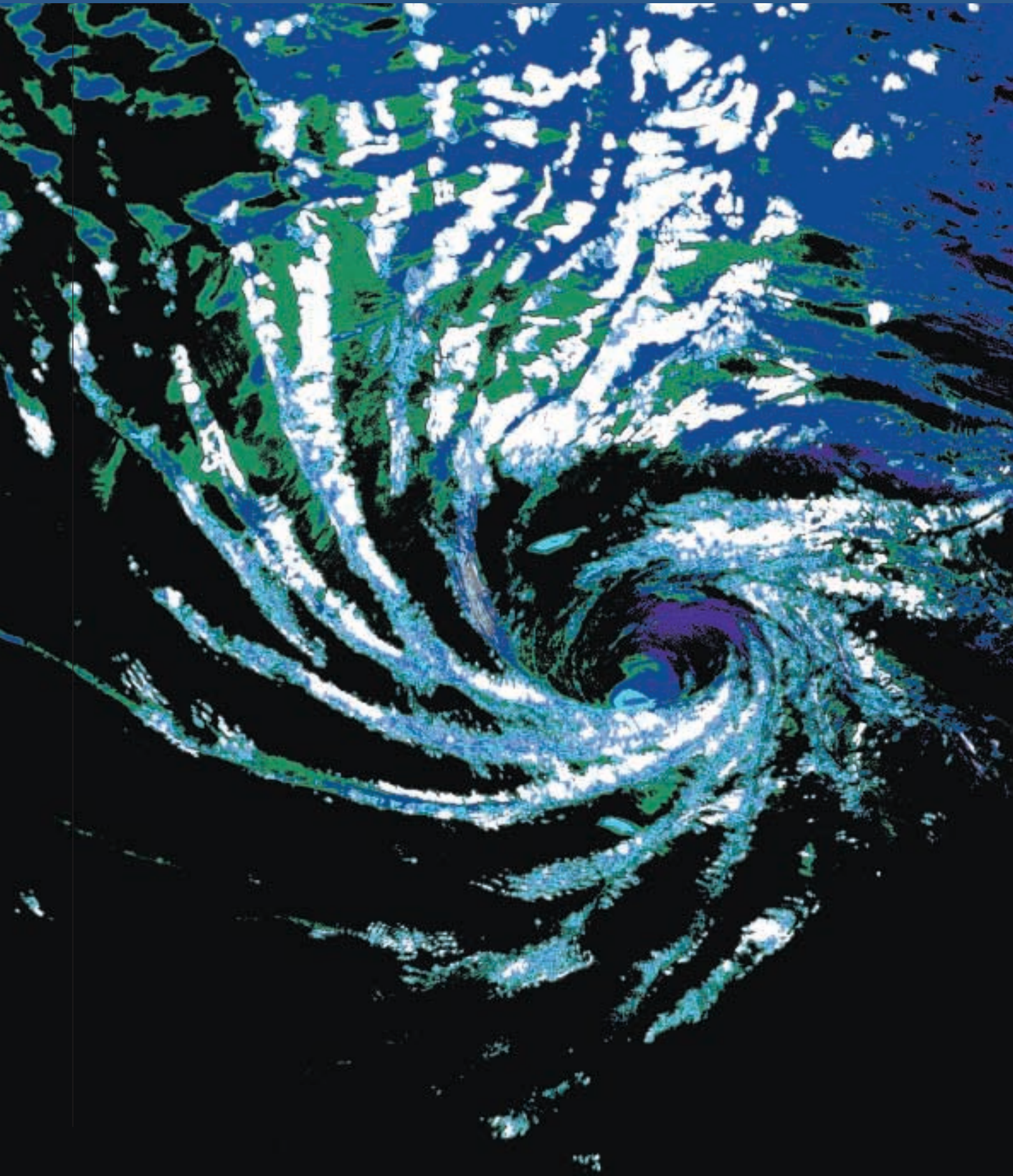


# ANNUAL REPORT 2001



**Statkraft**



## Proposal to increase dividend

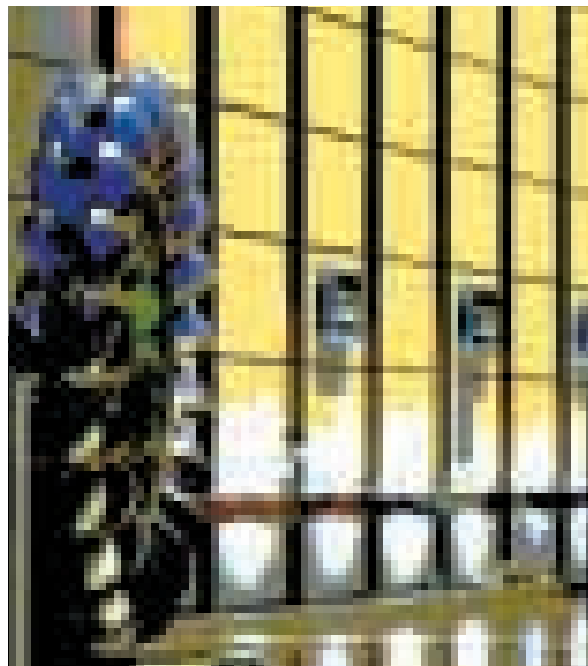
In Proposition to the Storting no. 63, Reranking of priorities and supplementary appropriations in the State Budget, the Government proposes:

*".....that the total dividend estimate for the 2001 accounting year, with distribution in 2002, shall be increased by NOK 1,344.5 million to NOK 6,531 million. Of this, NOK 950 million is an increase in dividend from Statkraft."*

Dividend for 2001 was set by the Storting (Parliament) in December 2001 during the debate on the State Budget. At its meeting on 19 March 2002, Statkraft's Board of Directors based its allocation of the year's net income on the parliamentary decision. If the Government's proposal receives sufficient support in connection with the Revised National Budget debate on 22 June, it will have the following impact on the allocation of net income, equity and key figures:

	Unit	2001 Increased dividend	2001 Original
<b>Statkraft SF – allocation of net income (page 21)</b>			
Net income for the year Statkraft SF	NOK mill.	3 884	3 884
Allocation of net income:			
Dividend	NOK mill.	3 640	2 690
Transferred to other equity	NOK mill.	244	1 194
Payout ratio (of net Group income NOK 4 342 million)	%	84	62
<b>Statkraft Group – Balance sheet (page 33)</b>			
Equity (note 19, page 51)	NOK mill.	31 376	32 326
Total assets	NOK mill.	70 344	71 294
<b>Statkraft Group – key figures (pages 17 and 61)</b>			
Return on equity after tax	%	16.3	16.1
Equity ratio	%	44.6	45.3

# Statkraft Annual Report 2001





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*The photos are from:  
Sima Power Station  
Lower Røssåga Power Station  
Rana Power Station  
Mauranger Power Station  
Jukla Power Station*

# Prosperity and growth call for energy

History has shown us that social and welfare development is closely linked to the rise in energy consumption. A modern society is completely dependent on access to adequate supplies of reliable electricity. Lighting and heating, air-conditioning and freezing, kitchen appliances and computers, homes and schools, industry and institutions – all need continual and flexible access to electric power. Everything points towards electricity consumption continuing to increase in the years to come, in Norway and in the rest of Europe.

All energy consumption, and for that matter all human activity, implies a burden on the environment. Electricity must be produced and distributed in the most environmentally friendly manner possible. Environment-related laws, regulations and international treaties, as well as market preferences will result in demand for electricity produced from hydropower and other renewable energy sources rising.

Statkraft is continuing its research efforts to develop "new renewable" sources such as tidal power and salt power, in addition to wind power. In co-operation with industrial partners we are evaluating possibilities of producing and distributing hydrogen and producing electricity and heat from fuel cells.

