities' requirements and guidelines. Statnett follows the authorities' recommendations regarding the possible health hazards of the electric and magnetic fields that surround power lines. Statnett has adopted a "moderate policy of caution" in its developments and also supports research in independent institutions. For further information on relevant environmental issues, see Statnett's environmental report.

Organisational matters

Internal organisation At the turn of the year 1999-2000, there were 819 permanent employees in the Statnett group, compared with 886 employees the previous year. 528 of these were employed in the parent company and 291 in the subsidiary Statnett Entreprenør AS. The change has been brought about by the measures implemented as part of Statnett's rationalisation programme. In the autumn of 1999, work began to improve the company's internal organisation. According to the plan, this will result in organisational changes in the first half of 2000.

Safety and the internal working environment In 1999 the Statnett group had 10 injuries resulting in absence from work, compared with 20 the previous year. The injury-absentee frequency (H-value) was 6.59 compared with 11.97 in 1998.

This frequency is an expression of the number of personal injuries resulting in absence from work per million working hours. The number of injuries resulting in absence has seen a steady decline in the last year. We attribute this to the major efforts in preventive measures, such as improved reporting procedures, work to change attitudes and an enhanced focus on safety in instructions and work descriptions. Absence due to illness for the Statnett group in 1999 equalled 4.8 per cent, compared with 4.1 per cent the year before. Statnett SF's absence due to illness was 3.3 per cent. An initiative has been undertaken in all units with an absence level of above 3.5 per cent with a view to analysing the causes and considering measures to reduce the absence due to illness in the short and long-term. Active sick leave has been utilised to a greater extent as a tool for early work training and return to a normal work situation.

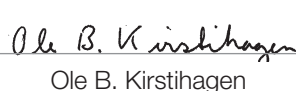
Allocation of profits In its proposed budget for 2000, the Norwegian Government outlines a dividend policy for Statnett until the year 2002 inclusive. The proposal means that the State as owner will receive a dividend of 50 per cent of the group's profits. The Board therefore proposes that the profit in Statnett SF be allocated as follows:

(Amounts in NOK million)

Dividend:	208
Group contribution made:	23
Retained profits:	171
Total:	402

Oslo, 16 March 2000


Jonfinn Fløtre


Ole B. Kirstihagen


Elisabeth Wille


Rolf Magne Nyheim


Bengt Øverli


Sverre Aam


Elisabeth Berge
Deputy Chairman


Anders Utne
Chairman


Odd H. Hoelsæter
President & CEO

PARENT COMPANY				GROUP	
1999	1998	(Amounts in NOK million)	Notes	1999	1998
		Operating income			
2 467	2 465	Power transport	5	2 467	2 442
831	850	Power sales	5	5 199	4 243
92	66	Other operating income	5	308	259
3 390	3 381	Total operating income		7 974	6 944
		Operating costs			
880	899	Power purchases and system services	6	5 337	4 359
170	209	Transmission losses		81	118
352	360	Leasing of transmission facilities		352	360
134	112	Materials and subcontractors	7	112	72
197	275	Wages and social security costs	7, 8, 9	304	356
484	455	Depreciation	10	494	464
107	-	Write-downs	7	107	-
301	264	Other operating costs	7	387	354
2 625	2 574	Total operating costs		7 174	6 083
765	807	Operating profit		800	861
127	82	Financial income	11	117	120
341	320	Financial costs	11	342	320
214	238	Net financial items		225	200
551	569	Profit before tax		575	661
149	180	Tax	18	160	186
402	389	Profit		415	475
Information on allocations:					
208	350	Dividend		208	350
23	16	Group contributions made after tax		-	-

PARENT COMPANY				GROUP	
1999	1998	(Amounts in NOK million)	Notes	1999	1998
		Assets			
		Intangible assets			
54	49	Deferred tax benefit	18	84	83
		Fixed assets			
8 926	8 367	Tangible fixed assets	10	8 965	8 407
313	551	Plant under construction	7	362	630
126	103	Investment in group companies	12	30	30
142	158	Investment in other shares and holdings	12	178	201
191	237	Loans to companies in the same group	17	-	-
49	-	Other long-term receivables	13	60	-
5	-	Pension funds	9	5	-
9 752	9 416	Total fixed assets		9 600	9 268
		Current assets			
640	864	Trade accounts receivable	13	910	1 058
18	52	Intercompany accounts receivable	17	-	-
14	64	Other short-term receivables	13	37	69
883	899	Liquid assets	14	987	1 093
1 555	1 879	Total current assets		1 934	2 220
11 361	11 344	Total assets		11 618	11 571

PARENT COMPANY				GROUP	
1999	1998	(Amounts in NOK million)	Notes	1999	1998
		Liabilities and equity			
		Equity			
2 700	2 700	Contributed capital		2 700	2 700
1 431	1 237	Other equity		1 449	1 243
4 131	3 937	Total equity	19	4 149	3 943
		Allocations for liabilities			
93	104	Pension liabilities	9	126	137
		Long-term liabilities			
2 540	1 800	Bond issue	15	2 540	1 800
2 001	2 401	Governmental loans	15	2 001	2 401
1 396	1 695	Loans from financial institutions	15	1 396	1 695
54	58	Other long-term liabilities	16	66	70
5 991	5 954	Total long-term liabilities		6 003	5 966
		Current liabilities			
341	325	Trade accounts payable		584	591
147	143	Intercompany accounts payable	17	-	-
149	180	Tax payable	18	165	185
113	96	Tax payable, holiday allowances		127	116
208	350	Dividend allocated		208	350
188	255	Other current liabilities		256	283
1 146	1 349	Total current liabilities		1 340	1 525
11 361	11 344	Total liabilities and equity		11 618	11 571
1	1	Secured liabilities, guarantees	20	1	1
		Financial derivatives	3		


Anders Utne
Chairman of the Board


Elisabeth Berge
Deputy Chairman


Bente Holm Akselsen


Elisabeth Wille


Sverre Aam


Jonfinn Fløtre


Ole Bjørn Kirstihagen


Bengt Øverli


Rolf Magne Nyheim


Odd Håkon Hoelsæter
President and CEO

cash flow statement

CASH FLOW STATEMENT

PARENT COMPANY			GROUP	
1999	1998	<i>(Amounts in NOK million)</i>	1999	1998
		Cash flow from operations		
551	389	Profit before tax	575	475
-51	6	Profit/loss from sale of fixed assets	-30	4
484	455	Ordinary depreciation	494	464
240	-502	Change in trade receivables/payables	141	-453
-201	-196	Change in other accrual items	-202	-213
1 023	152	Net cash flow from operations	978	277
		Cash flow from investments		
36	55	Receipts from sale of fixed assets	38	61
-1 058	-364	Payments from purchase of fixed assets	-1 067	-375
238	-232	Change in stocks, plant under construction	268	-250
31	2	Change in long-term borrowings	-60	-
23	-162	Change in share investments	46	-195
-730	-701	Net cash flow from investments	-775	-759
		Cash flow from financing activities		
1 550	1 070	Receipts from new long-term loans	1 550	1 070
-1 509	-400	Repayments of long-term debt	-1 509	-400
-350	-196	Dividends paid	-350	-196
-309	474	Net cash flow from financing activities	-309	474
-16	-75	Net cash flow for period	-106	-8
899	974	Cash and cash equivalents at beginning of period	1 093	1 101
883	899	Cash and cash equivalents at end of period	987	1 093

NOTE 1 – ACCOUNTING PRINCIPLES**General**

The accounts for the parent company and the Group have been prepared in accordance with the Norwegian Act of 17 July 1998 regarding annual accounts as well as generally accepted accounting standards, including the recommendations of the separate accounting memorandum for power supply companies issued by the Oslo Stock Exchange.

Basis of consolidation*Consolidated companies*

The consolidated accounts include the parent company and the wholly-owned subsidiaries Statnett Entreprenør AS and Statnett Rederi AS in addition to Statnett Skagerrak AS which is wholly owned by Statnett Rederi AS.

The wholly-owned subsidiary Statnett Forsikring AS is not included in the consolidated accounts as the company's operations differ substantially from those of the rest of the Group.

In addition, the three jointly-controlled companies mentioned below, in which Statnett has a 50 per cent shareholding and a majority controlling interest, are included.

Investments in jointly-controlled companies

The parent company owns 50 per cent of Nord Pool ASA, Viking Cable AS and Eurokabel AS.

Investments in jointly-controlled companies are dealt with using the cost method in the parent company accounts and the gross method in the consolidated accounts.

Elimination of internal transactions

All transactions and outstanding items between the companies in the Group have been eliminated.

Elimination of shares in subsidiary companies

Shares in subsidiaries have been eliminated in accordance with the purchase method. The wholly-owned subsidiaries have been formed by the parent company.

Investments in associated companies

Investments in associated companies in which the Group holds between 15 and 50 per cent of the voting shares and where the company has a substantial controlling interest (associated company) are dealt with using the cost method in the parent company accounts and the equity method in the consolidated accounts.

Investments in other companies

Investments in companies in which the Group owns less than 15 per cent of the voting shares are dealt with using the cost method.

Principles for the recording of income and expenses in the accounts

Income/expenses are charged as they are earned/incurred.

Main Grid Commercial Agreement (power transmission)*Power transmission revenues*

The input and withdrawal of power from the Main Grid is invoiced to consumers in accordance with the stipulated price system.

The price system consists of a fixed element and a variable element (amount of electricity x price of electricity). The fixed element is recorded as revenue at regular intervals during the period, while the variable elements are recorded according to the rate of input or withdrawal of electricity from the grid.

Price regulation

The Main Grid Commercial Agreement shall break even over time. Any higher/lower revenues from the operation of the Main Grid are calculated into and recouped/covered through prices in subsequent years. Higher/lower revenues have been included in the accounts on the accruals basis as trade accounts payable and trade accounts receivable respectively.

Leasing of Main Grid facilities

Statnett owns most of the overall Main Grid. The remainder is leased from other owners. The leasing costs are recorded in the accounts as a separate item under operating costs. The leasing of Statnett's Main Grid facilities has been eliminated in the parent company accounts.

Common regional grid

This is dealt with in the accounts in the same manner as the Main Grid Commercial Agreement.

System Operator*Revenues*

Up until November 1999 Statnett had a separate revenue ceiling for systems operation. NVE then passed a new resolution regarding Statnett's revenue ceilings, whereby a separate revenue ceiling was stipulated for transmission losses in the Main Grid. The rest of the systems operations ceiling was merged with Statnett's revenue ceiling as grid owner. In the accounts for 1999 Statnett's new revenue ceiling has been split between grid owner and system operator according to the original ceilings.

The revenue ceiling for transmission losses is adjusted at year-end in accordance with the actual spot price for electricity over the year. This correction is calculated and included in the accounts.

The revenue ceilings for systems operations is a corresponding cost in the Main Grid Commercial Agreement and common regional grids. This has been eliminated in the financial accounts.

Pursuant to the guidelines, the difference between the revenue ceiling for transmission losses and the actual costs shall be divided between the owners of the installations in the common grids. In the accounts, it is assumed that other operators in the Main Grid will cover a share according to their revenue ceiling for 1999.

Transmission losses (power purchases)

Expenses are charged in line with the measured difference between the input and withdrawal of electricity in the Main Grid.

The amount of loss per hour will vary inter alia according to temperature, load on the grid and the price of electricity.

Loss in conjunction with power transmission on the Main Grid and the common regional grids is covered by the system operator and recorded in the accounts as an ordinary operating cost.

Grid Owner*Recording of revenue*

As of 1997, NVE has introduced a new regulatory system whereby grid revenues are regulated by means of a stipulated revenue ceiling. The revenue ceiling for 1999 is based on cost levels in 1994/1995, adjusted for inflation, an increase in energy transmission in the grid and an efficiency factor of 3.91 per cent for 1999 compared with 1.5 per cent in 1998. Grid Owner's average return for 1997-2001 must be between 2 per cent and 15 per cent. Earnings above this maximum level shall be refunded to customers, while earnings below the minimum level can be charged to customers.

Statnett's facilities are divided into the following grid levels: the Main Grid, regional grids and the cables to Denmark. The revenue ceiling was divided by Statnett between these grid levels (accounts appear under Statnett's business areas). During the course of 1999 the cables to Denmark were excluded from monopoly regulations, and the share of the original revenue ceiling was separated, with effect from 1997.

Revenues are recorded in the accounts as they are earned. In the case of the Main Grid and regional grids, 1/12 of the revenue ceiling is recorded in the accounts every month. Revenues from the cables to Denmark are based on contracts.

Higher/lower revenues for the Main Grid and regional grid facilities are dealt with separately in accordance with guidelines from NVE. At the end of 1999, the grid owner had no higher/lower revenues from Main Grid facilities. For regional grid facilities, invoiced revenues have been in accordance with leasing rates which, taken as a whole, have been lower than the revenue ceiling. Accumulated lower revenues for regional grid facilities at the end of 1999 total NOK 23 million. The difference is recorded as an accrued revenue and appears in the balance sheet as a trade account receivable, and will be charged to customers in subsequent years.

Power sales/purchases

Revenues/costs are recorded as they are earned/accrued, i.e. at the time of delivery.

Customer projects

Revenues from projects are recorded on an ongoing basis. This means that they are recorded in the accounts as the work is performed according to the degree of completion – i.e. the share that has built up of the project's estimated earnings is treated as revenue. The degree of completion is determined on the basis of the production carried out.

For projects which are expected to run at a loss, the whole of the estimated loss is charged as a cost. Guarantee liabilities are charged as a cost.

Maintenance/Upgrades

Maintenance costs are recorded as they are incurred. Provisions have only been made for periodic maintenance of the Group's vessels. Costs that substantially extend the life of the facility and/or increase its capacity are recorded as investments.

Environmental costs

When costs for the removal of environmentally harmful material

have been established as probable, and the liability can be estimated, the amount is charged as a cost.

Compensation

On-going compensation paid in connection with the acquisition of land etc. is charged in the year in which the liability is incurred. Lump sum compensation payments are included in the cost price of the operating asset.

Interest income/costs

Interest income/costs are recorded as they are earned/incurred.

Profit/loss on securities

Profit/loss relating to securities trading are recorded at the time of realisation since under the accounting rules the portfolio cannot be regarded as a customer portfolio.

Taxes

As of 1997, the parent company and the jointly-controlled companies have been subject to standard taxation.

The opening balances for taxation purposes of fixed assets are the book values at 1 January 1997.

Income tax is charged in the taxation year, but paid in arrears.

Property taxes are charged and paid in the taxation year. These are classified under other operating costs.

Securities

Bonds and certificates are classified as current assets. Securities are managed as a portfolio and valued according to the portfolio method. The portfolio is valued at cost price or actual value (market value), whichever is lower, on the balance sheet date. Net unrealised losses on portfolio trading are recorded as costs under financial items, while net unrealised gains are recorded as income (reversed) against previously charged losses. Realised profits/losses from securities trading are recorded net under the same item. Shares classified as fixed assets are valued at cost price, or actual value if the reduction in value is not of a temporary nature.

Trade accounts receivable

Trade accounts receivable are valued at face value with deductions for estimated losses.

Supplies and bunkers

Stocks of supplies and bunkers on board the Group's two special-purpose vessels are valued at acquisition cost or actual value, whichever is lower, and are included in other short-term receivables.