Together with our alliance partners we are Europe's second largest producer of renewable power. We are therefore well positioned for the time when demand for "green electricity" increases. Statkraft is the first company to be issued green certificates for export of power to the Netherlands. Commercially, this is extremely interesting and we expect demand for this product to increase. The company's goal is to be

the European leader in production and trading in environmentally friendly energy.

We have a sound commercial foundation, and together with our alliance partners we can create an energy company with a unique production platform and competence. The Statkraft Alliance has very considerable assets. Our owners expect us to manage these assets effectively and professionally and to generate an acceptable return. Our main challenge is to develop synergies between alliance partners. This work is well underway.

All parts of the energy markets in Norway and the rest of Europe are undergoing rapid change. The Group must have sufficient strength to meet the intensifying competition. Necessary flexibility is based on financial strength and competence throughout the entire value chain. We achieve this through a growth in production capacity and in trading volume, and by taking leading positions in the whole value chain.



Bård Mikkelsen  
President and Chief Executive Officer



# Leading in environmentally friendly energy

Statkraft's vision is to be European leader in environmentally friendly energy. Statkraft's strength lies first and foremost in its production facilities comprising 100 per cent renewable energy with very low variable production costs, high regulation ability and very substantial reservoir capacity. In addition, the company has good systems for gathering and processing critical information, including hydrologic data and other market parameters. The company has also acquired a high level of competence in energy trading and is thus able to commercially exploit production facilities and the good access to information.

## INCREASING DEMAND FOR ENVIRONMENTALLY FRIENDLY ENERGY

The Kyoto Treaty, which assumes a reduction in the nations' emissions of greenhouse gases, will provide important guidelines for future environment and energy policies for the countries that have accepted these obligations.

For example, the EU, as part of its environment policy has adopted a directive for promoting renewable energy sources in the internal electricity market. The directive indicates the target for the share of renewable electricity in the national power consumption for each of the member states. On average this implies that the share of renewable electricity shall rise from 14 per cent to 22 per cent in the EU by the year 2010. This corresponds to a renewable energy capacity growth of about 300 TWh from 1997 to 2010. Furthermore, the EU is working on a directive for greenhouse gas quota trading. This will be incorporated into national legislation in the course of 2002 and result in quota obligations from 2008.

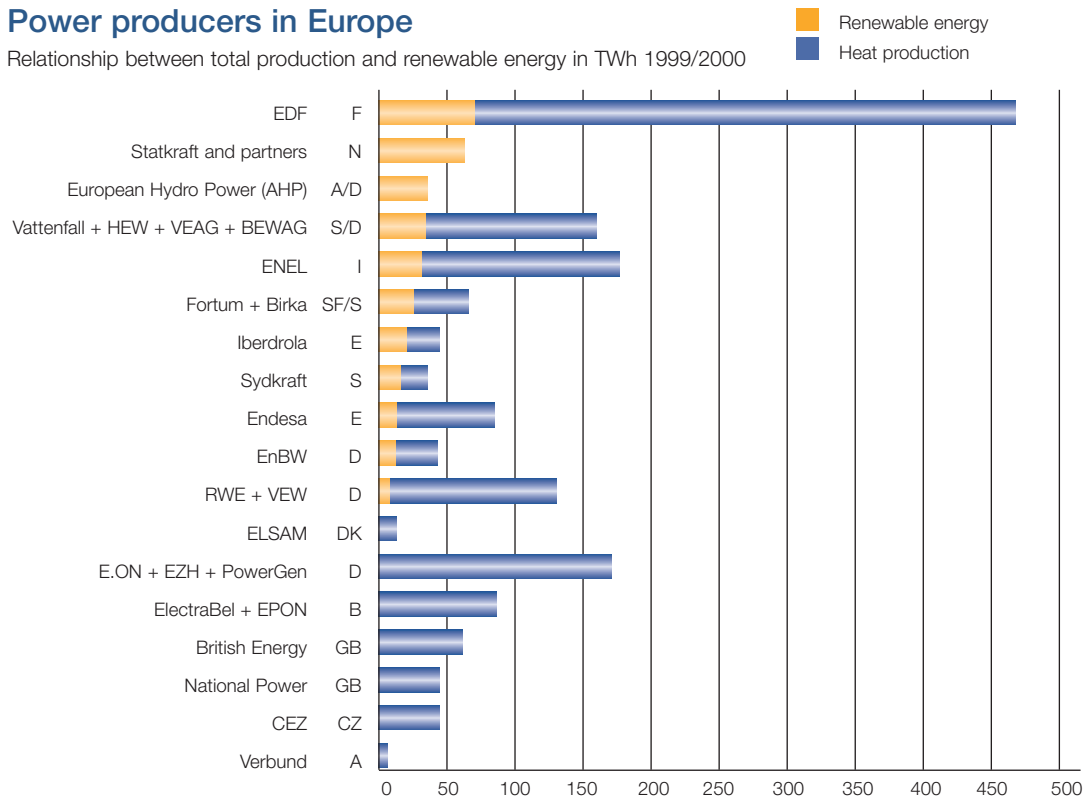
Several European countries have already decided to introduce arrangements for obligatory demand for renewable power, some of which are wide-reaching. In addition, there is a range of different eco-labelling arrangements for environmentally friendly electricity, most of which are aimed at national production through, for example, guaranteed input tariffs.

Parallel to this and as part of the fulfilment of environmental obligations, some countries are working on their own environmental goals. In Norway and the Nordic area, for example, energy flexibility and an increase in the use of water-borne heating have become important topics.

Renewable energy sources will play an increasingly important role in the future energy supplies. In Norway and the Nordic area focus is expected to be on upgrading and expanding existing hydro-power. Trading in emission certificates or certificates for renewable energy may represent important income potential for companies that are positioned to participate in these markets. However, with the increase in environmental consciousness we risk

## Power producers in Europe

Relationship between total production and renewable energy in TWh 1999/2000



seeing that terms for developing and operating hydropower deteriorate. In Norway, this might occur in connection with revisions of manoeuvring regulations and licence renewals.

### Integration and consolidation in the power market

The electricity market deregulation that has taken place over the last few years in most European countries, the privatisation of publicly owned companies and the ongoing internationalisation of both the energy and financial markets will result in further integration and consolidation in the Nordic and the other European energy markets. In such markets, size and competence are decisive competitive factors.

Power markets will be more integrated across national borders, and an increasing part of power production will be traded over a growing number of power exchanges. Financial instruments have also been introduced on the Continent and are being used increasingly. The total volume traded in the power market can be many times higher than consumption in Northern Europe. There is still a great growth potential in Northern European power trading.

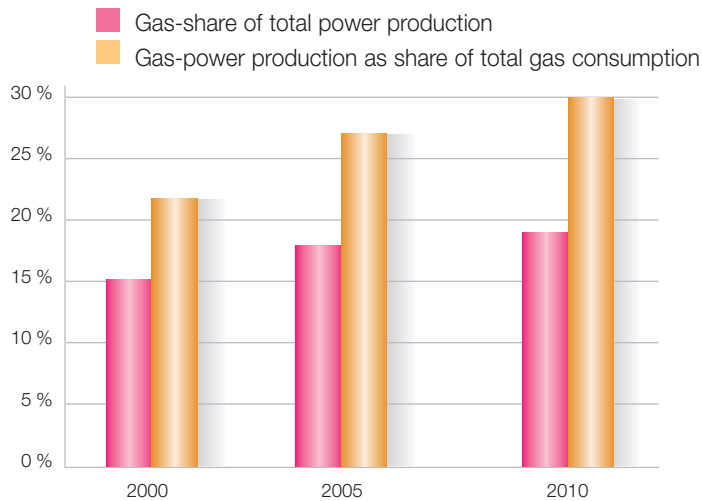
Closer market integration is expected among the different energy carriers. This will apply in particular to electricity and gas. The liberalisation of the gas market and the increase in gas consumption in power production will result in gas and electricity prices mutually affecting each other, making gas prices less dependent on oil prices. Market participants will trade both gas and electricity and exploit the possibilities of arbitrage trading between them. In Scandinavia, some of the future electricity needs will be covered by new gas-fired facilities.

### Fewer but larger Nordic participants

In the Nordic area, the ongoing restructuring process is expected to result in the creation of a small number of leading energy companies. Demands on competence, innovation and systems in all stages of the value chain will increase in such a market. As a result, we will experience a stronger functional division of the traditional value chain. The individual parts of the value chain, such as production and wholesale trading, distribution grid operations and end-user services, are characterised by different success criteria, risks, potential yields and public control. As a leading company, Statkraft has been an active participant in the restructuring



## Gas and electricity production in Europe



process in the Nordic market for many years and since 1996 it has acquired shares in the Swedish energy company Sydkraft and in several Norwegian energy companies. The main basis for this strategy has been a concept of expanding the "Statkraft Alliance" with new members, so that synergies can be realised by implementing good structural solutions in concert, without losing focus or competence. In this way we can increase added value and improve competitiveness throughout the entire alliance through new profitable business development.

### Size is decisive

In a situation involving fundamental changes such as those described above, size and competence

are decisive for Statkraft's future development. In a large alliance, we can establish more competent and specialised professional circles. Different parts of the alliance will develop cutting-edge competence on certain parts of the value chain, which the whole alliance will be able to draw on. However, in the current situation developing competence has been extremely resource demanding, especially the development of renewable sources and energy trading. Increasing the level of competence demands size. And in particular a large participant with specialised work tasks will be an attractive employer.

There are substantial economies of scale to be had within the whole value chain, from production and distribution to energy trading and end-user market activities. Better capacity utilisation, co-ordinated purchasing, maintenance and upgrading, as well as faster development of new technology are examples of important competitive parameters in a market that is subject to fierce competition. A long-term horizon for the management of resources demands financial strength.

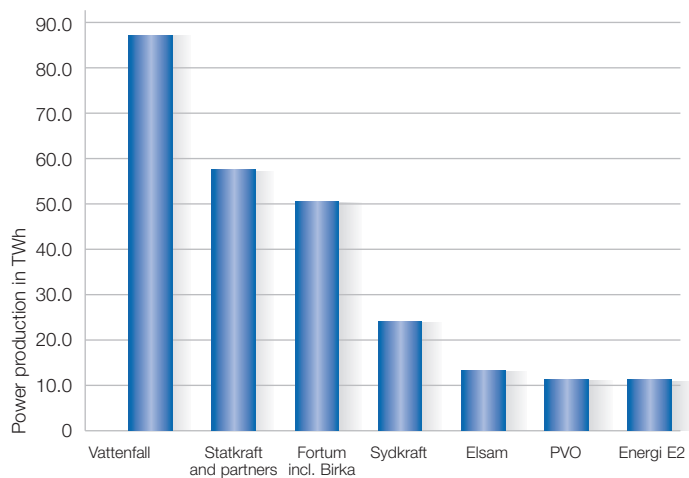
In a situation where many large international companies, in some cases in partnership with Norwegian energy companies, are positioning themselves for further growth, it is of decisive importance that Statkraft has sufficient financial flexibility to avoid being manoeuvred into an unfavourable position. Growth in demand and very limited new capacity development has resulted in a much tighter power balance in the Nordic area and a corresponding rise in power prices. The tight power balance will result in a need to expand production capacity and there will be good business opportunities for companies that are positioned to participate in the building of such new capacity.

Statkraft, together with its alliance partners in Norway, has opted for a strategy of decentralised specialisation, where Statkraft keeps a clear upstream focus and where the alliance partners specialise in different downstream activities depending on their respective core competence.

### Competence

Statkraft is strongly committed to developing competence. Its starting point is the individual employee's needs together with know-how

## Power production in the Nordic area





focusing on the company's value added processes. Clear targets, basic values and a commercial understanding are important aspects in all measures taken. It is very important for Statkraft to know individual's real competence. Competence-raising measures span the entire spectre of professional, personal and leadership aspects. Many of the measures are offered as simulated situations. Annual ratings record progression and satisfaction. A separate one-year programme for management candidates has participants from both Statkraft and its alliance partners. At Statkraft, the development of competence is aimed at the different partners' fields of speciality. There is a widespread and well-organised exchange of experience and know-how between the partners, in the same way that synergies are achieved by using and developing competence across organisational units within Statkraft itself.

Developing competence is a line responsibility, supported by staff functions to ensure uniformity and synergies. The goal is to transform as much as possible of the organisation's competence into structural capital.

## THE VALUE CHAIN

### Production and power trading

Most of Statkraft's revenues are generated from power production from the company's own reservoirs. Revenues from power sales can fluctuate a great deal because of the large risk inherent in the availability of water and future power prices. Trading in gas and power contracts is a risk management tool used to reduce the scope of the outcome for revenues and also to contribute to

securing further revenues. Risk and portfolio management, production from own water, power trading, gas sales and the maintenance of power plants constitute an important part of Statkraft's core activities.

In order to exploit the possibilities inherent in the large price variations in the power market, flexible and reliable production facilities are critical. Maintenance of the production plants is adjusted to the production situation by moving revisions time-wise in light of the market and water situation at any time. The expressed goal is also to minimise total maintenance while maintaining the highest degree of availability possible in periods when prices are high.

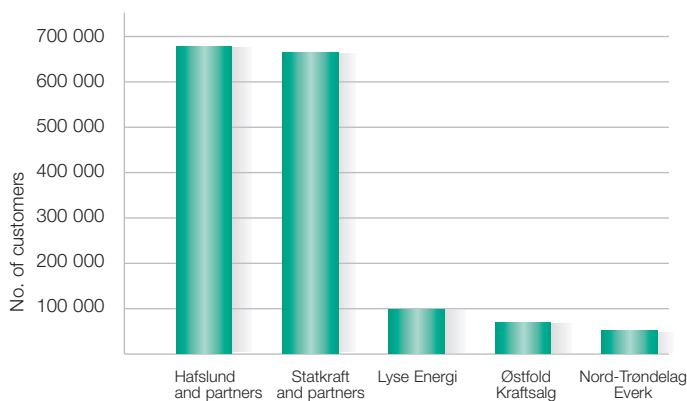
### Distribution grid

Distribution grid operations in Norway represent a natural monopoly that is publicly regulated by the Norwegian Water Resources and Energy Directorate (NVE) through a grid regulation regime. The industry can look back on five years' regulation during which NVE has set maximum income ceilings based on historic costs for each distribution grid company. 2001 was the final year in the first regulation period. Income has been adjusted annually by an efficiency factor, fixed through efficiency assessments of the different companies. The industry's experience with the first grid regulation period has i.a. been as follows:

- The distribution grid companies have accepted that a regulation of the monopoly activity is necessary.
- Monopoly regulation has strengthened the Norwegian distribution grid companies' commercial understanding.
- The average amount paid by the ordinary consumer for using the grid has fallen during the period.

In the spring of 2001, NVE presented draft regulations for the financial regulation of the distribution grid companies. These imply a significant clamp down compared to what the companies had expected. The industry spent considerable resources in presenting its views and succeeded in having the draft regulations amended in favour of the distribution grid companies.

## Consumer market in Norway



By and large, the grid regulation for 2002 on is a continuation of the old grid regulation regime. For companies in the Statkraft Alliance, helping the regulation regime to achieve the most efficient distribution grid operation will be important in the years to come. It is important that distribution grid companies be given a regulatory environment that allows effective and efficient companies to achieve a reasonable return over time.