Own investment work

The construction of new power lines and facilities by our own engineering and construction operations constitutes a significant part of the investments.

Own investment work in the parent company is capitalised at the estimated full cost.

Preliminary projects

Costs for preliminary projects in connection with investments under our own management are charged as costs. Engineering

costs in connection with investments in the cable companies Viking Cable AS and Eurokabel AS and the collaborative project NorNed, in which Statnett has a 50 per cent participation, are recorded in the balance sheet as plant under construction. The same applies to the North Sea Interconnector (NSI) cable project, in which Statnett is collaborating with The National Grid Company plc and Norsk Hydro AS. The question of whether licensing conditions or other circumstances demand the complete or partial write-down of the costs of discontinued preliminary projects is subject to continuous evaluation.

Interest during the construction period

Interest on construction loans associated with own plant under construction is capitalised. The interest is calculated from an average rate of interest as well as the extent of the investment, as the financing is not specifically identified with individual projects.

Tangible fixed assets/depreciation

Tangible fixed assets are valued at cost price with a deduction for ordinary depreciation and write-downs.

Ordinary depreciation is made from the time the asset was put into normal operation and is calculated on the basis of the useful life of the asset. The same applies to operating assets acquired from other system operators. The basis for determining the useful life is based on recommendations from Enfo's publication "Depreciation in the Power Supply Industry" and NVE guidelines for the determination of transmission tariffs.

Spare parts are capitalised with the associated operating asset, and are depreciated at the same rate.

Gains/losses from the sale of operating assets are entered as ordinary operating revenue.

Financial leasing

The co-operation agreement regarding investments in fibre-optic cables and leasing for use in commercial telecommunications is treated as financial leasing. Annual payments are recorded as income for the period.

Foreign currency receivables and debts

Liquid assets denominated in foreign currencies are translated at exchange rates on the balance sheet date.

Other current assets and liabilities, which have not been hedged or swapped to NOK, are recorded at the lower or higher rates on the transaction date and the balance sheet date respectively. Unrealised losses are recorded as costs, while unrealised gains are only taken to income to the extent that they are used to cover unrealised losses in the same currency.

Long-term borrowing in foreign currencies is linked to swaps and treated as borrowing in NOK.

Financial instruments

Financial instruments comprise securities, loans from the government and financial institutions and derivatives. Financial derivatives are agreements that are made with financial institutions for the determination of future interest terms and/or exchange rates. See note 3 for further details on the various types of financial derivatives used by the parent company.

Financial derivatives are classified when entered into either as hed-

ging transactions or trading transactions. Classification is decided by the intention of the transaction when it is made. Hedging transactions consist of contracts intended to neutralise an existing or anticipated interest risk and/or exchange risk in the balance sheet. The accounting treatment of financial instruments follows from the reason for entering into the contract.

Hedging instruments only affect the profit and loss account on realisation. Gains/losses on such transactions are accounted for on an accruals basis together with the underlying object.

Hedge accounting

The aim of the parent company is to guard against losses in the following situations:

1. *Losses on liabilities as a result of changes in interest rates.*
2. *Losses from purchase/sales contracts in foreign currencies as a result of changes in exchange rates.*

Hedge accounting means that changes in the value of a hedge object and the hedging transaction will be recorded in the same period.

The parent company adopts hedge accounting when the following three criteria are met simultaneously:

1. *The object or object group which is to be hedged (hedge object) must be identified specifically, and it must expose the parent company to a potential reduction in equity through changes in interest rates and/or exchange rates.*
2. *The instrument(s) used must be specifically designated as hedging.*
3. *It is highly likely that there will be a high degree of negative correlation in the real value of the hedging instrument and the object which is to be hedged.*

The instruments used by the parent company to guard against losses are described in more detail in note 3 on financial market risk.

Pension costs and pension liabilities

The parent company and the subsidiaries have pension schemes entitling the employees to future benefits (benefit plans). The benefits are based on the number of years of service and the wage level at retirement age.

Pension rights earned are primarily ensured through pension schemes in Statnett SF's Pension Fund and the Norwegian Public Services Pension Fund. In addition, the parent company has early-retirement obligations which are covered by its operations.

Contributions to the pension fund are made in accordance with the actuarial calculation method. The funds in the pension fund are primarily invested in securities.

Pension liabilities are calculated according to NRS' provisional Norwegian Accounting Standard on pension costs.

Pension costs are valued at the present value of the future retirement benefits which have accrued on the balance sheet date and which are to be covered by our own pension fund or financed by operations. Estimated pension liabilities, less the estimated value of pension funds at 31 December, are included in the balance sheet under long-term liabilities and pension funds.

The net pension cost for the year is included in salaries in the profit and loss account. Premiums that have been paid are treated as investments in pension funds.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE FOLLOWING TRANSITION TO NEW ACCOUNTING ACT

Change in accounting principle

The following changes have been made in the accounting principles as a result of the new accounting act for 1999.

Reversal write-down of shares in subsidiaries

Deferred tax benefit recorded in balance sheet

Tax relating to group contributions made is recorded in the parent company's profit/loss account

The effects of new principles on equity and profit/loss for 1999 are shown below.

PARENT COMPANY	Equity	Profit
<i>(Amounts in NOK million)</i>	1 Jan. 1999	1999
Reversal write-down of shares in subsidiaries	10	
Deferred tax benefit	49	
Tax relating to group contributions made		10
Total effect on equity/profit/loss ordinary profit/loss	59	10

GROUP	Equity	Profit
<i>(Amounts in NOK million)</i>	1 Jan. 1999	1999
Deferred tax benefit	83	
Total effect on equity/profit/loss ordinary profit/loss	83	0

Comparable figures

The comparable figures in the balance sheet have been restated in line with the new principles.

In accordance with the rules for the transition to the new accounting act, comparable figures in the profit and loss account for 1998 have not been restated. The figures are therefore not comparable in the places where changes have been made as shown in the specification above.

NOTE 3 – FINANCIAL MARKET RISK

Interest rate and currency swaps

These are agreements whereby the contracting parties exchange currency and/or interest rate terms for an agreed amount over a defined future period.

The agreements below have been entered into for the existing balance sheet liabilities. Consequently, the market values have not been assessed separately.

(Amounts in NOK million)

	Principal		Interest rate terms			
	Lending	Borrowing	Lending	Borrowing		
EUR	25	NOK 203	EURIBOR 6 months	NIBOR 6 months		
JPY	1 500	NOK 92	NIBOR 6 months	fixed 2013		annual call option
JPY	5 000	USD 47	fixed 2009	LIBOR 6 months		annual call option
NOK	855	NOK 855	fixed 2001	NIBOR 6 months		
NOK	550	NOK 550	fixed 2006	NIBOR 6 months		
NOK	800	NOK 800	fixed 2008	NIBOR 6 months		
NOK	900	NOK 900	NIBOR 6 months	fixed 2000		
NOK	809	NOK 809	NIBOR 6 months	fixed 2001		
NOK	350	NOK 350	NIBOR 6 months	NIBOR 6 months		
USD	11	NOK 85	fixed 2002	NIBOR 3 months		
USD	75	NOK 563	fixed 2008	NIBOR 6 months		
USD	47	NOK 358	LIBOR 6 months	NIBOR 6 months		

Currency futures

Currency futures are entered into to hedge short-term investments or currency loans. The value of the futures is not assessed because they correspond with the maturity of the loans. Unrealised gains are not recorded as income until they are realised.

At 31 December 1999 the company had two currency futures, both of which are six months' sales of euro maturing in June 2000, totalling EUR 25.4 million.

NOTE 4 – INFORMATION ON BUSINESS AREAS

1999	Grid owner	System operator	Engineering & construction	Power exchange	Other tasks	Other/elim.	Total group
<i>(Amounts in NOK million)</i>							
Operating revenues	1 976	296	349	4 561	2 288	-1 496	7 974
Operating costs	-1 164	-353	-394	-4 543	-2 036	1 316	-7 174
Operating profit/loss	812	-57	-45	18	252	-180	800
Net financial items	-	-	-3	5	-12	-215	-225
Tax	-	-	-	-	-	-160	-160
Profit/loss	812	-57	-48	23	240	-555	415
Fixed assets	9 093	19	182	8	-	298	9 600
Investments for period	1 050	4	6	3	-	4	1 067

1998	Grid owner	System operator	Engineering & construction	Power exchange	Other tasks	Other/elim.	Total group
<i>(Amounts in NOK million)</i>							
Operating revenues	1 970	531	339	3 568	2 550	-2 014	6 944
Operating costs	-1 130	-564	-295	-3 560	-2 993	2 459	-6 083
Operating profit/loss	840	-33	44	8	-443	445	861
Net financial items	-	-1	-3	5	-	-201	-200
Tax	-	-	-	-	-	-186	-186
Profit/loss	840	-34	41	13	-443	58	475
Fixed assets	8 780	8	244	7	-	229	9 268
Investments for period	341	6	5	6	-	17	375

NOTE 5 – OPERATING REVENUES

PARENT COMPANY		<i>(Amounts in NOK million)</i>	GROUP	
1999	1998		1999	1998
Power transmission				
2 155	1 609	Tariff revenues	2 155	1 586
-155	450	Higher/lower revenue Main Grid for year	-155	450
310	292	Leasing regional grid facilities	310	292
-	2	Lower earnings regional grid facilities	-	2
157	112	Leasing cables to Denmark	157	112
2 467	2 465	Total transmission revenues	2 467	2 442
Power sales				
713	733	Sales – spot and regulating power	5 082	4 126
118	117	Sales – operations co-ordination	117	117
831	850	Total power sales	5 199	4 243
Other operating revenues				
11	4	Revenues from fees	105	80
44	32	External contracts	156	155
37	30	Other operating revenues	47	24
92	66	Total other operating revenues	308	259

Power transmission

Prices (tariffs) for input and use of electricity from the Main Grid and common regional grids are charged to the users in accordance with a set price system.

Leasing of regional grid facilities includes services which are not included in the Main Grid Commercial Agreement or common regional grids.

Increase in energy supplied

One of the parameters for determining the annual revenue ceiling set by NVE (the Norwegian Water Resources and Energy Directorate) is the anticipated increase in supplied energy. In accordance with section 7-3, subsection 3 of NVE's regulations for technical and financial reporting, the revenue ceiling is to be adjusted upwards annually by half the anticipated increase in supplied energy in the grid company's settlement area.

Section 9-2 of the same regulation states that at the end of the regulating period, NVE is to conduct a final settlement taking into account the actual rise or fall in supplied energy. The results of the final settlement are recorded as higher or lower revenues and must either be refunded or recouped via subsequent years' tariffs.

At the 1999 year-end, Statnett has an estimated accumulated shortfall of just below NOK 200 million for 1998/1999 based on our understanding of the regulations governing the calculation of the actual increase in supplied energy. For this to be taken to income and recorded in the balance sheet in the regulating period, which lasts until 2001 inclusive, a special resolution is required from NVE in connection with determining the adjusted revenue ceiling. NVE's method of calculating the actual development in supplied energy is still being clarified and there is therefore a degree of uncertainty surrounding the size of the amount. The shortfall has not been included in the accounts.

Power sales

On 1 January 1996 Norway and Sweden established a joint power market and a joint exchange based on Nord Pool ASA. Finland became a separate notification area as of the summer of 1998.

The western parts of Denmark (Funen and Jutland) were established as a separate pricing area in this market as of 1 July 1999.

Gross sales <i>(Amounts in NOK million)</i>	1999	1998
Spot market	8 916	6 970
Regulating power*	944	888
Total	9 860	7 858

Sales in TWh	1999	1998
Spot market	75,4	56,7
Futures market (trading)**	215,9	89,1
Regulating power*	8,1	7,6
Total trading in TWh	299,4	153,4

Clearing	1999	1998
Clearing of bilateral contracts in TWh**	683,6	373,4

* Regulating power is cleared by Statnett SF

** In 1999 sales in the financial market & clearing amounted to NOK 27.6 billion, compared to NOK 12.5 billion in 1999.

Nord Pool ASA manages sales in the organised markets in accordance with its licence, which was granted on 2 December 1994.

On 10 February 1995 Nord Pool ASA was granted a licence to purchase and sell short-term electricity to export markets. This activity is carried out on behalf of and for the account of Statnett.

External contracts

External contracts are channelled primarily via Statnett Entreprenør AS and Statnett Rederi AS. Statnett has also supplied engineering services for the planning of cable projects in Viking Cable AS and Eurokabel AS.

NOTE 6 – POWER PURCHASES AND SYSTEM SERVICE

PARENT COMPANY			GROUP	
1999	1998	(Amounts in NOK million)	1999	1998
777	744	Purchases electricity spot and regulating power	5 234	4 204
103	155	Purchases operations co-ordinator	103	155
880	899	Total power purchases and system services	5 337	4 359

NOTE 7 – PLANT UNDER CONSTRUCTION

PARENT COMPANY			GROUP	
1999	1998	(Amounts in NOK million)	1999	1998
551	319	Acquisition cost 1 Jan.	630	380
-75	-	Transferred to Enitel ASA	-75	-
-437	-360	Transferred investments	-438	-360
381	592	Change in stocks	402	610
420	551	Acquisition cost 31 Dec.	519	630
-107	-	Write-downs	-107	-
-	-	Reclassified to long-term receivables	-50	-
313	551	Book value 31 Dec.	362	630

The year's change in stocks can be broken down as follows:

PARENT COMPANY			GROUP	
1999	1998	(Amounts in NOK million)	1999	1998
204	413	Materials and subcontractors	153	351
60	58	Wages, social security costs	96	107
103	97	Other operating costs	138	127
367	568	Total operating costs	387	585
14	24	Construction loan interest	15	25
381	592	Total	402	610

The change in stocks has been recorded as a reduction of the relevant items in the profit and loss account.

Cable and grid projects

Statnett is involved in four potential cable projects to the Continent and associated grid reinforcements on land. Changes to implementation plans, progress and the design of installations and also uncertainty surrounding a number of projects resulted in a NOK 107 million write-down of plant under construction in 1999.

NOTE 8 – WAGE COSTS, EMPLOYEES, REMUNERATION

PARENT COMPANY			GROUP	
1999	1998	(Amounts in NOK million)	1999	1998
187	202	Wages	305	310
32	34	National Insurance contributions	46	48
20	63	Pension costs	27	69
18	34	Other benefits	22	36
257	333	Total wage costs	400	463
-60	-58	Of which own investment projects	-96	-107
197	275	Net wage costs	304	356

The average number of full-time positions in the parent company and group is 536 and 851.

Benefits to senior persons (Amounts in NOK million)	President and CEO	The Board
Salaries/directors' fees	1 034 912	910 000
Pension expenditure	*	-
Other remuneration	100 599	-
Total benefits	1 135 511	910 000

* The president and CEO is included in Statnett SF's ordinary pension scheme. In February 2000, a new agreement was entered into concerning pension rights for the president and CEO from the age of 60. Retirement age for the president and CEO is 65 years.

Auditor

Total remuneration for auditor for 1999 is NOK 909,025, NOK 409,025 of which comprises consultancy services.

NOTE 9 – PENSION AND PENSION LIABILITIES

PARENT COMPANY		(Amounts in NOK million)	GROUP	
1999	1998	Benefit plans	1999	1998
14	13	Present value of year's pension contributions	19	17
14	13	Interest cost of pension liabilities	18	16
-15	-15	Yield on pension funds	-19	-18
13	11	Net pension costs	18	15
7	52	Early retirement pensions and other pension liabilities	9	54
20	63	Net accrued pension cost	27	69

PARENT COMPANY		(Amounts in NOK million)	GROUP	
1999	1998	Benefit plans	1999	1998
228	205	Accrued pension liabilities	286	257
37	35	Estimated effect of future wage adjustments	47	44
265	240	Estimated pension liabilities	333	301
-242	-236	Pension funds at market value	-295	-282
-32	1	Changes in estimates not recorded in accounts	-37	-1
-9	5	Net pension liabilities fund-financed benefit plan	1	18
93	99	Early retirement pensions and other pension schemes	116	119
84	104	Accrued pension liabilities	117	137

Pension liabilities of NOK 126 million are included in the balance sheet as long-term debt, as are pension funds of NOK 5 million and prepaid contractual pensions to NAVO of NOK 4 million, which are included in other long-term receivables.

The effect of changes in estimates and other differences between actual and estimated pension liabilities amounts to NOK 1 million for Statnett SF and NOK 4 million for the group.

Specification of estimated pension funds in the pension fund:	PARENT COMPANY	GROUP
Premium reserve	187	234
Premium fund	32	43
Additional allocations	11	13
Added value financial investments	8	10
Total actual pension funds at 31 Dec. 1999	238	300

Extent of pension scheme at 31 Dec. 1999	PARENT COMPANY	GROUP
Members of pension fund	739	1 032
Of which pensioners	153	172
No. of persons with pension agreements	586	860

Financial/actuarial factors:	1999	1998
Discount interest rate	6 %	6 %
Expected yield	7 %	7 %
Expected wage adjustments	2.50 %	2.50 %
Expected pension adjustment	2.50 %	2.50 %
Expected government NI multiplier adjustment	2.50 %	2.50 %
Remaining earning period	15 years	15 years

NOTE 10 – TANGIBLE FIXED ASSETS

GROUP	Electrotechnical equipment	Telematic equipment	Buildings/land	Other operating movables	Total
(Amounts in NOK million)					
Acquisition cost 1 Jan.	10 017	315	742	185	11 259
Additions acquisition cost	950	78	24	15	1 067
Disposals acquisition cost	-	-	-20	-13	-33
Acquisition cost 31 Dec.	10 967	393	746	187	12 293
Ordinary depreciation 1 Jan.	2 507	123	99	123	2 852
Ordinary depreciation for year	411	35	19	29	494
Disposals ordinary depreciation	-	-	-5	-13	-18
Ordinary depreciation 31 Dec.	2 918	158	113	139	3 328
Book value 31 Dec.	8 049	235	633	48	8 965
Depreciation rates in per cent	2.5–6.6	6.6–12.5	0–2	10–33	

(Amounts in NOK million)	Investment					Sales				
	1999	1998	1997	1996	1995	1999	1998	1997	1996	1995
Electrotechnical equipment	950	248	140	132	248	-	-	1	-	-
Telematic equipment	78	65	93	39	26	-	41	-	-	-
Buildings, land	24	33	51	21	79	36	15	12	21	11
Other operating movables	15	29	42	34	40	2	5	28	2	7
Total	1 067	375	326	226	393	38	61	41	23	18

PARENT COMPANY (Amounts in NOK million)	Electrotechnical equipment	Telematic equipment	Buildings/ land	Other operating movables	Total
Acquisition cost 1 Jan.	10 017	315	713	158	11 203
Additions acquisition cost	950	78	23	7	1 058
Disposals acquisition cost	-	-	-19	-12	-31
Acquisition cost 31 Dec.	10 967	393	717	153	12 230
Ordinary depreciation 1 Jan.	2 507	123	98	108	2 836
Ordinary depreciation for year	411	35	18	20	484
Disposals ordinary depreciation	-	-	-4	-12	-16
Ordinary depreciation 31 Dec.	2 918	158	112	116	3 304
Book value 31 Dec.	8 049	235	605	37	8 926
Depreciation rates in per cent	2.5–6.6	6.6–12.5	0–2	10–33	

(Amounts in NOK million)	Investment					Sales				
	1999	1998	1997	1996	1995	1999	1998	1997	1996	1995
Electrotechnical equipment	950	248	140	132	248	-	-	1	-	-
Telematic equipment	78	65	93	39	26	-	41	-	-	-
Buildings, land	23	32	22	21	79	34	13	33	21	11
Other operating movables	7	19	32	30	34	-	1	27	210	7
Total	1 058	364	287	222	387	34	55	61	231	18

NOTE 11 – FINANCIAL ITEMS

PARENT COMPANY			GROUP	
1999	1998	(Amounts in NOK million)	1999	1998
		Financial income		
5	4	Income from investment in subsidiary	-	-
30	-	Income from investment in associated company	24	42
15	12	Interest from subsidiaries and jointly-controlled companies	-	-
74	76	Other interest income	89	88
-	1	Other financial income	1	1
3	-11	Change in value of market-based financial current assets	3	-11
127	82	Total financial income	117	120
		Financial costs		
351	344	Interest costs	351	344
-14	-25	Capitalised construction loan interest	-14	-25
4	1	Other financial costs	5	1
341	320	Total financial costs	342	320

NOTE 12 –SHARES AND OWNER INTERESTS

Company	Type	Year of acquisition	Registered-office	Shareh.	Voting rights	Asquisition-cost (Amounts in NOK 1,000)	Book value (Amounts in NOK 1,000)
Statnett Entreprenør AS	Subsidiary	1994	Oslo	100.0 %	100.0 %	60 000	64 824
Statnett Rederi AS	Subsidiary	1996	Oslo	100.0 %	100.0 %	50	18 266
Statnett Forsikring AS	Subsidiary	1998	Oslo	100.0 %	100.0 %	30 200	30 200
Nord Pool ASA	Jointly – controlled	1992	Bærum	50.0 %	50.0 %	2 500	2 500
Viking Cable AS	Jointly – controlled	1994	Oslo	50.0 %	50.0 %	250	250
Eurokabel AS	Jointly – controlled	1995	Oslo	50.0 %	50.0 %	10 250	10 250
Total subsidiaries and joint companies						103 250	126 290
Enitel ASA	Deposits	1996	Bærum	13.8 %	13.8 %	122 933	122 933
Nord Pool Consulting AS	Deposits	1998	Bærum	33.3 %	33.3 %	2 000	2 000
Norwegian Pipelines AS	Deposits	1993	Stavanger	10.0 %	10.0 %	700	0
Stri AB	Deposits	1998	Sweden	12.5 %	100.0 %	1 407	1 407
Statnett SFs Pensjonskasse	Deposits	1993	Oslo	100.0 %	100.0 %	15 000	15 000
Total other shares etc.						142 040	141 340
Total shares and owner interests						245 290	267 630

Subsidiaries and jointly-controlled companies are recorded in the accounts using the cost method adjusted for group contribution made (net after tax) in 1999.

In July and the fourth quarter Enitel ASA implemented share capital increases without Statnett's participation. Statnett contributed to the share capital increase in July through a spread sale reducing its holding from 23.63 per cent to 17.74 per cent.

Through increases in the share capital in the fourth quarter 1999, Statnett's holding was further reduced to 13.82 per cent.

Until 30 September 1999 Enitel ASA was defined as an associated company. After this date, the shareholding is regarded as an investment.

The book value of the shares is equal to the share of Enitel's equity at 30 September 1999, and is calculated as follows:

Book value, Enitel shares (Amounts in NOK 1,000):	
Book value 1 Jan. 1999 in consolidated accounts	180 866
Share of profit/loss for the year to 30 Sept. 1999	-13 054
Reduction in cost price from sale	-16 250
Gain from capital increase July 1999	6 906
Book value 31 Dec. 1999 in consolidated accounts	158 468
Market value 31 Dec. 1999	607 680

The almost NOK 7 million gain from the capital increase in July is due to the fact that the issue was made at a premium.

The shareholding is recorded in the consolidated accounts using the equity method, and the gain is shown under financial income. In the parent company, the holding is recorded using the cost method.

Shares owned by subsidiaries and jointly-controlled companies

Company	Year of acquisition	Registered office	Shareh.	Voting rights	Aquisition-cost (Amounts in NOK 1,000)	Book value (Amounts in NOK 1,000)
Statnett Skagerrak AS	1998	Oslo	100.0 %	100.0 %	100	100
Nord Pool Consulting AS	1998	Bærum	16.7 %	16.7 %	1000	1 000
Nordic Electricity Clearing House AS	1998	Bærum	100.0 %	100.0 %	25	25

NOTE 13 – RECEIVABLES DUE IN LATER THAN ONE YEAR

PARENT COMPANY		<i>(Amounts in NOK million)</i>	GROUP	
1999	1998		1999	1998
184	205	Loans to companies in the same group	-	-
48	-	Other long-term receivables	58	-
12	182	Trade accounts receivable	12	182
244	387	Total	70	182

Loans to companies in the same group comprise subsidiaries and jointly-controlled companies. Trade accounts receivable due in later than one year comprise lower revenues in the Main Grid Commercial Agreement, a common regional grid and leasing of components in regional grids. In accordance with NVE's regulations, lower revenues can be recouped through tariffs/leasing rates in subsequent years.

NOTE 14 – MARKET VALUE CURRENT ASSETS

<i>(Amounts in NOK million)</i>	Acquisition-cost	Value entered in balance sheet	Market value	Interest rate	Interest rate regulation
Certificates					
Sparebanken Hedemark	50	50	50	6.50 %	fixed
Kreditkassen	50	50	50	5.60 %	fixed
Total certificates	100	100	100		
Bonds					
Sparebanken Vest	50	50	50	6.97 %	quarterly
Kreditkassen	200	200	200	6.29 %	half-yearly
BN-Bank	200	200	200	6.33 %	half-yearly
Norsk Stat	20	20	20	5.75 %	fixed
Norsk Stat	15	15	15	5.50 %	fixed
Kommunalbanken	10	9	9	5.55 %	fixed
Hydro	1	1	1	10.90 %	fixed
Statnett	10	10	10	5.85 %	fixed
Oslo Energi	40	40	40	5.15 %	fixed
Vestenfjeldske	20	20	20	6.10 %	fixed
Kreditkassen	50	50	50	4.85 %	fixed
Elkem	10	10	10	8.90 %	fixed
Sparebanken Møre	50	50	50	7.00 %	quarterly
Orkla	5	5	5	6.10 %	fixed
Total bonds	681	680	680		

The face value of all bonds owned by Statnett are in NOK. The company values securities according to the portfolio method, certificates and bonds individually. Certificates and bonds are included in liquid assets.

NOTE 15 – LOAN FROM THE GOVERNMENT AND OTHER FINANCIAL INSTITUTIONS
Borrowing and guarantee limit

A state-owned enterprise's total loans and guarantees must be kept within a specified total limit (cf. section 5 of the State Enterprises Act). The total limit is set as the total assets or the stipulated limit of NOK 10 billion, whichever is the lower. Pursuant to the State Enterprises Act, lenders are ensured full cover for their claims within the total limit.

The remaining unutilised borrowing limit is NOK 4 billion.

Debts falling due more than five years following the end of the accounting year:

<i>(Amounts in NOK million)</i>	1999	1998
Bond issue	1 350	800
Loans from the Government	800	800
Loans from financial institutions	700	405
Total	2 850	2 005

The company has no convertible loans.

Information on bond issues, government loans and loans from financial institutions.

Valuta	Average interest rate ¹⁾	Loan amount in foreign currency	Loan amount in NOK
<i>(Amounts in million)</i>			
NOK	5.9 %	4 637	4 637
USD	5.1 %	86	647
EUR	5.8 %	25	203
JPY	5.7 %	6 500	450
Total	5.8 %		5 937

¹⁾ All loans in foreign currencies are converted into NOK through currency and interest rate swaps.

The average interest rate for the loans includes swaps.

Repayment schedule

(Amounts in NOK million)

2000	2001	2002	2003	2004	Thereafter	Total
1 117	1 234	612	63	63	2 850	5 937

NOTE 16 – OTHER LONG-TERM LIABILITIES

PARENT COMPANY			GROUP	
1999	1998	(Amounts in NOK million)	1999	1998
41	43	Pre-paid revenues	41	43
-	-	Allocation periodic maintenance	7	8
13	15	Other long-term liabilities	18	19
54	58	Total other long-term liabilities	66	70

Pre-paid revenues relate to compensator stations for the Skagerrak cables. Revenues (including interest element) are spread over 25 years in line with the life of the assets. Other long-term liabilities consist mainly of employers' social security contributions relating to pension provisions.

NOTE 17 – INTRA-GROUP BALANCES

	Trade accounts receivable		Long-term lending	
	1999	1998	1999	1998
(Amounts in NOK million)				
Subsidiaries	6	39	150	168
Jointly-controlled companies	12	13	41	69
Total	18	52	191	237

	Trade accounts payable		Group bank accounts	
	1999	1998	1999	1998
(Amounts in NOK million)				
Subsidiaries	38	60	109	82
Jointly-controlled companies	-	1	-	-
Total	38	61	109	82

NOTE 18 – TAXES

GROUP (Amounts in NOK million)

Summary of temporary differences	Change	1999	1998
Receivables	1	-6	-7
Projects	-4	-	4
Shares and securities	16	-2	-18
Operating assets	-57	-147	-90
Provisions in accordance with good accounting practice	9	-34	-43
Pensions	20	-101	-121
Profit and loss account	10	-10	-20
Base for deferred tax in the balance sheet	-5	-300	-295

Deferred tax (DT/deferred tax benefit (DTB) in the balance sheet)	Change	1999	1999	1998	1998
		DTB	DT	DTB	DT
Statnett SF	5	54	-	49	-
Statnett Entreprenør AS	4	-	-	-	4
Statnett Rederi AS	9	-	10	-	19
Statnett Skagerrak AS	-	-	-	-	-
Nord Pool ASA	-	1	-	1	-
Elimination	-17	37	-2	53	-3
DT offset against DTB		-8	-8	-20	-20
Total	1	84	0	83	0

Tax cost

	Tax payable	Change DTB/DT	Excess/insufficient provision	Tax cost
Statnett SF	159	-5	-4	150
Statnett Entreprenør AS	7	-4	-	3
Statnett Rederi AS	-	-9	-	-9
Statnett Skagerrak AS	-	-	-	0
Nord Pool ASA	6	-	-	6
Elimination	-7	17	-	10
Total	165	-1	-4	160

PARENT COMPANY (Amounts in NOK million)

Summary of temporary differences	Change	1999	1998
Receivables	2	-5	-7
Shares and securities	15	-2	-17
Operating assets	-80	-62	18
Provisions in accordance with good accounting practice	13	-17	-30
Pensions	21	-98	-119
Profit and loss account	10	-10	-20
Base for deferred tax in the balance sheet	-19	-194	-175

Deferred tax benefit	Change	1999	1998
Deferred tax benefit in the balance sheet	-5	-54	-49

Tax payable

Base for tax cost and tax payable	1999	1998
Profit before tax cost	551	569
Permanent differences	2	2
Base for tax cost for the year	553	571
Change in temporary differences	19	82
Base for tax payable (in the tax cost)	572	653

Tax payable (in the tax cost)	1999	1998
28% of base for tax payable	159	183
Allowance for tax on dividends	-1	-1
Insufficient/excess provision previous years	-4	1
Tax payable (in the tax cost) *	154	183

Tax payable (in the balance sheet)	1999	1998
Tax payable in the tax cost	154	183
Tax effect of group contribution affecting tax payable	-9	-3
Insufficient/excess provision previous years	4	-1
Tax payable (in the balance sheet)	149	179

Tax cost (summary)

	1999	1998
Tax payable in the tax cost	154	180
Change deferred tax *	-5	-
Total tax cost	149	180

* Base for tax payable in the tax cost in 1998 including group contribution paid. The tax cost in the profit and loss account was therefore equal to tax payable in the balance sheet in 1998. The change in deferred tax benefit was not recorded in the balance sheet and did not affect the calculation of the tax cost for the year in 1998. The effect of recording deferred tax benefit in the balance sheet is entered directly in equity 1 Jan. 1999/31 Dec. 1998.