Grid regulation results in a reduction in revenues for the grid companies. This will increase pressure on costs and over time will enforce significant changes in technical solutions, organisation and commercial operations.

### The end-user market

Statkraft is currently directly involved in the end-user market through its ownership interests in Fjordkraft AS and the Danish company Scanenergi AS. Fjordkraft, which in addition to Statkraft is owned by BKK and Skagerak Energi, is one of Norway's largest end-user companies. It also has customers in Sweden. Statkraft also has indirect stakes in end-user activities through its ownership interests in Sydkraft and Eidsiva Energi, as well as through Trondheim Energiverk AS, which it recently acquired. This activity will increase even more through the agreement with Agder Energi.

The domestic end-user market has been deregulated since the liberalisation of the Norwegian power market in 1991. The end-user companies have been financially weak over the last few years. The restructuring of this market has helped reduce the number of market participants, but the industry

is still made up of a large number of suppliers and is exposed to fierce competition. The most important competitive factors are price, customer service and access to good systems.

### Consultancy and other activities

Statkraft Grøner is one of Norway's largest consultancy firms offering advisory services in a very wide range of fields. The company supplies solutions that bring together technology, aesthetics, finance and economy and the environment. It has four business areas: Energy, Environment, Industry/Construction and Civil Engineering. Statkraft Grøner is a company with a breadth of professional know-how, a strong resource base and a high level of competence. The company has traditions as one of Norway's leading consultants and can boast more than 80 years' history. Statkraft Grøner has a great deal of experience in researching, designing, planning and advisory services for project development at home and abroad.

Naturkraft AS was established in 1994 and is owned by Statkraft, Statoil and Norsk Hydro, all of them holding one-third. The company's business concept is to process Norwegian gas for power supplies to replace fossil-fired production in the Nordic area. Naturkraft has been awarded a licence to build and operate two gas-fired power plants in Norway, one at Kårstø in Tysvær and one at Kollsnes in Øygarden Municipality.

The other companies in the Statkraft Alliance also have activities linked to other business areas. Following the fall of the telecommunications monopoly, several power companies have decided

## Key figures

### Statkraft's business areas

(Amounts in NOK million)	The Group	Production and trading	Distribution grid	End-users	Consultancy	Other	Group-functions and eliminations
<b>Income statement 2001</b>							
Operating revenues	10 394	9 966	213	-	259	36	-80
Operating income	6 725	6 690	46	-7	15	-	-20
Result from associated companies	1 054	548	372	-52	-2	35	152
Net financial items	-1 210	-996	-115	-8	-2	-22	-67
Pre-tax income	6 569	6 241	303	-67	11	14	67
<b>Net income after tax</b>	<b>4 342</b>	<b>4 034</b>	<b>294</b>	<b>-66</b>	<b>7</b>	<b>2</b>	<b>71</b>
Hereof majority interests	70	64	10	-4	1	-	-

to exploit their experience and to establish commercial telecommunications activities. BKK and Agder Energi have great ambitions regarding sales of broadband services to local customers, while Skagerak Energi has a subsidiary that sells planning and advisory services in the telecommunications sector.

In addition, Agder Energi has wholly and partly owned subsidiaries that are engaged in renewable energy, lighting and energy conservation and Skagerak Energi has subsidiaries engaged in installation and energy metering. HEAS is co-owner of a company that supplies bio heating to a number of large buildings in Kongsvinger. BKK and Agder Energi are about to make significant commitments in district heating and Trondheim Energiverk is already a major player in this field.

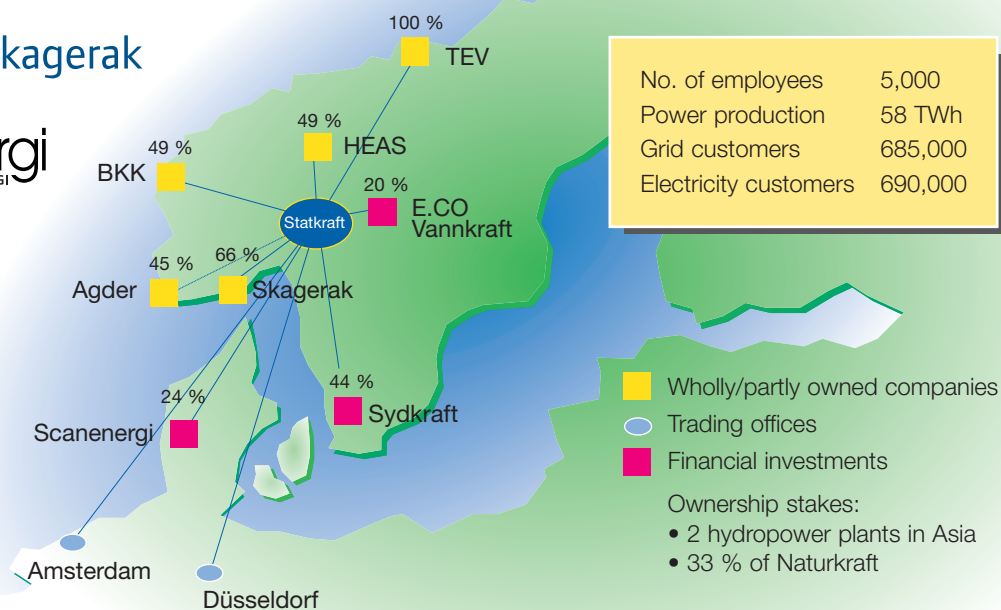
**Specialisation and cutting-edge competence**

Companies in the Statkraft Alliance have significant R&D and business development activities. A common strategy has been established in order to co-ordinate R&D on specially selected areas, so that the alliance as a whole gets as much as possible out of the efforts.

The Statkraft Alliance is involved in R&D work spanning the entire value chain, from production to end-user related technology. Good relations have been built up with various research institutes, the Norwegian Research Council and other national and international partners. For example, SEFAS in Trondheim is a major supplier of R&D services to the alliance. A framework agreement has been entered into with SEFAS.

The following have been identified as common areas of interest to the Statkraft Alliance:

- Multi-utility
- Optimising operations, maintenance and rehabilitation
- Framework conditions for renewable energy
- New energy technologies, distributed energy and gas
- Production planning, production optimisation, power sales
- Distribution grid operations and the regulation regime
- Hydropower and the environment
- Hydrology
- The end-user market
- Information and Communication Technology (ICT)



- Wholly/partly owned companies
  - Trading offices
  - Financial investments
- Ownership stakes:
- 2 hydropower plants in Asia
  - 33 % of Naturkraft

**Regional offices:**  
 Narvik  
 Gaupne  
 Sauda  
 Dalen

## Research and development

Statkraft SF today produces energy from pure, renewable hydropower. With a growth in electricity consumption the remaining hydropower potential will be insufficient to satisfy future needs. Statkraft, therefore, continues its research work on the production of new energy, while at the same time strongly emphasising ensuring the long-term profitability of existing and new hydropower projects.

Hydrogen might well be an important and environmentally friendly energy carrier in the future. Hydrogen can be produced i.a. from renewable energy sources by way of electrolysis. By using hydrogen in fuel cells we can help the transport sector with a fuel that produces no environmentally hazardous emissions. In addition, hydrogen and fuel cells can be a significant supplement for supplying electricity and heating to households and industry. Together with Sydkraft and industrial partners, Statkraft is considering the possibilities of producing hydrogen, and the production of electricity and heating by way of fuel cells for households and industry.

In this way we can:

- Produce hydrogen from renewable sources.
- Apply hydrogen as clean energy without emissions for mobile and stationary purposes.
- Achieve an effective and flexible use of energy by being able to supply oxygen, electricity and heating.
- Reduce the need to strengthen the distribution grid.
- Exploit idle grid capacity in a good manner by using local production.
- Offer energy to customers that have special needs with regard to availability, the quality of the electricity or a need for back-up power.

## THE STATKRAFT ALLIANCE

### The companies in brief

Statkraft's alliance partners are Agder Energi, Bergenshalvøens Kommunale Kraftselskap, Hedmark Energi, Skagerak Energi and Trondheim Energiverk. Together with these companies, Statkraft's goal is to create added values for owners, customers and society in general by developing, producing and trading energy.

### Statkraft SF

Statkraft SF was established on 1 January 1992. The company is wholly owned by the Norwegian Government and is organised in accordance with the Act governing State Enterprises along the lines of the Norwegian Limited Liability Companies Act, with its own Board of Directors. It operates strictly on commercial principles. Statkraft owns directly an aggregate production capacity of 34.2 TWh, which accounts for about 30 per cent of the country's hydropower production. This makes Statkraft Norway's largest producer of electric power and the second largest producer of hydropower in the Nordic area, after the Swedish company Vattenfall. Production takes place at 93 power stations that the company owns wholly or partly. Statkraft is responsible for operating 57 of these plants, while other companies operate 36.

Statkraft also has ownership interests in other energy companies. These companies are mainly engaged in the development and operation of power plants, power distribution, and power trading and engineering, both in Norway and internationally. On 1 January 2002, ownership of Statkraft was transferred from the Ministry of Petroleum and Energy to the Ministry of Trade and Industry.

## Key figures for alliance partners (incl. Statkraft SF)

Business areas	Unit	Statkraft SF	Skagerak	BKK	Agder	HEAS*	TEV
Mean production	TWh	34.2	4.7	6.5	7.4	1.4	3.2
Distribution grid	Km	-	18 500	17 100	18 000	16 600	5 500
Grid customers	Number	-	175 000	173 000	146 000	100 000	85 000
Customers, end-user sales	Number	-	**	**	146 000	100 000	84 000
No. of employees	Number	825	900	1 000	1 000	600	450

\* The figures for kilometres of distribution grid, no. of end-users and no. of employees refer to Eidsiva Energi.

\*\* Skagerak Energi's and BKK's end-user operations were merged in 2001 with the establishment of Fjordkraft AS. Fjordkraft AS has some 360,000 end-users.

**Agder Energi AS**

Agder Energi AS was established in the summer of 2000, following a merger of three companies, namely Aust-Agder Energi AS, Kristiansand Energiverk AS and Vest-Agder Energiverk DA. The company also includes one other former company in the region, inasmuch as Arendal Kraftverk AS was merged into Aust-Agder Energi AS in 1999. Statkraft signed an agreement to acquire 45.5 per cent of the company in September 2001. The final implementation of the agreement assumes approval from the Norwegian Competition Authority.

Agder Energi is organised as a group with a parent company and various subsidiaries that are engaged in production, distribution grid activities, end-user sales, and district heating and wind power. The company has 29 wholly owned power plants and it is co-owner of a further 16.

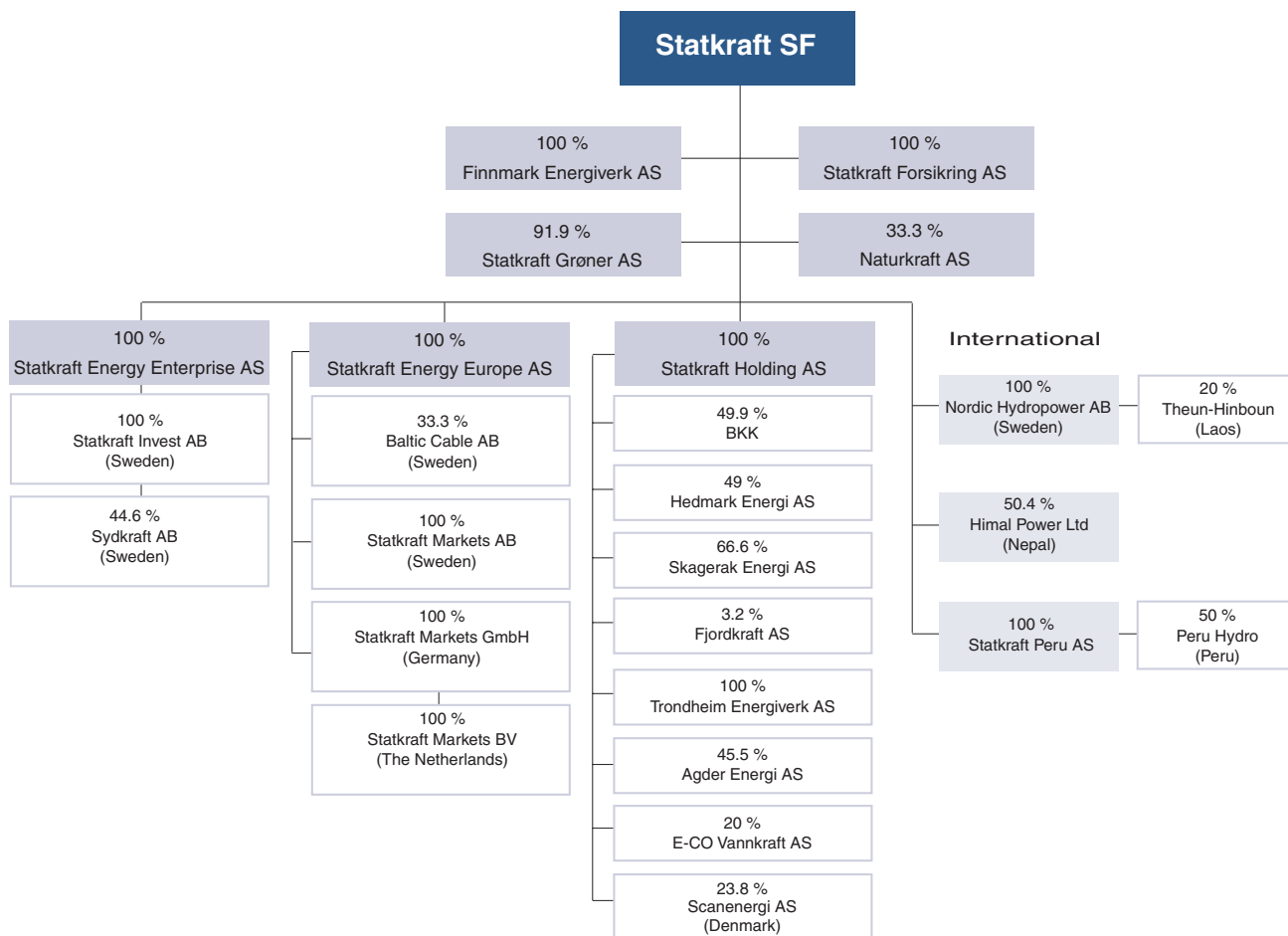
The company's end-user activities are organised in the wholly owned subsidiary LOS, which sells power products to end-users in the private and corporate markets. Assuming that Statkraft's acquisition is consummated, the largest shareholders will be Statkraft (45.5 per cent), Arendal Municipal Authorities (6.4 per cent) and Kristiansand Municipal Authorities (5.3 per cent). The other shares are spread among 28 municipalities in the counties of Aust-Agder and Vest-Agder.

**BKK**

Bergenshalvøens Kommunale Kraftselskap AS (BKK) was established in 1920. The company produces power at 27 power plants that it owns and it has one on the nation's largest distribution grids.

BKK is organised as a group with subsidiaries engaged in production, distribution, district heating and broadband activities.