NOTE 19 – EQUITY**PARENT COMPANY***(Amounts in NOK million)*

	Invested capital	Valuation differences	Other equity	Total
EQUITY RESTATED IN LINE WITH 1998 ACCOUNTING ACT				
Equity at 31 Dec. 1998	2 700		1 178	3 878
Reversal write-down of shares in subsidiaries			10	10
Deferred tax benefit			49	49
Equity at 31 Dec. 1999	2 700	0	1 237	3 937
CHANGE IN EQUITY FOR THE YEAR				
Profit for year (after dividend allocated)		23	171	194
Equity at 31 Dec. 1999	2 700	23	1 408	4 131

GROUP*(Amounts in NOK million)*

	Invested capital	Valuation differences	Other equity	Total
EQUITY RESTATED IN LINE WITH 1998 ACCOUNTING ACT				
Equity at 31 Dec. 1998	2 700	42	1 118	3 860
Deferred tax benefit			83	83
Equity at 1 Jan. 1999	2 700	42	1 201	3 943
CHANGE IN EQUITY FOR THE YEAR				
Profit/loss for year (after dividend allocated)		-6	212	206
Equity at 31 Dec. 1999	2 700	36	1 413	4 149

Changes in principles which are entered directly in equity are dealt with in note 2.

The parent company's valuation differences relate to group contributions made after tax on profit/loss. The group's valuation differences relate to the share of added values in Enitel ASA that exceed the cost price.

The added value in the group's equity is retained following the change in accounting principles from associated company to investment, due to reduced shareholding.

NOTE 20 – MORTGAGES, GUARANTEES

Neither the parent company, subsidiaries nor jointly-controlled companies have furnished any substantial guarantees. The parent company has furnished guarantees vis-à-vis third parties for a total of NOK 0.9 million on behalf of Statnett Entreprenør AS.

The parent company is not entitled to mortgage company assets.

NOTE 21 – INSURANCE

Statnett Forsikring AS was formed on 1 April 1998, with Statnett SF as the sole shareholder. From this date, Statnett Forsikring AS took over the obligations and assets of Statnett's captive insurance arrangement in Norsk Energiverk Forsikring AS. This licence is limited to covering risks relating to Statnett employees and units in the Statnett Group.

In its second year of operations, the company operated both as a reinsurance company and as direct underwriters, signing insurance policies in the following areas:

- Property insurance
- Personal insurance (occupational injury, accident and group life)
- Liability insurance
- Marine insurance
- Endowment insurance

Total losses

Maximum losses for 1999 including losses on reinsurers (according to the actuaries' calculation committee) have been estimated at NOK 30 million, which are measured against actual the contingency provision. At 31 December 1999 the contingency provision amounted to NOK 64.2 million.

Statnett Forsikring AS' finances are solid. There have been fewer injuries than predicted and the company has recorded excellent returns on the management of its assets and has kept to the capital adequacy requirements for insurance companies, set by the authorities, by a healthy margin.

Main figures (NOK 1,000)

Due premiums, gross	15 371
Profit/loss before insurance allocations	10 062
Equity	31 221
Total insurance allocations	88 801
Total assets	123 899

Statnett Forsikring AS has not been incorporated in the consolidated figures.

NOTE 22 – RELATED PARTIES**The Ministry of Petroleum and Energy**

As the owner of Statnett SF, the Norwegian Government represented by the Ministry of Petroleum and Energy (OED) is a closely related party. Statnett has the following relations with the OED:

Regulatory authority

The Norwegian Parliament (Storting) is the legislative authority which passes legislation based on proposals from the Government. Regulations are passed by the King in council. OED administers its part of this and delegates (for example) the administration of the greater part of the Energy Act to NVE and others. Pursuant to the Norwegian Public Administration Act, any individual decision made by NVE can be appealed to the superior authority, i.e. the OED.

See also note 23 – Disputes.

Loans

OED furnishes loans to Statnett on ordinary commercial terms and conditions. See note 15.

Foreign trade in electric power

Statnett manages the foreign power trade on behalf of OED. As an element of this, Statnett collects the priority fee and congestion revenues on power transmission to other countries on behalf of the OED. These are not included in Statnett's accounts. A total of NOK 79 million was collected in 1999. This amount is included in the balance sheet under other current liabilities.

Other related parties are:*Subsidiaries:*

The wholly-owned subsidiaries Statnett Entreprenør AS and Statnett Rederi AS, and also Statnett Skagerrak AS which is wholly owned by Statnett Rederi AS.

The jointly-controlled companies:

- Nord Pool ASA of which Statnett and Svenska Kraftnät each own 50 per cent
- Viking Cable AS of which Statnett and PreussenElektra AG 50 each own per cent
- Eurokabel AS of which Statnett and EST EuroStrom Trading GmbH each own 50 per cent

Co-operating partners:

Statnett owns 13.82 per cent of Enitel ASA. Throughout the year Statnett has reduced its shareholding and as of 30 September 1999 the company is no longer defined as an associated company. In association with other power companies, Statnett engages in commercial telecommunications operations through Enitel. A co-operation and development contract has been signed with Enitel relating to investments in and the use of fibre-optic cables on the electricity grid.

Sep and Statnett are constructing the NorNed cable and will each own their own section of this.

NOTE 23 – DISPUTES**Complaints regarding revenue ceilings**

At 31 December, Statnett had the following unresolved matters regarding revenue ceilings:

Matter	Time of complaint	Status 31 Dec.	NOK mill. (appr.)
Reduced earnings 1992	Sept. 1997	with OED	46
Efficiency requirements for Statnett SF	Jan. 1999	with NVE	
Raised ceiling relating to Y2K supervisory function	Jan. 1999	with OED	5
Raised revenue ceiling new lines	May 1998	with NVE	20

Refund of reduced earnings 1992

In 1997 NVE decided that Statnett's estimated reduced earnings for 1992 (NOK 46 million) shall be refunded to the Main Grid Commercial Agreement. This factor was included in the accounts for 1997. Statnett has appealed against the decision, and to date no decision has been made by the OED.

Efficiency requirements for Statnett SF

In a separate decision, NVE set an initial revenue ceiling for 1999 in which efficiency requirements were one of the parameters. In Statnett's view, the efficiency requirement was set too high. A reduction of one percentage point in the efficiency requirement would increase Statnett's revenues by around NOK 18 million. The matter was appealed to the OED in January 1999 via NVE but has not yet been passed on to the OED from NVE.

Raised revenue ceiling for supervisory function relating to the Y2K problem

Statnett was given a supervisory function by NVE over other companies relating to the year 2000 problem on the basis of its system-wide responsibility.

The revenue ceiling for 1999 included a special addition to take into account increased costs relating to the year 2000 problem. In Statnett's view, this addition is intended to cover the grid companies' own costs and the cost of the supervisory function, estimated at NOK 5 million, should be added to this. The matter was appealed to the OED in January 1999 via NVE but has not yet been passed on to the OED from NVE.

Raised revenue ceiling new lines

In conjunction with the planned expansion of the grid as a result of the planned cables to the Continent, including the Kristiansand – Evje power line, the company applied for a raised revenue ceiling in October 1997. The application was rejected by NVE and an appeal submitted to the OED in May 1998. With the exception of the Kristiansand – Evje line, the case was dismissed by the OED in June 1999.

Other matters*Tariffs for components in the regional grid*

In September 1999, Statnett's User Council submitted a complaint to the OED regarding the decision of Statnett's board relating to tariffs for components (transformers) in the regional grid.

The matter has no bearing on Statnett's total revenues, but will affect the distribution of costs between Statnett's customers as it concerns whether components should have local tariffs according to actual costs or whether all components should have equal tariffs based on an average view of costs.

A corresponding complaint has been lodged with NVE by SFO and a number of customers.

To the Enterprise Meeting of Statnett SF

Auditor's report for 1999

We have audited the annual financial statements as of 31 December 1999, showing a profit of NOK MNOK 402 for the parent company and a profit NOK MNOK 415 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the group accounts. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and Norwegian good auditing practice. Good auditing practice requires that we plan and perform the 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Company and of the Group as of December 31, 1999, and the results of its operations and its cash flows for the year then ended, in accordance with Norwegian good accounting practice
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with Norwegian law and good accounting practice
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, mars 16, 2000

PricewaterhouseCoopers DA

Jonny Skaug

State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

PROFIT AND LOSS ACCOUNT, STATNETT BUSINESS OPERATIONS

<i>(Amounts in NOK million)</i>	Notes	1999	1998
Grid Owner			
Revenue ceiling Main Grid and regional grids	1	1 657	1 676
Leasing income Skagerrak cables	1	157	113
Other revenues		162	181
Total operating revenues		1 976	1 970
Operating costs		-617	-616
Depreciation		-472	-444
Property tax		-75	-70
Total operating costs		-1 164	-1 130
Operating profit	1	812	840
System Operator			
Administrative revenue ceiling		116	111
Revenue ceiling losses	2	173	183
Other operating revenues		7	8
Total operating revenues		296	302
Transmission losses (power purchases)		-175	-178
Net power purchases – regulating power/co-ordination of operations		-10	-11
System services/special adjustments		-39	-46
Other operating costs		-101	-113
Total operating costs		-325	-348
Operating profit/loss		-29	-46
Financial items		-	-1
Profit/loss System Operator		-29	-47
Refunds other Main Grid owners		-28	13
Profit/loss after distribution to other owners		-57	-34
Engineering and Construction			
Operating revenues		349	339
Operating costs		-394	-295
Operating profit/loss		-45	44
Net financial items		-3	-3
Profit/loss before tax		-48	41
Power Exchange (Nord Pool ASA)			
Power sales		4 458	3 483
Other operating revenues		103	85
Total operating revenues		4 561	3 568
Power purchases		-4 458	-3 483
Operating costs/financial items		-80	-72
Total operating costs		-4 538	-3 555
Profit/loss before tax		23	13
Finance			
Financial income		139	121
Financial costs		-343	-320
Net financial items		-204	-199
Other items			
Group eliminations		49	-
Taxes		-160	-186
Business profit/loss		415	475

PROFIT AND LOSS ACCOUNT, OTHER TASKS

<i>(Amounts in NOK million)</i>	Notes	1999	1998
Power transmission			
Main Grid Commercial Agreement			
Tariff revenues – fixed element	3	1 909	1 301
Tariff revenues – variable element	3	205	241
Total revenues		2 114	1 542
Leasing costs external installation owners		-353	-400
Leasing costs Statnett facilities		-1 334	-1 259
Reversals excess/reduced earnings installation owners	4	21	-29
Leasing costs installation owners		-1 666	-1 688
Operator costs	2	-281	-282
Corrections previous years		-	-22
Total operating costs		-1 947	-1 992
Financial items	5	-12	0
Higher/lower revenues	6	155	-450
Common regional grids			
Tariff revenues – fixed element	3	68	96
Tariff revenues – variable element	3	5	5
Total revenues		73	101
Costs from overlying grid		-27	-44
Leasing costs – external and Statnett facilities		-37	-48
Operator costs		-9	-12
Total operating costs		-73	-104
Higher/lower revenues		0	-3
Balance accounting			
Fee revenues		20	16
Administration costs		-16	-6
Higher revenues	7	4	10
Foreign trade			
Operating revenues		81	52
Operating costs including financial costs		-2	-1
Operating profit, transferred to the Ministry of Petroleum and Energy	8	79	51

NOTE 1 – PROFIT/LOSS GRID OPERATIONS 1999 PER GRID LEVEL

(Amounts in NOK million)	Main Grid	Regional grids	Cables to Denmark	Other	Total Grid Owner
Revenue ceiling	1 339	318	-	-	1 657
Leasing income Skagerrak cables	-	-	157	-	157
Other revenues	33	18	1	110	162
Total operating revenues	1 372	336	158	110	1 976
Operating costs	-266	-109	-22	-220	-617
Depreciation	-327	-71	-43	-31	-472
Property tax	-61	-10	-4	-	-75
Total operating costs	-654	-190	-69	-251	-1 164
Operating profit/loss	718	146	89	-141	812
Capital invested in fixed assets:					
Capital 1 Jan. 1999	6 514	1 159	806	407	8 886
Capital 31 Dec. 1999	6 923	1 089	759	427	9 198
Average capital	6 718	1 124	782	417	9 041
Working capital 1%	67	11	8	4	90
Calculation base for return	6 785	1 135	790	421	9 131
Return on grid capital	10.60 %	12.86 %	11.28 %	-	

"Other" consists of the units for telecommunications, and engineering, in addition to project administration for new cables to the Continent. These areas are not regulated by NVE revenue ceilings and have been excluded from the table when calculating the return on grid capital. These units primarily carry out internal tasks in Statnett. Internal transactions are not eliminated in the operations accounts.

Allocation principles for revenue ceiling Main Grid and regional grids

The revenue ceiling stipulated by NVE is allocated at Main Grid and regional grid level in relation to the grid level's respective share of the costs.

Revenues – cables to Denmark

Revenues from cables to Denmark are regulated by a separate agreement with the customer.

Allocation of capital and costs

Depreciation and capital are primarily allocated directly to grid level. Operating costs and indirect capital are allocated proportionally on the basis of the new price of components for the different grid levels.

NOTE 2 – REVENUE CEILING SYSTEM OPERATOR

Statnett has a common revenue ceiling for all costs in 1999. Revenue ceiling losses form a separate ceiling and shall cover transmission losses in the grid. The ceiling for transmission losses is adjusted according to the actual loss-weighted spot price for the year (NOK 132/MWh) as calculated by NVE.

If the revenue ceiling does not cover the transmission losses, the shortfall is to be distributed between Main Grid owners according to the revenue ceiling they each represent. The shortfall in 1999 was NOK 2 million.

NOTE 3 – TARIFF REVENUES POWER TRANSMISSION

The revenues are apportioned to the different tariff bases as follows:

<i>(Amounts in NOK million)</i>	Main Grid		Common regional grid	
	1999	1998	1999	1998
Connection element	560	369	18	27
Power element	1 249	869	41	60
Reactive power output	9	-	1	-
Minimum supplement	88	60	8	8
Disconnectable consumption	4	6	-	1
Refunds non-supplied energy	-	-10	-	-
Correction previous years	-1	7	-	-
Total tariff revenues fixed element	1 909	1 301	68	96
Energy element	204	197	5	5
Congestion revenues	1	44	-	-
Total tariff revenues variable element	205	241	5	5
Total tariff revenues	2 114	1 542	73	101

Domestic tariffs (NOK 1,000/MW)	1999	1998
	In/Out	In /Out
Connection element	12.0/13.0	8.0/9.0
Power element	46.0/57.5	31.0/43.0

Congestion revenues are generated as a result of internal transmission restrictions in the electricity exchange area. Statnett, Svenska Kraftnat, Eltra and Fingrid have entered into an agreement which regulates the apportionment of congestion revenues for 1999 and 2000.

NOTE 4 – REVERSAL OF EXCESS/REDUCED EARNINGS FROM INSTALLATION OWNERS

The reversal of excess earnings from Main Grid owners can be broken down as follows:

<i>(Amounts in NOK million)</i>	1999	1998
Excess earnings transferred from Statnett (Grid Owner)	-	-90
Other Main Grid owners	21	61
Total reversed excess earnings	21	-29

Up until 1996 inclusive, NVE set the maximum permitted rate of return on the installation owners' grid capital. Earnings above the maximum rate of return have been refunded to customers.

NOTE 5 – FINANCIAL ITEMS MAIN GRID COMMERCIAL AGREEMENT

Pursuant to guidelines issued by NVE, interest of 5.3% pa is to be charged on the average balance of higher/lower revenues. The interest cost relating to lower revenues totals NOK 19 million.

Interest received and reversed higher/lower revenues from Main Grid owners amount to a net financial income of NOK 7 million.

NOTE 6 – ACCUMULATED HIGHER/LOWER REVENUES MAIN GRID COMMERCIAL AGREEMENT

<i>(Amounts in NOK million)</i>	1999	1998
Accumulated lower revenues 1 Jan.	-446	0
Final settlement*	-	4
Higher revenues for the year	155	-450
Accumulated lower revenues 31 Dec.	-291	-446

*Rounded off in conjunction with disbursements

NOTE 7 – BALANCE ACCOUNTING

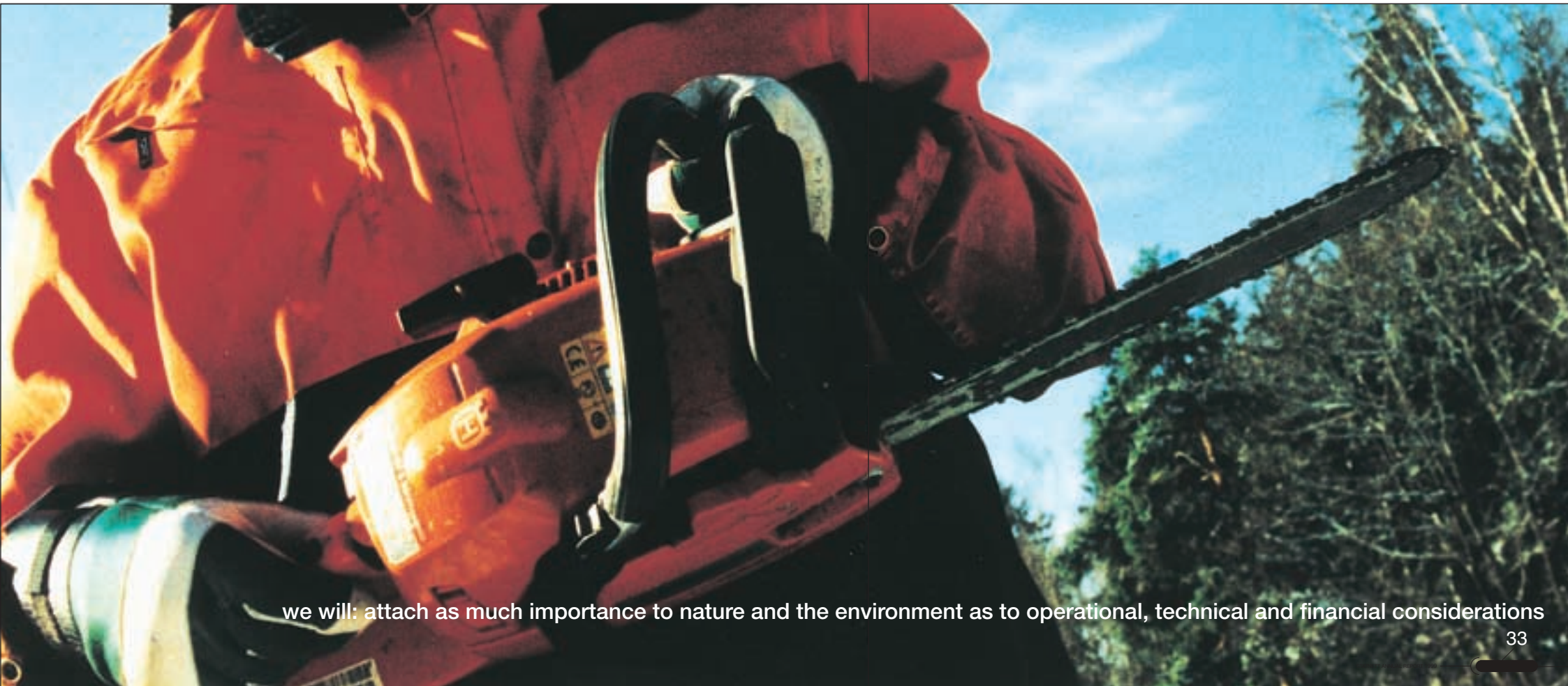
The fee revenue shall cover administration costs over time. Accumulated higher revenues at 31 December 1999 of NOK 19 million have been recorded under current liabilities on the balance sheet in the parent company's accounts.

NOTE 8 – FOREIGN TRADE

Accumulated losses from foreign trade from before 1992 were transferred to the Ministry in 1995. The profit/loss for the year is transferred to the Ministry for write-down of accumulated loss. The accounts for foreign trade are administered by Statnett on behalf of the Ministry and are not included in Statnett's financial accounts.

The nominal value of foreign trade is as follows:

<i>(Amounts in NOK million)</i>	1999	1998
Accumulated loss 1 Jan.	-195	-246
Profit for year	79	51
Accumulated loss 31 Dec. (nominal)	-116	-195



we will: attach as much importance to nature and the environment as to operational, technical and financial considerations

Grid Owner:

Co-ordination yields synergies

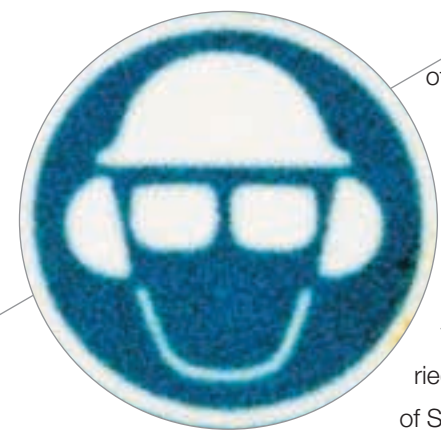
The Grid Owner business area had a turnover of NOK 1,976 million in 1999 and an operating profit of NOK 812 million. By, for example, co-ordinating expertise and working practices in Statnett's core activities, the company exploits synergies that ensure the Norwegian public the most efficient operation of the Main Grid for electricity.

Statnett SF owns and operates approximately 9700 km of high-voltage power lines and subsea cables as well as 81 substations, switching stations and compensation stations. The power lines have an operating voltage of 132, 300 and 420 kV. Statnett also owns the Norwegian section of power lines and subsea cables to other countries, and moreover has a considerable network for transmitting telecommunications signals in connection with its high-voltage installations.

Revenues and cost | The Operations Division, Engineering Division, Telecommunications Division and the Subsea Cable Division jointly comprise the Grid Owner business area. Revenues come from renting out installations to the Main Grid, regional transmission facilities and the rental of cables between Norway and Denmark. The costs relate to the operation and depreciation of these facilities. The system of an upper limit on permissible revenue (revenue ceilings) makes our main earnings predictable. As of 2000, Statnett has been given a common revenue ceiling for its core operations – Grid Owner and System Operator – together with a separate ceiling for physical losses on the grid.

Subsea cables and telecommunications | Engineering and construction of the planned subsea cable to Germany will be carried out under the auspices of the limited company Viking Cable AS, in which Statnett has a 50 per cent shareholding. Statnett has an owner interest of 100 per cent up to a defined point midway between Norway and the Netherlands in NorNed, the cable-laying project to the Netherlands. Furthermore the possibilities of a cable between Norway and the UK are being investigated. Statnett's owner interests in the planning and engineering phase are taken care of by the Subsea Cables Division. | The telecom-transmission company, Enitel, has been set up in order to utilise Norwegian power companies' telecommunications network commercially. Statnett owns approximately 14 per cent of Enitel.

Efficiency, Y2K and own installations | One of Statnett's goals for increased cost-efficiency is to reduce the unit capacity cost by 15 per cent by the year 2007 compared with 1997. This cost is calculated by dividing Statnett's capacity cost by the amount of output capacity on the Main Grid. The chances



of achieving this goal look good. The business area also makes a substantial contribution to achieving the goal of the rationalisation programme "Statnett 2000". The work to prepare Statnett's own installations for the millennium changeover (Y2K) was given a high priority in 1999. All computer systems, power lines and stations saw in the year 2000 without a hitch thanks to the extremely thorough, in-depth work that was carried out during the course of the year. The extremely high standard of Statnett's facilities is a testament to all this hard work. Statnett is

currently in the process of replacing all its operations control centres. The first of these, in Alta, became operational in 1998. 1999 heralded the arrival of the new control centre for Statnett's power lines and stations in Southern Norway. This was also an important factor in securing the electricity supply for the transition to the year 2000. If all goes according to plan, a new operations control centre for Central Norway should be up and running from the summer of 2000, whilst a new national control centre will be added in 2001. The expansion of the control apparatus means a substantial increase in both the scope and capacity of Statnett's own telecommunications network. Of its own construction and rehabilitation projects, the power line between Kristiansand and Evje became operational in 1999, as did the section of the grid reinforcement in the Hadeland area which runs between Aslaksrud and Hadeland. Rehabilitation work has also been carried out as well as new installations in the Røykås, Flesaker, Narvik, Aura and Istad substations. During the course of 1999, Statnett has increased its shareholding in the Main Grid to around 80 per cent, primarily following the acquisition of power lines from Viken Energinett. Statnett aims to own the entire Main Grid.

The Operations Division The Operations Division is responsible for the construction, operation and maintenance of Statnett's power lines and stations for the transmission of electric power. Acquisitions of installations in the Main Grid have also been important in 1999. The Operations Division's contribution to the "Statnett 2000" programme is to streamline its operations by a total of NOK 87 million compared with the accounting figures for 1997. The aim is to meet the target during the course of 2002. The 1999 accounts show a saving of NOK 50 million. The target for 2000 is NOK 61 million in cost reductions, however the budget shows that the division is likely to do even better than this. It is crucial that future work develops tools for continued rationalisation and also maintains comparisons with similar operations in a worldwide benchmarking system. The main challenges ahead are to continue to rationalise operations whilst at the same time maintaining the quality of the "transmission services".

The Engineering Division Statnett's Engineering Division supplies various forms of consulting and engineering services in the field of high-voltage transmission. Its most important clients are the Statnett group and the associated companies. Engineering, works management and project management within Statnett's own line construction have been major tasks in 1999. For new projects and for investments and upgrade projects alike, a key objective is to develop cost-efficient solutions for our customers, whilst at the same time securing both operational and environmental requirements. The Division is working on a number of improvement projects in this respect, both with regard to new investments and maximum utilisation of the power system. Among other things, proposals are being drawn up for new solutions in order to upgrade power lines and stations from 300 kV to 400 kV. Externally, the Division has principally sold services in pre-notifications/licence applications for power line projects and internationally in conjunction with DC installations. The work on services such as these will be intensified in the future. In conjunction with Statnett's rationalisation programme, the division is on target to reach its contribution of NOK four million in 2000.

The Telecommunications Division The Telecommunications Division administers Statnett's telecommunications network and most of its IT systems. The division is primarily an internal service provider, focusing on IT services for the control apparatus and general technical/administrative activities including the operation and maintenance of telecommunications links. The services have been gathered in the division to achieve an efficient utilisation of both the facilities



and overall expertise in order to contribute to the rational operation of the power system. In 1999 the division has particularly been concerned with the transition to the year 2000, with responsibility for Statnett's own installations, setting up new operations control centres and the collaboration with Enitel. The collaboration with Enitel asa led to the installation of 438 km of fibre-optic cable along Statnett's high-voltage lines in 1999, with plans to install around 375 km in 2000. Statnett plays an active role in facilitating a competitive telecommunications market by leasing out capacity in its telecommunications network to Enitel, who then takes care of all commercial activity. The partnership has enabled Statnett to upgrade and expand its telecommunications network to a standard it would otherwise have been too costly to achieve. In conjunction with Statnett's programme of rationalisation, the division looks set to achieve its targets compared with the volume of services in 1997. However, increasingly widespread use of computer systems and reliance on dependable telecommunications leads to increased scope of such service production.

Therefore, the total costs do not drop even though the individual services become cheaper.

The Subsea Cable Division | The aim of the Subsea Cable Division is to secure the implementation of the subsea cable projects in which Statnett is involved. The cable projects on which work is now being undertaken are Viking Cable between Norway and Germany, the NorNed cable between Norway and the Netherlands and a possible cable between Norway and the UK. During the course of 1999, the agreement between the power trading partners in Eurokabel was terminated. As a result, all project work in Eurokabel AS was called to a halt. The collaboration between Eurokabel and Viking Cable has thus also come to an end, and Viking Cable is being implemented as a separate project. Viking Cable is scheduled for completion towards the end of 2004. It has been decided to report the NorNed project to the EU's competition authorities. A number of matters also remain to be clarified relating to the deregulation of the energy sector in the Netherlands. This means a deferral of the investment decision for the project. Statnett, Norsk Hydro and the UK's National Grid Company have continued to work on assessing technical and financial possibilities of a subsea interconnector between Norway and the UK. The project is being further developed with a decision to invest possibly being taken in the summer of 2002. As the only company that is a partner in all the planned subsea interconnectors from Norway, Statnett has a particular responsibility to exploit synergies between the projects, which will, in turn, contribute to cost-efficient solutions by utilising combined expertise. Good project management, a focus on profitability and rationalised purchasing will contribute to securing the projects' implementation.