## STATKRAFT GROUP



In 2001, BKK merged its end-user activities with Skagerak Energi's end-user activities. The merged company, named Fjordkraft AS, is one of Norway's largest end-user companies. Fjordkraft AS is also active on the Swedish and Danish markets. BKK, Skagerak Energi and Statkraft SF own Fjordkraft.

BKK's ambition is to be the leading energy company in the West of Norway. Over the last few years the company has acquired many other energy companies in the counties of Hordaland, Sogn og Fjordane, and Møre og Romsdal and BKK's goal is to create a pan-West of Norway company covering the area from Romsdal Fjord in the north to Bokna Fjord in the south.

The ownership stake in BKK has risen from 26 per cent to 49.9 per cent. The negotiations were finalised in February 2002. The other large shareholders are Bergen Municipal Authorities (approx. 37.8 per cent), and Askøy Municipal Authorities (approx. 2.5 per cent). The remaining shares are spread among 15 municipalities in Hordaland County.

#### **Skagerak Energi AS**

Skagerak Energi AS was established on 1 January 2001 through the merger of Skiensfjordens kommunale kraftselskap AS (SKK) and Vestfold Kraft AS.

The company is organised as a group with subsidiaries in production and distribution grid operations. Skagerak Energi owns 16 plants in their entirety and is co-owner of a further 23 plants. These are for the most part located in the counties of Buskerud and Telemark, with partly owned plants in the counties of Oppland, Aust-Agder and Vest-Agder.

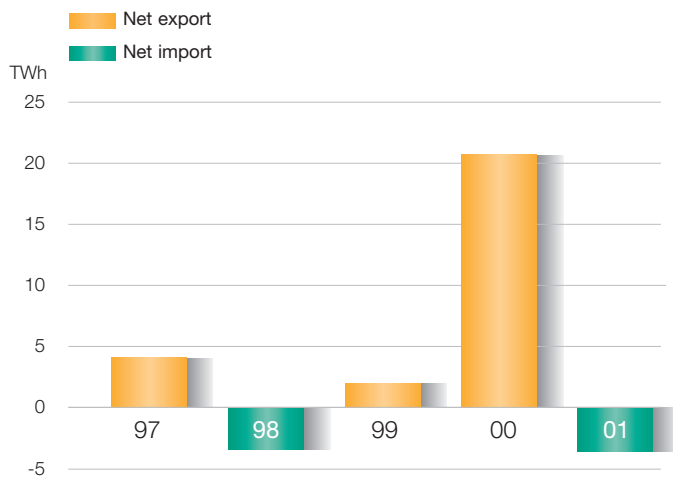
Skagerak Energi has considerable distribution grid operations in Telemark and Vestfold. It is also engaged in consultancy and installation, energy metering and telecommunications.

Skagerak Energi owns the end-user company Fjordkraft together with BKK and Statkraft SF. Statkraft owns 66.6 per cent of the company, Skien Municipal Authorities own 15.2 per cent, Porsgrunn Municipal Authorities own 14.8 per cent and Bamble Municipal Authorities own 3.4 per cent.





### Import/export of power to/from Norway



#### Hedmark Energi AS

Hedmark Energi AS (HEAS) was established in 1987. It is one of the largest energy companies in inland Norway with 11 of its own power plants, situated for the most part in the Glomma and Trysil River system. Hedmark Energi has at its disposal from partly owned production facilities 25 per cent of Opplandkraft's production and 12 per cent of the power produced at Kraftverkene i Orkla (the Orkla Power Plants).

Hedmark Energi owns 49.9 per cent of the shares in Eidsiva Energi AS. Eidsiva Energi AS was established in 2000 following a merger of the distribution grid operations and end-user activities in Hamar-regionen Energiverk AS and Lillehammer og Gausdal Energi AS. In 2001, Hedmark Energi merged its distribution grid and end-user operations with Eidsiva Energi AS.

When Statkraft acquired a stake in HEAS, an investment company was established at the same time, Energy Future Invest AS. HEAS owns 83.3 per cent of the company and Statkraft 16.7 per cent. Its object is to invest in innovative growth companies in the energy sector.

Statkraft is the largest shareholder in HEAS (49 per cent), followed by Hedmark County Authorities (43.1 per cent), and Åmot, Trysil and Engerdal Municipal Authorities with 2.0 per cent each. The remaining shares are spread among 8 other municipalities in the county of Hedmark.

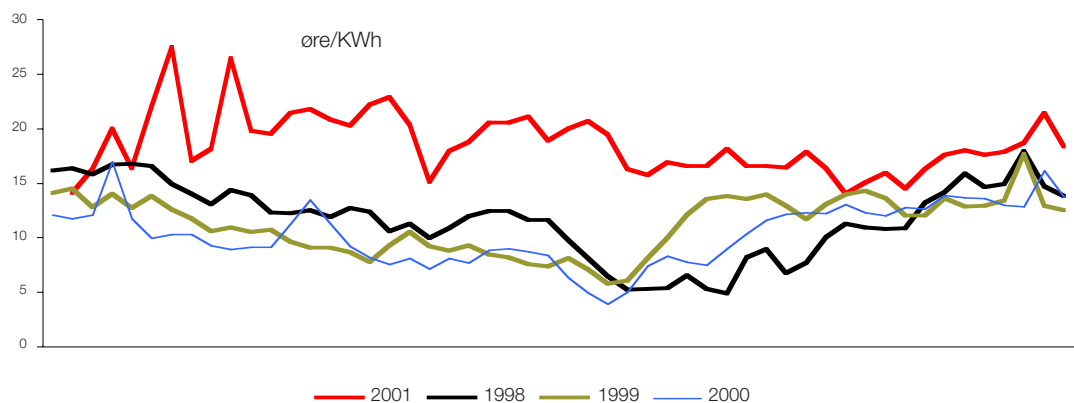
#### Trondheim Energiverk AS

Trondheim Energiverk AS (TEV) was established in 1901 and is organised as a group with a parent company and subsidiaries in production, distribution grid operations, district heating and power sales. TEV Kraft, the production subsidiary, has 14 wholly owned power plants on the Nea and Nidelv river systems and is part owner of 5 plants in Orkla/Grana. TEV's distribution grid subsidiary has sole right to distribute electricity in Trondheim and Klæbu, and is Norway's fourth largest distribution grid company. TEV's district heating operation produces and distributes water-borne energy to customers in Trondheim, primarily based on combustion of waste and on surplus heat. TEV Kraftsalg, the power sales subsidiary, has some 84,000 customers in the Trondheim area. In January 2002, Statkraft signed an agreement to acquire 100 per cent of TEV from Trondheim Municipal Authorities. This agreement needs the approval of the Norwegian Competition Authority.

#### Financial investments

Statkraft's shareholdings in E-CO Vannkraft and Sydkraft are financial investments.