Risk | Owning and operating grids is not subject to competition. The financial risk of grid operations lies in Statnett having been allocated a revenue ceiling by NVE to which the company must adjust its activities and costs. In other words, the company must ensure that costs do not exceed the revenues it is allowed to earn by the authorities. NVE demands more efficient operation of the company and adjusts the revenue ceiling each year by imposing requirements for increased efficiency. For 1999, the increased-efficiency requirement was fixed at 4.08 per cent for the operation of Statnett's own infrastructure. Interest costs from financing its own installations are not allowed for in the revenue ceiling. The company is therefore exposed to interest-rate risk. The challenge is to maintain a level of interest costs that is compatible with the revenue ceiling. At the same time, physical losses in the Main Grid mean financial risk for those who own transmission facilities. A separate revenue ceiling is set for these losses, and any deviations between the revenue ceiling and the actual losses are to be divided between the owners of transmission facilities in the Main Grid. The current regulations, which include requirements for

increased efficiency also of physical losses in the grid, mean a year-on-year reduction in the ceiling for energy losses, whilst at the same time the actual losses increase as a result of increased utilisation of the grid. Over time, this will inflict increased costs on the owners of the facilities. Apart from the financial risk that Statnett's grid operations represents, Enitel asa's market outlook in a fiercely competitive telecommunications market poses a certain risk for Statnett. However, Statnett's investments in the telecommunications sector are modest compared with operating its own transmission facilities. The financing of construction activities resulting from contracts with Enitel goes via Enitel. Enitel pays the corresponding construction costs at the start of the 20-year leasing period. Statnett also receives an annual fee. Statnett's risk is thus small, not taking into account its investments. □

For the Grid Owner's accounts and notes, see page 30–31.





we will: ensure that all our grid customers receive satisfactory quality



Paving the way for the powermarket

The System Operator business area reported a loss of NOK 57 million in 1999, including the repayment of NOK 28 million to other plant owners for previous years' distributed lower revenues. The loss will largely be covered by Statnett. With common objectives for Statnett's core operations, the Norwegian public can rest assured that the right socio-economic solutions for procuring the necessary capacity in the grid are chosen, both in the immediate term and the more long-term.

Statnett has system-wide responsibility and is the system operator. This job entails being the Norwegian power system's "conductor", ensuring the co-ordination of generation and consumption whilst making sure that the power grid's capacity is not exceeded. Through this business area, Statnett also administers the Main Grid Commercial Agreement and the shared regional grid in which Statnett owns most of the infrastructure. For the power market to work, the transmission grid must be open and available, providing equal access to all. Occasionally, this availability will be reduced because the need for capacity exceeds that which is physically available. Situations such as these can be solved either by investing in greater capacity in the grid or by reducing consumption. As Statnett both owns grids and operates the system, the enterprise can choose the socio-economically most profitable way of solving this. In 1999, Statnett signed an agreement with Norsk Hydro for the option of disconnecting their consumption on Karmøy when the grid is about to become overloaded. This agreement means that the grid's operations can be stepped up, without having to invest in the grid. A separate market is also being set up for consumption, in which major consumers indicate the amount they want to be paid in order to disconnect or reduce their consumption. This is an addition to the regulating power system, in which power producers quote prices in order to regulate generation.

Revenues and expenses | The business area's revenues are regulated by the revenue ceiling set by the Norwegian Water Resources and Energy Directorate (NVE) for Statnett. Statnett has a revenue ceiling for most of its activities as a transmission system operator, as well as a special

ceiling to cover physical energy losses on the Main Grid. The System Operator business area's expenses are related to the various costs of co-ordinating the power system, such as physical energy losses on the grid, increasing and decreasing production levels and administrative costs. Operating costs for the shared regional grid are related to energy losses on the grid and administration costs.

The Main Grid | Of the NOK 29 million operating loss for the year, NOK 26 million relates to the Main Grid, NOK 24 million of which relates to the operator function. This poor result is due to the fact that the revenue ceilings do not cover the actual costs of tasks carried out by Statnett in order to provide optimum capacity to the power market. Statnett covers this loss. NOK 2 million in deficit relates to energy losses on the Main Grid, as the revenue ceiling set for this purpose does not cover the costs. This loss is divided between all those who own infrastructure in the Main Grid. As the largest owner, Statnett will cover most of the loss. In addition, NOK 28 million of the System Operator's distributed lower revenues for previous years will be repaid to external plant owners.

Regional grids | Statnett is the operator for a common regional grid, the Rana grid in Nordland county. Statnett also rents out a number of individual components, mainly sub-stations, to regional grids across Norway. The administrative costs of this were NOK three million in 1999, resulting in a correspondingly negative result for Statnett's operator function.

The Power Systems Division | The business area is divided into two divisions, the Power Systems Division and the Commercial Division. The Power Systems Division is responsible for technical aspects of the system such as the co-ordination of operations, system utilisation and system planning. In 1999, the division was particularly occupied with the transition to the year 2000 and the potential computer problems associated with this. In its capacity as system operator, Statnett was assigned a supervisory role by the NVE, whereby the companies in the power sector that are important to the Main Grid for electric power reported on their preparations for the millennium changeover to Statnett. On New Year's Eve, Statnett ran an information centre for the power sector. In order to facilitate the conditions for producers and consumers of power, Statnett considers it extremely important that it rationalises its operations. This involves both rationalising administrative costs and improving the utilisation of the Norwegian power system. The Power Systems Division is well on its way to reaching its target in "Statnett 2000", Statnett's programme of rationalisation. The first milestone is the year 2000, and the plans show that the division will achieve its goal of a NOK 6 million cost reduction. As regards more efficient utilisation of the Norwegian power

er system, Statnett aims to increase Main Grid utilisation by on average 10 per cent in the space of 10 years, between 1998 and 2008. Again, the work to increase efficiency is on target in this area. | As well as continued rationalisation – without this affecting delivery reliability – the, at times, tightly squeezed access to capacity in Norwegian power generation is a major challenge. A continued increase in consumption makes it important to identify effective methods of counter-acting the situation of restricted availability of production capacity (output), to enable the power market to function and consumers' electricity needs to continue to be met.

The Commercial Division | The Commercial Division handles the Main Grid Commercial Agreement and a shared regional grid, including commercial matters such as fixing tariffs, accounts and contracts. The division has a particular responsibility for contact with Statnett's customers. The Main Grid Commercial Agreement with its point tariff system is fundamental to the functioning of the Norwegian power market. By way of common prices across the country and prices linked to the point at which the buyer and seller connect to the Main Grid, the Main Grid Commercial Agreement paves the way for healthy, fair competition, given that geography and location are immaterial. The fact that Statnett is a neutral company in relation to the players on the market is also important for the confidence in this market. | In 1999, the Commercial Division hammered out a new agreement for connection to the Main Grid for those clients who are organised members of the Federation of Norwegian Process Industries (PIL). All clients who so wish, can make use of this contract. | The main challenge now for the Commercial Division is to devise an adjusted pricing system for use of the Main Grid. Together with various players in the sector, the aim is to draw up principles for setting tariffs that secure stability for customers over time. | The Commercial Division is well on its way to achieving its increased efficiency targets in connection with "Statnett 2000". The goal of a NOK 2 million cost reduction has been incorporated in the budget for 2000.

Risk | Statnett's financial risk as a company with system-wide responsibility and operator of the Main Grid and regional grids is closely linked to the ceilings set by the NVE for upper permissible revenues. It has become evident that these revenue ceilings do not cover the actual costs borne by Statnett in facilitating conditions for buyers and sellers in the power market, thus weakening its results. Furthermore, the proportion spent on physical energy losses from the grid is divided between the various owners of power lines and stations in the Main Grid. If the costs of physical losses fall below the revenue ceiling, the surplus is divided between the various owners of infrastructure and any loss is correspondingly divided. As the largest owner of installations, most of this is received/covered by Statnett. □

For the System Operator's accounts and notes, see page 30–31.



we will: employ highly-qualified staff who are op



Engineering and Construction activities

Continued progress for Statnett Entreprenør AS

In 1999 Statnett Entreprenør AS recorded a turnover of NOK 287 million and a profit before tax of NOK 12 million. Statnett Rederi AS suffered a loss before tax of NOK 59 million. Whilst the engineering and construction company's profit is better than expected, the shipping company did not achieve its financial targets, mainly because of write-down of operating assets. A fiercely competitive engineering and construction activity will secure access to the requisite skills in the construction and maintenance of power lines at market terms.

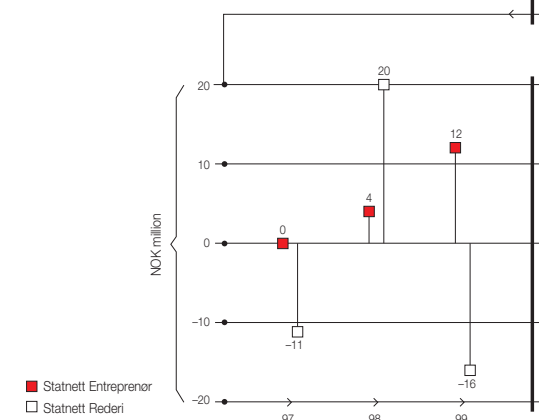
Statnett's Engineering and Construction business area is run on a commercial basis through the wholly-owned subsidiaries Statnett Entreprenør AS and Statnett Rederi AS. Statnett Entreprenør has been in operation since the summer of 1997 and Statnett Rederi AS was formed in 1996.

Statnett Entreprenør AS | The objective of Statnett Entreprenør AS is to operate in the fields of construction, maintenance, standby services, transport and engineering, nationally and internationally, and to engage in related activities. The company has 290 employees and a share capital of NOK 60 million. Know-how and expertise gained through the work on the Norwegian Main Grid will be built on and offered to internal and external customers. This expertise makes it possible to enter related niches such as the construction of suspension bridges, the replacement of flare towers on oil platforms, the expansion of telecommunications and other areas in which the company's specialist expertise gives it a competitive edge. Statnett Entreprenør ranks among the best in the world in the use of helicopters in power line construction and other assignments requiring the same know-how. | Statnett Entreprenør AS' better than expected profit is very largely attributable to the high level of activity in general and the expansion of fibre-optic communications in particular. In line with objectives, major assignments for Statnett SF represent a declining share of the turnover. The Nordic region is Statnett Entreprenør's most important market and is regarded as its domestic market. The company aims to achieve a 10 per cent return on equity by the year 2000, rising to 15 per cent over a ten-year period. In 1999 the company achieved a return of almost 12 per cent. | 1999 saw the completion of the 50 km long power line

en and comitted to working as part of a team



Profit/loss before tax for Statnett
Entreprenør and Statnett Rederi



between Kristiansand and Evje, within schedule and budget. The 11 months it took from construction start to operational start makes it the fastest power line construction Norway has ever seen. Statnett Entreprenør AS also beat off tough international competition to win a total project for a major power line in Finland, the first time a project of its kind had been awarded to a foreign company. Other large contracts include work undertaken by Statnett Entreprenør AS for Svenska Kraftnät in Sweden in partnership with the company's permanent co-operation partner in Sweden, Elektro Sandberg AB, in addition to expansion of the network for fibre-optic communications for Statnett SF. Major fluctuations in the power line construction market are the reason why the company needs several legs to stand on. The company will continue to focus on telecommunications, and as part of the work of keeping up-to-date in this area, Statnett Entreprenør acquired a stake in the company Opto Com AS in the New Year 2000. A framework agreement was also entered into at the same time for nation-wide main-

tenance for Telenor Nett. One of the principal challenges facing the company will be the expansion of its operations in new niches in construction and engineering. Aside from this, one goal is to reduce the costs of line maintenance for the main contractor Statnett SF.

Statnett Rederi AS Statnett Rederi AS owns two vessels, the cable-laying vessel C/S Skagerrak and the heavy-transport vessel M/S Elektron. The object of the company is hiring out vessels for cable-laying, repairs and other jobs in connection with the laying of subsea cables, as well as for the transport of large, heavy loads by sea. The company has no employees, and its board has signed a management agreement with Statnett Entreprenør AS. C/S Skagerrak is one of two vessels in the world that lay subsea cables for power transmission. A decision has been taken to sell C/S Skagerrak. The Ro-Ro vessel M/S Elektron is specially designed for carrying transformers and other extremely heavy loads. The vessel has a standby power supply contract and also has various other

heavy-transport orders for other players, particularly in connection with power supply and the heavy engineering/offshore industry. The shipping company's poor results for 1999 can be explained by write-down of operating assets and difficult market conditions for the vessels. Despite high levels of activity with assignments for 250 days for C/S Skagerrak, low rates have yielded weak results. This is partly due to the fact that the nature of the assignments has not required full use of the vessel's unique capabilities in cable-laying in deep water. M/S Elektron's orders for the transport of cargo for the British armed forces utilised the vessel's construction with extremely strong hull and flat bottom. However, a total of 158 days of assignments is less than expected. The financial target for Statnett Rederi is 20 per cent return on equity by the year 2000, rising to 10 per cent return on total assets in the course of ten years. Difficult market conditions in offshore and coastal industries have meant that the target was not reached in 1999.

For main figures, see page 30.

For further information on engineering and construction activities, see the companies' own annual reports.



we will: persue a constructive dialogue with the authorities about our activities

The Power Exchange:

Healthy growth for Nord Pool

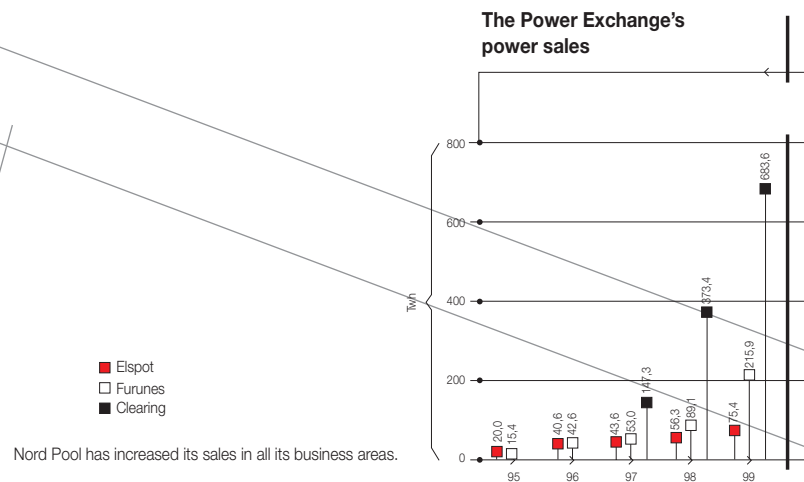
As a part-owner of Nord Pool, Statnett aims to contribute to making Nord Pool the most important player in the power exchange area in Europe. In order to succeed in the deregulated European market, Nord Pool is working to further strengthen its position in the domestic market. The Power Exchange has won the confidence of the Nordic power market, which is reflected in increased liquidity and substantial market shares. This positive trend is partly linked to the development of new products and the power exchange's ability to deliver efficient and competitive services. The market would also like to see a solvent exchange, and liquidity in itself often leads to further liquidity. Numerous European countries have chosen or will choose the Nordic model for a power market based on free competition. Nord Pool wishes to be a driving force and active participant in these processes. Competing with the exchanges that are now commencing or are in the process of commencing corresponding activities in e.g. commercial centres such as Frankfurt, Zurich and London will be a major challenge for Nord Pool. However, as probably the most successful power exchange in the world, and the only functioning international electricity pool, Nord Pool has a unique standpoint from which to succeed in this competition and thus bol-

Nord Pool ASA, the Nordic Power Exchange, reported sales of 291 TWh (billion kilowatt hours) in 1999, which is double that of the year before. The Power Exchange achieved a financial result of NOK 46 million before taxes. Statnett and the Swedish transmission system operator, Svenska Kraftnät, each own 50 per cent of the Power Exchange. Half of the profit (NOK 23 million) has been included in Statnett's consolidated accounts. For Statnett as the Norwegian transmission system operator, the ownership tied to the physical spot market (elspot) is particularly important in ensuring the co-ordination of the generation and consumption of power based on market principles.

ster Norway's position as a marketplace for electricity. Nevertheless, the power exchange's first priority is the further development of the Nordic market.