### Spot prices



# GROUP MANAGEMENT

## President and Chief Executive Officer:

Bård Mikkelsen

## Executive Vice Presidents:

Chr. Rynning-Tønnesen,  
Economics/Finance/Strategy  
Ragnvald Nærø, Corporate  
Communications/Organisation

Jørgen Kildahl, Markets

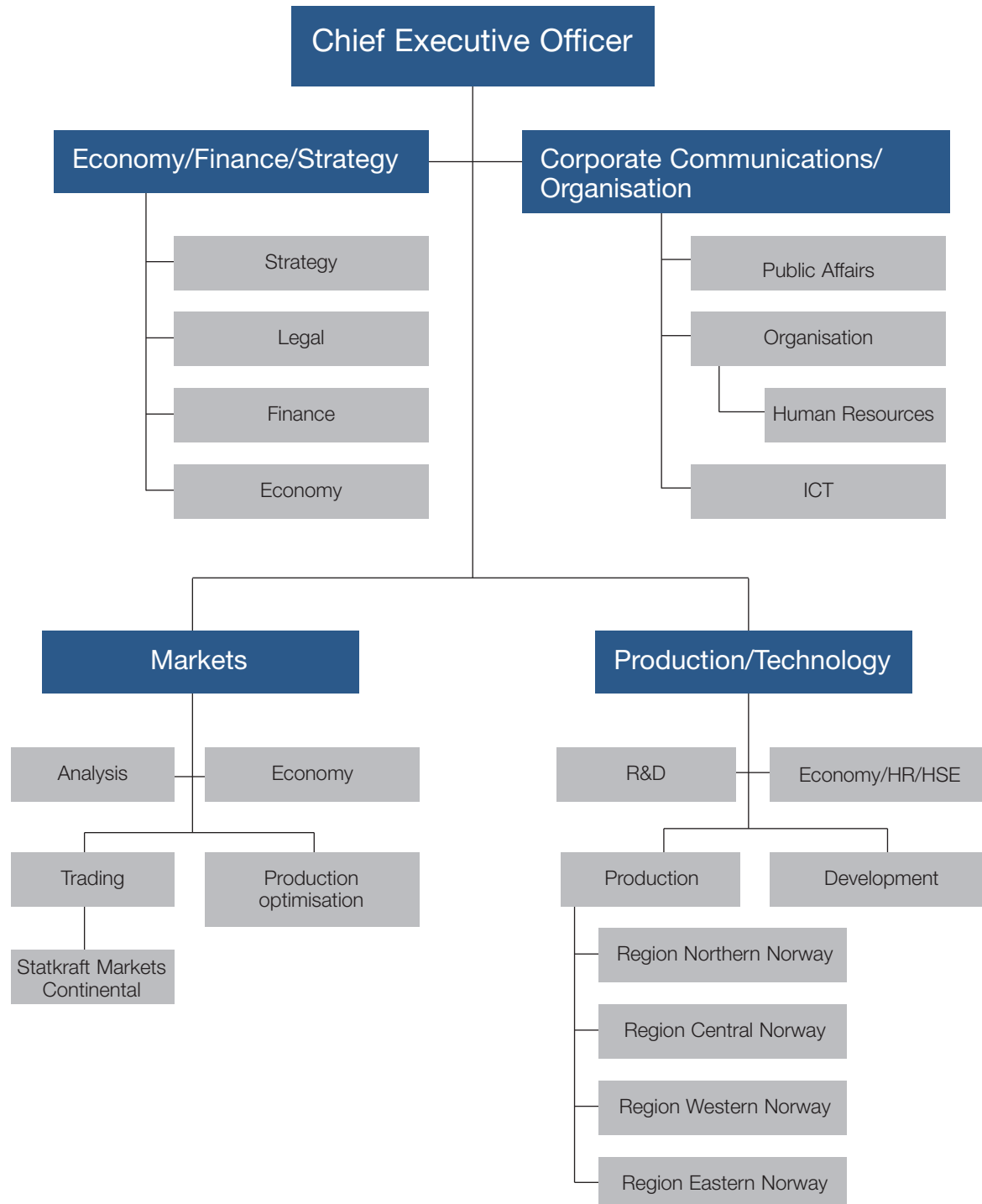
Øystein Løseth, Production/Technology

## C.E.O.'s Reference Group:

Helge Skudal, Man. Dir., Statkraft Holding AS

Finn Quale, Director

Bjørn Blaker, Director



# 2001 at a glance

## **JANUARY:**

Germany's E.ON Energie buys shares in Sydkraft bringing its ownership stake to 29.4 per cent and its voting rights to 42.8 per cent. It must therefore make an offer to buy all the shares in the company. Statkraft later decides not to accept the offer.

Statkraft increases its stake in HEAS from 33.3 to 49 per cent when eight of the eleven municipalities with shares in the company decide to sell the rest of their shares.

## **FEBRUARY:**

E.ON Energie makes an offer for Statkraft's Sydkraft shares. Statkraft maintains its ownership position.

## **APRIL:**

Statkraft files a writ of summons against Elkem Saudefaldene. The background is a dispute regarding who shall pay for the replacement of the pipe trenches. (Saudefaldene leases the power plants from Statkraft).

## **MAY:**

Statkraft gets NOK 6 billion in fresh equity and its borrowing ceilings are raised by NOK 10 billion.

Sydkraft, ABB and Statkraft sign a letter of intent to develop hydrogen as an energy carrier.

## **JUNE:**

15 municipalities in the county of Vestfold decide to sell their remaining shares in Skagerak Energi to Statkraft, which thus raises its stake in the company from 34 to 66.6 per cent.

Statkraft is certified in accordance with the ISO 14001 international environmental standard.

Statkraft buys Vattenfall's 50 per cent interest in Nordic Hydropower AB and thus becomes sole owner. This increases Statkraft's indirect ownership interest in the Theun-Hinboun Power Plant in Laos from 10 to 20 per cent.

Their Majesties King Harald and Queen Sonja visit Hylen Power Plant as their first stop on a journey around Ryfylke County.

## **JULY:**

Statkraft assumes responsibility for the operation of all power plants owned by AS Tyssefaldene and 22 employees are simultaneously transferred to Statkraft.



The King and Queen visited Hylen Power Plant in June.



UN Secretary General Kofi Annan and his wife visited Hove Power Plant in Sogn in August.

Statkraft provides financial support to a range of cultural activities, including the 2001 National Fiddler's Championship in Rauland and Sunndal Cultural Festival.

#### AUGUST:

Kofi Annan, the UN Secretary General and later Nobel Peace Laureate visits Hove Power Plant at Vik in Sogn og Fjordane County during his summer holiday in Norway.

Statkraft and its partners are awarded a licence to build the Cheves hydropower plant, 140 kilometres outside Peru's capital, Lima.

Lars Uno Thulin is made a Knight of the Order of St. Olav.

#### SEPTEMBER:

Bård Mikkelsen takes over as President and Chief Executive Officer in Lars Uno Thulin's stead.

Agder Energi's Corporate Assembly approves Statkraft's acquisition of 45.5 per cent of the shares in the company.

Statkraft sells its facilities in the transmission grid, primarily junction stations and transformer stations, to Statnett.

Statkraft signs an agreement with Tinn Energi Produksjon AS on ownership, building and operation of Stegaros Power Plant in Tinn Municipality.

#### OCTOBER:

The power exchange agreement linked to Viking Cable (the Norway-Germany cable connection) between E.ON and Statkraft is terminated. In part compensation for this Statkraft takes over 1/3 of the shares in Baltic Cable AB (the Swedish-German cable connection) from 1 January 2002.

Work starts on the windmill park at Smøla after a final concession was awarded by the Ministry of Petroleum and Energy in September. The development will be in two stages and includes a total of 72 turbines (144 MW). The cost estimate for the development is in excess of NOK 1 billion and annual production will be 430 GWh.

The project for the development of salt power technology gets NOK 14 million in EU support. This project is a collaboration between the Foundation for Scientific and Industrial Research (SINTEF), the Norwegian Research Council and Statkraft.

#### DECEMBER:

Trondheim City Council resolves to sell all the shares in Trondheim Energiverk to Statkraft. The agreement between the local authorities and Statkraft was signed in January 2002.

Statkraft is in the final negotiations with owner-municipalities regarding buying shares in BKK, which will raise its stake from 26 to 49.9 per cent. The agreement was signed in February 2002.

The Storting (Parliament) resolves that Statkraft shall pay the State a dividend of almost NOK 2.7 billion for 2001.