The financial market In 1999, Nord Pool saw advances in all three of its business areas: financial trade, physical trade and clearing services. The Power Exchange saw a particularly sharp increase in trade in the financial futures market (eltermin and eloption), where turnover was up by 143 per cent on the year before to a staggering 216 TWh. Over 52,000 financial contracts were traded via Nord Pool in 1999. General growth in the market, new players and the introduction of new products – options and financial spot contracts – contributed to the healthy growth.

The physical market The market for contracts with physical delivery (elspot and elbas) saw a 34 per cent increase compared with 1998, with sales totalling 75 TWh. The western parts of Denmark (Funen and Jutland) were established as a separate price region in elspot as of 1 July 1999. This contributed to a common Nordic market for physical power trading, comprising Norway, Sweden, Finland and the western regions of Denmark. According to the plan, eastern Denmark will be integrated in the Nordic power exchange area during the course of the first six



months of 2000. More than a fifth of the total consumption of electric power in the Nordic countries was sold in Nord Pool's physical market in 1999.

Clearing | The Power Exchange's clearing function entails Nord Pool entering as the legal other contractual party in transactions. This means that Nord Pool takes over other-party liability both in relation to buyers and sellers, and guarantees correct settlement and delivery. Nord Pool cleared a total volume of bilateral contracts of 684 TWh in 1999, up 83 per cent on the year before.

Revenues | Norway, Sweden, Finland and western Denmark now have a common power market and Nord Pool is the organised marketplace for this Nordic power market. The Power Exchange's revenues consist largely of fees from trading and the clearing of power contracts. The structuring of fees to promote the volume of trading and clearing is also important.

Competition | Nord Pool faces stiff competition in a number of areas. In the market for physical next-day delivery of power, elspot, Nord Pool competes with the bilateral market and power brokers. Against this competition, the Power Exchange is capturing ever greater market shares.

Also in the financial market, the Power Exchange is facing competition from various forms of bilateral trade, including from brokerage houses. In this market, Nord Pool has a market share of roughly 25 per cent of the standardized contracts, the Nordic region seen as a whole. Although the clearing function is also exposed to competition, it is estimated that the Power Exchange has other-party positions for about 80 per cent of the standardized financial trade in the Nordic countries.

Nord Pool Consulting | Statnett, Nord Pool and Svenska Kraftnät have set up a consultancy company – Nord Pool Consulting – based on services relating to the co-ordination of the power system (system operators) and the organisation of power markets. The consultancy company was formed to exploit the companies' expertise in a commercial, international market.

Main figures are shown page 30.

For further information on Nord Pool, see the company's own annual report.



Other tasks

Power transmission, balance accounting and foreign trade

The Main Grid Commercial Agreement had surplus revenues of around NOK 155 million in 1999. At the beginning of the year, the Agreement had an accumulated deficit of NOK 446 million, which was reduced to NOK 291 million at the year-end. The deficit can be recouped through subsequent years' tariffs. The regional grid for which Statnett is the operator, the Rana grid, broke even in 1999. In 1999, the bal-

As well as its own business areas, Statnett carries out other tasks on behalf of consumers and the authorities. Statnett's Commercial Division is responsible for these tasks.

The Main Grid Commercial Agreement | The transmission grid in Norway is divided into three levels - the Main Grid, regional grids and the local distribution networks. The Main Grid constitutes the major part of the electricity network with the highest voltages, mainly installations with voltages over 200 kV. This is a nation-wide fully linked system and is part of the common invoicing system for transmission services. Statnett owns approximately 80 per cent of the infrastructure on the Main Grid. | The Main Grid Commercial Agreement allows potential buyers and sellers of electricity open access to this grid and thereby the opportunity to trade in a common power market. Running this arrangement is Statnett's responsibility. | Each year, Statnett fixes the prices (tariffs) for using the Main Grid and this makes up the Main Grid Commercial Agreement's revenues. The expenses consist of rental costs for stations and power lines that are included in the Agreement, as well as costs relating to the actual running of the Agreement, such as system services, energy

balance accounting recorded a profit of NOK 4 million and now has accumulated surplus revenues of NOK 19 million, which will be returned in following years' prices. Foreign trade made a profit of NOK 79 million, which will be transferred to the Ministry of Petroleum and Energy.

losses on the grid and administration costs. The leasing costs are regulated through the plant owners' revenue ceilings set by the Norwegian Water Resources and Energy Directorate (NVE). On an annual basis, variances will always arise between actual revenues and the fixed expenses in the Agreement. This variance is referred to as higher or lower revenues. The Main Grid Commercial Agreement must break even over time. Annual deviations from break-even are either repaid or recovered through the following years' transmission prices (tariffs).

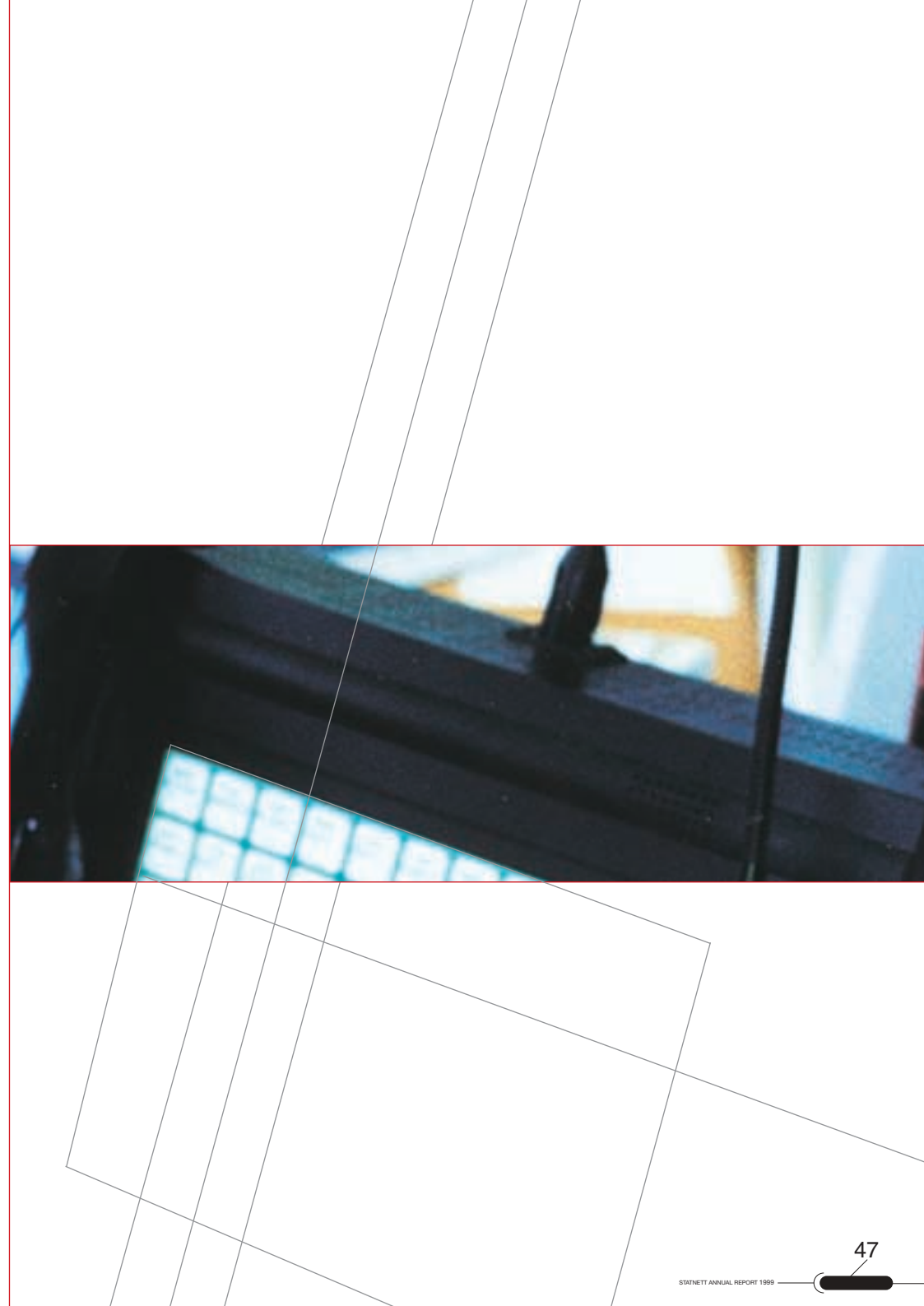
The regional grids | Regional grids are power transmission grids that are important to large regions, e.g. parts of one or more counties. These power lines normally have a voltage of 132 kV and 66 kV. Statnett owns such grids all over Norway and they are organised in different tariff zones. Statnett is the operator for one common regional grid, namely the Rana grid in Nordland county.

Balance accounting | The Balance accounting compares figures for all planned consumption and generation with the actual consumption and generation of electric power. This comparison

of physical power trading and actual consumption/generation is carried out for all companies that trade in power on the wholesale market in Norway and means that the power transmission grid can be used for free power trading. The difference, or imbalance, between planned and actual generation and consumption is regulating power. Statnett's National Control Centre determines who has to regulate their generation (or consumption) in order to maintain the balance in the power system. This is done according to price quotes. Balance accounting is financed through a charge (volume charge) on all regulating power, in addition to an annual fee (component fee per contract between two parties). The expenses consist of administration costs and the cost of developing and maintaining the power sector's standard for electronic data communications, Ediel.

Foreign trade Foreign trade in power may in certain circumstances be subject to charges. These charges represent revenues for the Ministry of Petroleum and Energy. On 28 February 1996, the Ministry of Petroleum and Energy took over the current deficit on foreign trading, approximately NOK 393 million, by way of the enterprise having a corresponding amount erased from its debt to the Norwegian state. As a result, Statnett is obliged to transfer all profits on foreign trade to the Ministry until the deficit has been repaid. The revenues come from so-called congestions that may arise when transmission restrictions are placed on power trading between Norway and Sweden and between Norway and Russia. In 1999 Statnett and the other Nordic transmission system operators reached agreement regarding the distribution of these cross-border "congestion revenues". The agreement will remain effective from 1 January 1999 until 31 December 2000. At the end of 1999, nominal loss for foreign trade totalled NOK 116 million. □

For accounts and notes for these tasks, see page 30–32.





Statnett will reduce its annual costs by NOK 200 million through the rationalisation programme, Statnett 2000. Stage one of this goal is to be fulfilled in 2000. This year's goal was set as a cost reduction of NOK 103 million, compared with 1997. The last stage of the cost cuts is to be finalised by 2002, reducing the annual costs by NOK 200 million since 1997.

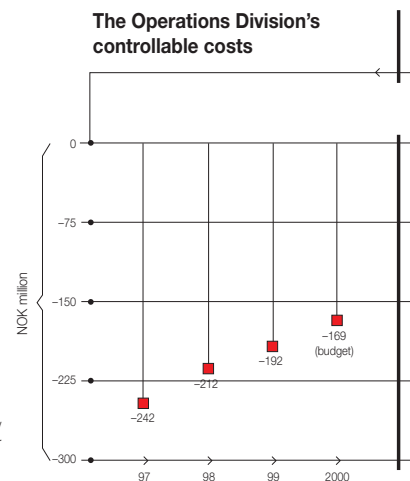


Statnett 2000

Major cuts and efficient operations

Statnett has rationalised on all levels. All staffs and divisions make their contribution to the goal of rationalisation. The Operations Division has made the biggest pledge, with a planned improvement of NOK 73 million for 2000. The budget for 2000 shows a total cost reduction of NOK 123 million for Statnett compared with the accounts for 1997, which is the "base year" for the savings. So far, at least, it would seem that the goal will be exceeded by NOK 20 million in 2000.

Initiatives on many levels | Creating a more efficient organisation, not only through staff reductions, but also by maximising the utilisation of resources, is one of the measures. In grid operations, the former emergency response arrangement has been replaced by a supply arrangement and maintenance of the facilities has been streamlined. Furthermore, a form of internal competition has been introduced, whereby the units' results are compared wherever appropriate and possible. Effective investments, at the right level and the right time, are an area in which Statnett expects to see gains in the near future.



The Operations Division reduced its operating costs by NOK 50 million between 1997 and 1999. The plans for 2000 contain a further NOK 23 million in savings.

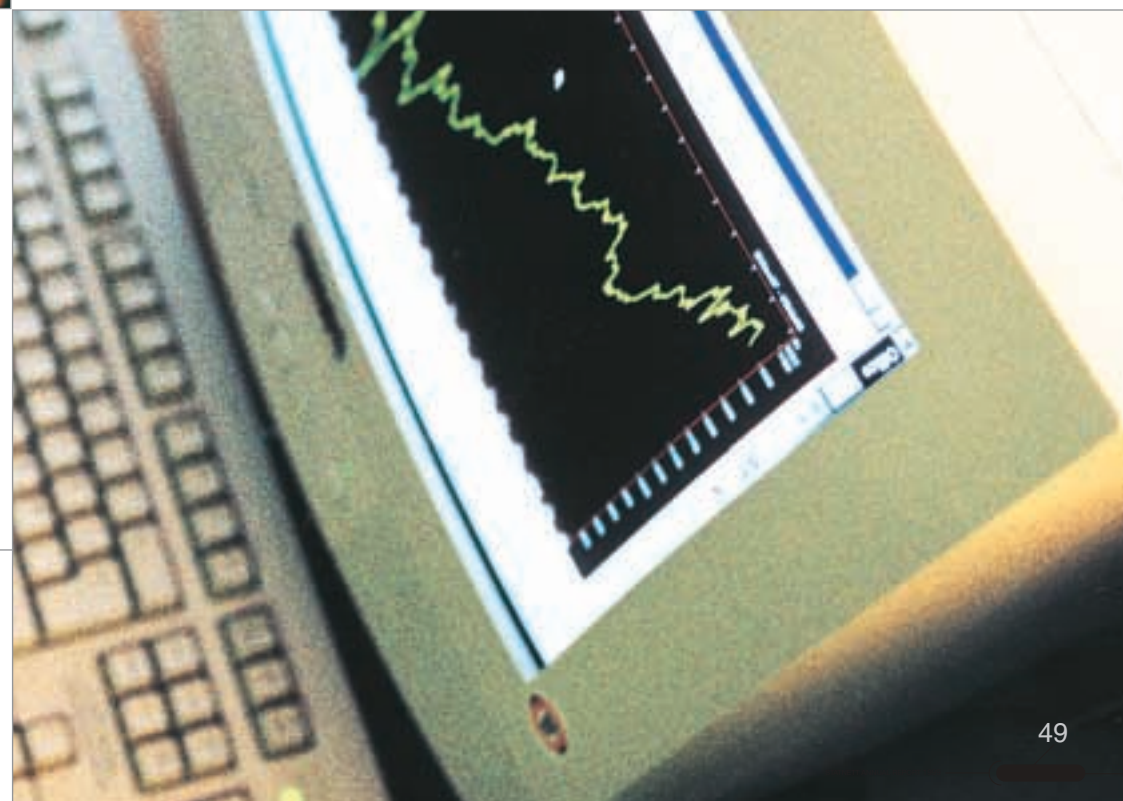
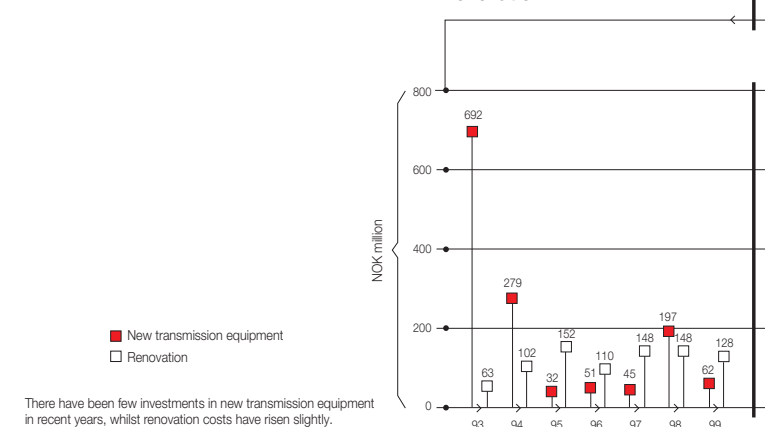


we will: meet the targets of the “Statnett 2000” rationalisation programme

100 resignations | Statnett has reduced its staff by 100 people in the last two years, as part of the “Statnett 2000” rationalisation programme. Around 60 of these have taken early retirement or other arrangements, whilst 40 have left Statnett through natural retirement or upon completion of temporary contracts. Statnett’s rationalisation programme has made every effort to reach final agreements with the individual, without having to resort to redundancies.

Additional adjustments | The action plans for 2002 will be able to reveal the need for continued adjustments. This can probably be solved through natural departures and early retirement of staff turning 60 in the period. In conjunction with staff cuts, Statnett has set up a centre designed to assist staff find new jobs and adapt to early retirement/change etc. The centre will remain open throughout the winter of 2000 providing counselling also for those who have already left. □.

Investments in the grid divided into new investments and renovation



Power terminology

Balance accounting is a key comparison of planned consumption, generation and bilateral trade and actual consumption and generation for all companies trading in electric power in the wholesale market in Norway. The difference that arises between planned and actual generation and consumption is regulating power. The balance accounting gives buyers and sellers access to all transmission grids and thus enables free trade of electric power.

Balance power is the discrepancy between planned and actual power exchange between Norway and Sweden ("Cross-border regulating power").

Balancing service In Sweden, the term balancing service is used to describe the same function as the regulating power system in Norway. See below for the definition of regulating power system.

Bilateral contracts are power contracts entered into directly by two contractual parties in the wholesale market. Most power trading in Norway, Sweden and Finland takes place in the form of bilateral contracts.

Clearing By means of its clearing function, the Nord Pool power exchange reduces the financial risk for those trading in power contracts. Nord Pool is a party to all trading and notified contracts, thereby taking over other-party liability both in relation to the buyer and seller. As the legal other contractual party, Nord Pool always guarantees correct settlement and delivery.

Common grids are common grid arrangements, for example at regional grid level. The owners of power lines and stations rent out their installations to a shared grid. The common grid has a common operator and common power transmission prices for customers.

The distribution network is a network for distributing power all the way to the consumers (high-voltage networks of up to 22 kV, low-voltage networks of 230 and 400 V).

Elsport is the name of Nord Pool's spot market (the physical delivery of power on the next day, hourly contracts).

Eltermin is the name of Nord Pool's futures market – financial contracts for delivery up to three years ahead. There are two types of financial trade relating to this form of settlement: future settlements and forward settlements (see below).

Forward settlement means cash settlement in the delivery period only. Nord Pool employs this for seasonal contracts (winter1, summer, winter2).

Future settlement means the daily market settlement of losses/gains. In this field, Nord Pool offers weekly, block and seasonal contracts.

Higher and lower revenues are deviations from a break-even result. The terms are used in conjunction with the services that must break even over time, such as the Main Grid Commercial Agreement, power transmission in common regional grids and the balance accounting. If, one year, the arrangements' revenues are higher than their costs, this surplus must be returned to the customers in the form of lower prices in following years. Correspondingly, a negative result (lower revenues) can be recouped by subsequent years' prices.

High-voltage power

lines are lines carrying voltages of over 1,000 volts (1kV).

The Main Grid

is the main section of the power grid with the highest voltages (mainly over 200 kV). It is part of a system that has common invoicing for transmission services, the Main Grid Commercial Agreement. The Main Grid consists of power lines and stations that are important to a single region, several regions or the whole country. Statnett owns most of the Main Grid installations and administers the Main Grid Commercial Agreement.

Marginal losses are changes in energy losses on the grid as a result of changes in generation and/or consumption.

Operator

Buyers and sellers of power on the physical power markets are responsible for their own power balance. In other words, the operating company is financially responsible for retaining the balance between consumption and generation when more/less is used than that covered by the contracts entered into. Statnett's balance accounting (see below) uncovers this imbalance through its comparisons, whilst Statnett's National Control Centre secures the overall power balance by increasing and decreasing production/consumption (regulating power service, see below).

The power exchange or electricity pool is a marketplace for the organised trade of electricity. Nord Pool ASA, in which Statnett and Svenska Kraftnät each own a 50 per cent stake, runs the Norwegian-Swedish power exchange.

Power units

- V = volt (voltage)
- kV = kilovolt (1,000 volts)
- A = ampere (current)
- W = watt (output)
- kW = kilowatt (1,000 watts)
- kWh = kilowatt hour (energy)
- MW = megawatt (1,000 kW)
- MWh = megawatt hour (1,000 kWh)
- GW = gigawatt (1,000,000 kW)
- GWh = gigawatt hour (1 million kWh)
- TW = terawatt (1,000,000,000 kW)
- TWh =terawatt hour (1 billion kWh)

Regional grids or main distribution grids are grids that are important to large regions – e.g. parts of one or more counties (as a rule power lines with voltages of 132 kV and 66 kV).

The regulating power

system is a system whereby operators quote a price to reduce or increase generation and/or consumption. The regulating power system is used to regulate the power system so that consumption and generation are always in balance.

The revenue ceiling is the revenue limit allowed by the authorities for monopolies. The Norwegian Water Resources and Energy Directorate (NVE) sets an upper limit on the revenues that grid companies can earn from their monopoly-based operations.

System-wide responsibility

is the overall responsibility for coordinating and operating the entire power system. Statnett has system-wide responsibility in Norway.

Generation and consumption of electrical power in 1999

Gen. of electrical power:	122.9 TWh
Net exports:	1.9 TWh
General consumption:	82.6 TWh
Power-intensive industry:	31.4 TWh
Total consumption:	121.0 TWh

Power terminology

Key documents

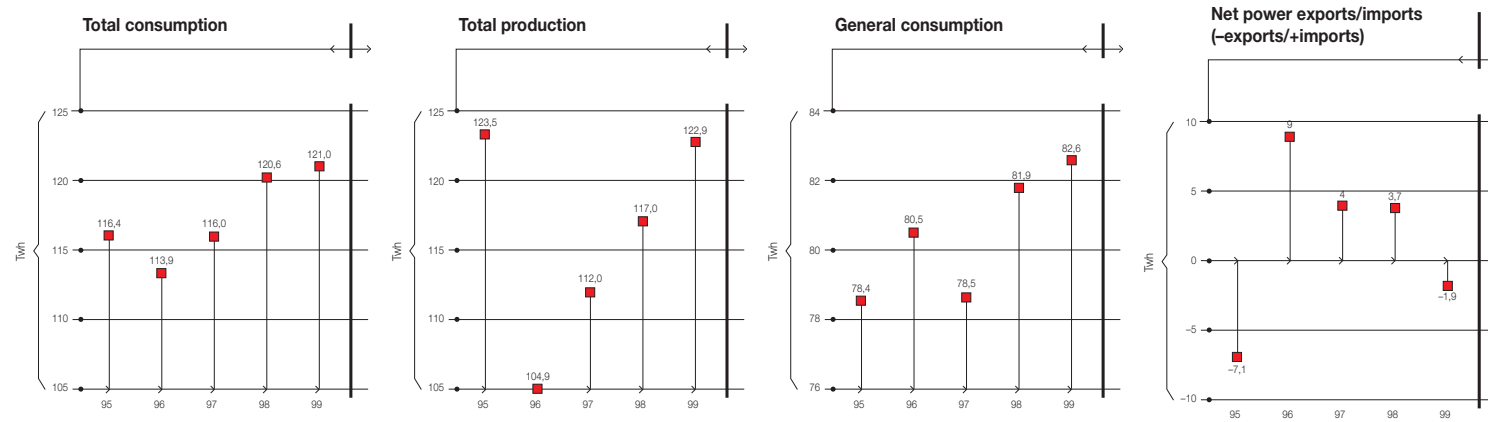
- Concerning the reorganisation of the state-administration company Statkraft into the State-Owned Enterprises Statnett SF and Statkraft SF.
 - Proposition no. 32 to the Odelsting (1990-91)
 - Proposition no. 100 to the Storting (1990-91)
 - Report no. 28 to the Storting (1991-92)
 - Minutes of Discussion in the Storting (Norwegian parliament) of 8 November 1991
- Act no. 71 of 30 August 1991 relating to State-Owned Enterprises
 - NOU 1991:8
 - Proposition no. 32 to the Odelsting (1990-91)
 - Report no. 67 to the Odelsting (1990-91)
- Act no. 50 of 29 June 1990 relating to energy (Energy Act)
 - Regulation no. 959 of 7 December 1990 under the Energy Act
 - Amendment to regulation, 10 December 1993
 - Proposition no. 43 to the Odelsting (1989-90)
 - Concerning emergency-response: Proposition no. 60 to the Odelsting (1992-93)
- The organisation of foreign trade in electricity.
 - Proposition no. 81 to the Storting (1991-92)
 - Report no. 178 to the Storting (1991-92)
 - White Paper no. 46 (1992-93)
- The organisation of power trade with Sweden.
 - White Paper no. 11 (1995-96)
 - Report no. 97 to the Storting (1995-96)
- The taxation of power companies
 - Proposition no. 23 to the Odelsting (1995-96)
- Electromagnetic fields and health hazards.
 - Proposal for a management strategy
 - NOU 1995:20
- Guidelines for the revenue ceiling for transmission tariffs.
 - The Norwegian Water Resources and Energy Directorate (NVE), 1997 (replaces the 1996 guidelines)
- Energy and power balance towards the year 2020
 - NOU 1998:11
- Concerning energy policies
 - Report no. 29 to the Storting (1998-99)
- Financial and technical reporting, revenue ceiling for power grid operations and transmission tariffs.
 - The Norwegian Water Resources and Energy Directorate (NVE), March 1999



Brief history | 1919-21 | The Norwegian Water Resources and Energy Directorate (NVE) is founded. 1932 | The co-ordination of Norway's power stations is established. 1986 | The state-owned power stations, Statkraftverkene, are separated from the Norwegian Water Resources and Energy Directorate. 1991 | The current Energy Act enters into force. 1992 | The state-owned administration company Statkraftverkene is divided into two independent state-owned enterprises, Statkraft SF and Statnett SF, the first of which is responsible for the competition-based generation of power (power stations), whilst the latter runs the more mono-

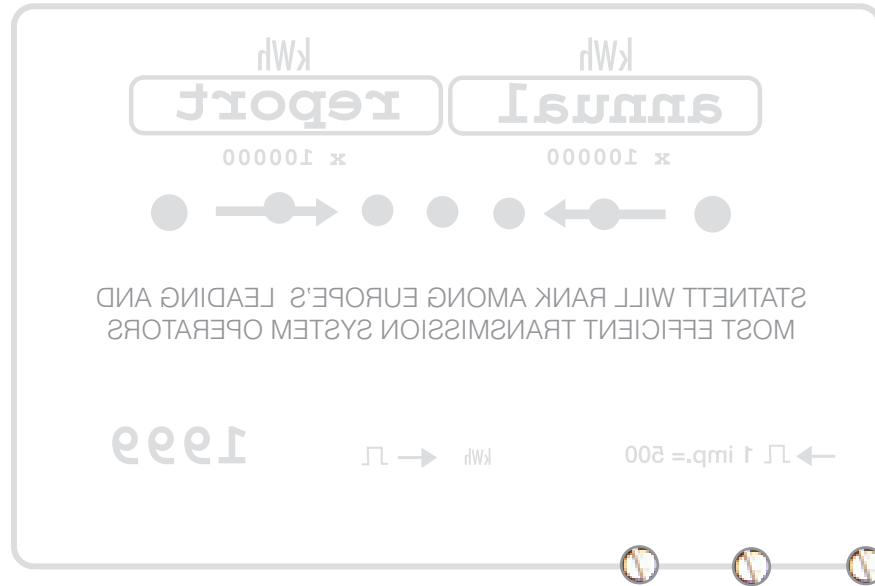
poly-based transmission of power and has national system-wide responsibility. 1993 | The co-ordination of Norway's power stations is integrated in Statnett. Statnett Marked AS is formed as a wholly-owned subsidiary of Statnett and is put in charge of the Norwegian power exchange. 1996 | Norway and Sweden set up a common market for power. Statnett Marked AS expands its area of operations and becomes Nord Pool ASA. Svenska Kraftnät becomes a co-owner of Nord Pool ASA, which means that Statnett and Svenska Kraftnät each own 50 per cent of the Nordic power exchange, and operate a common power exchange for the Nordic

region. 1996 | Statnett's two vessels, C/S Skagerrak and M/S Elektron, are hived off into the wholly-owned subsidiary Statnett Rederi AS. 1996 | Together with 29 other energy companies, Statnett sets up the telecommunications transmission company Enitel ASA. Although Statnett initially owns 30 per cent of the company, its shareholding is reduced to 24 per cent through new issues in 1998 and to 14 per cent through new issues in 1999. 1997 | Statnett's Construction and Maintenance division is hived off from Statnett SF to become the wholly-owned subsidiary Statnett Entreprenør AS.



Editorial staff | Svein Storstein Pedersen, Jørn Remmen, Magnhild Hauge, Thomas Borch Myhre, Britt Seljesæter, Irene Meldal

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Head office | Location: Husebybakken 28 B, Oslo • Postal address: PO Box 5192 Majorstua, N-0302 Oslo • Telephone: +47 22 52 70 00 • Fax: +47 22 52 70 01 | **Region Northern Norway** | Address: Raipas, N-9500 Alta • Telephone: +47 78 44 46 00 • Fax: +47 78 44 46 01 | **Region Central Norway** | Address: PO Box 84, N-6601 Sunndalsøra • Telephone: +47 71 69 72 00 • Fax: +47 71 69 72 01 | **Region Southern Norway** | Location: Husebybakken 28 B, Oslo • Postal address: PO Box 5192 Majorstua, N-0302 Oslo • Telephone: +47 22 52 70 00 • Fax: +47 22 52 70 01 | **E-mail** | firmapost@statnett.no | **X400** | S=firmapost, P=statnett, A=telemax, C=no | **Web site** | <http://www.statnett.no>