## Key figures

The Group	Unit	2001	2000	1999	1998	1997
Gross operating revenues	NOK mill.	10 394	5 285	5 601	5 314	5 353
Operating income	NOK mill.	6 725	2 178	2 174	2 198	1 998
Net income for the year	NOK mill.	4 342	847	947	890	1 238
Total assets	NOK mill.	71 294	55 778	47 067	42 430	40 075
Equity ratio	%	45.3	39.0	45.7	40.8	41.6
Cash flow provided by operations	NOK mill.	5 430	1 772	1 849	1 256	1 427
Production Statkraft SF*	TWh	33.3	40.2	32.5	32.4	27.5
Production subsidiaries*	TWh	6.3	-	-	-	-

\* After pumping and loss

# Annual Report 2001

The year 2001 was characterised by continued strengthening of Statkraft's position in the market. The Group invested substantial sums in ownership interests in other power companies in Norway and agreements were signed for other acquisitions that are to be implemented in 2002. A great deal of work and effort has gone into establishing good forms of co-operation with companies in the Statkraft Alliance. In the integrated Nordic power market, these acquisitions give Statkraft a market share of about 15 per cent of the total production capacity.

2001 was also a milestone inasmuch as Statkraft recorded the best financial result in the history of the Group and for the first time it can report a satisfactory return on invested capital. Net income for the year after tax was a good NOK 4.3 billion.



## INCOME STATEMENT

**Operating revenues.** The Group's combined revenues in 2001 amounted to NOK 10,394 million, almost twice what they were in the preceding year.

The main reason for the increase is that revenues from power sales rose by NOK 2,352 million, i.a. as a result of higher power prices and a positive contribution from financial power trading. A good NOK 500 million refers to power sales by Skagerak Energi AS, which is consolidated as a subsidiary with effect from 1 October 2001, and from the Khimti Power Plant in Nepal, which was put into operation in 2000 and had its first full year of operation in 2001.

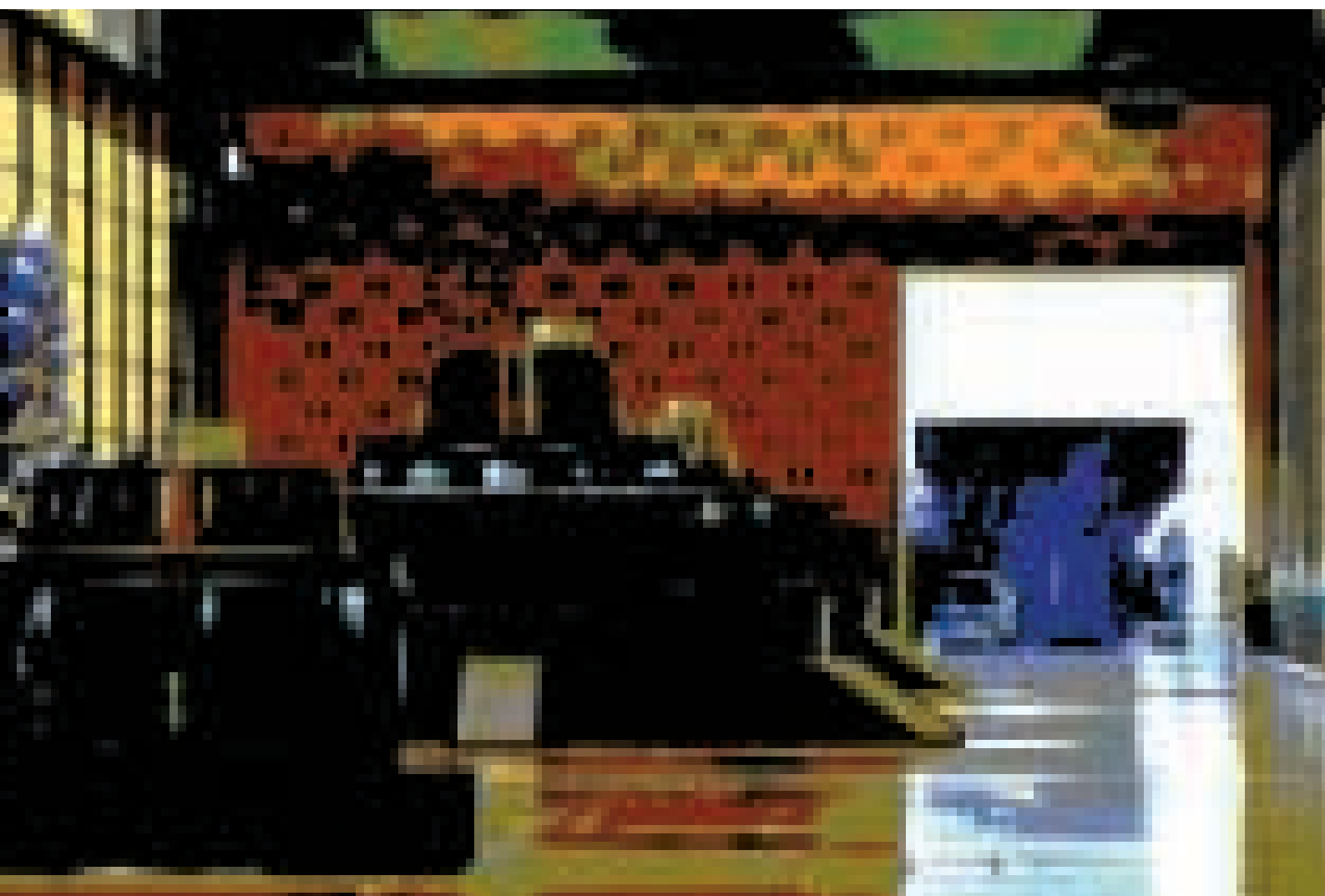
In addition, approximately NOK 2,500 million was taken to income in 2001 as compensation for several issues. This includes about NOK 2,000 million relating to the termination of the power exchange agreement with E.ON. In June 2001, E.ON declared hardship in respect of the power

exchange agreement on the planned Viking Cable between Norway and Germany. This implies that E.ON considered the economic assumptions on which the implementation of the agreement was based to be so unfavourable that the company chose to break off further co-operation. Following negotiations, the agreement was terminated on terms that are acceptable to both parties.

Furthermore, the Storting (Parliament) allocated some NOK 450 million in compensation in accordance with Proposition to the Storting no. 52 (2001-2002) for losses incurred because of the Beiarn, Bjellåga and Melfjord developments being stopped.

Net operating revenues after covering transmission costs totalled NOK 9,714 million compared to NOK 4,671 million in the preceding year.

**Operating costs** in 2001 aggregated NOK 2,989 million, rising almost NOK 500 million from the preceding year. This was for the most part due to consolidating subsidiaries in the Group accounts.





**Operating income** in 2001 amounted to NOK 6,725 million compared to NOK 2,178 million in 2000. In 2001, an amount of NOK 1,054 million is taken to income as the company's share of results of the associated companies Sydkraft AB, E-CO Vannkraft AS, Bergenshalvøens Kommunale Kraftselskap AS and Hedmark Energi AS, compared to NOK 729 million the preceding year. This significant increase is due to sales gains in Sydkraft when the company sold a substantial share portfolio.

**Net financial costs** rose by NOK 68 million, from NOK 1,142 million in 2000 to NOK 1,210 million in 2001. The main reason for this was higher interest costs due to increased borrowing in connection with the acquisition of interests in other companies.

**Taxes and duties.** Taxes were charged against income in the amount of NOK 2,227 million in 2001 compared to NOK 918 million in 2000. Taxes payable were NOK 1,350 million higher in 2001 than in 2000.

Including licence-related duties and compensation, the total tax and duty burden was NOK 2,498 million in 2001. The tax and duty burden on ordinary operations was almost 41 per cent, while lump sum compensations are taxed at 28 per cent.

**Pre-tax income** amounted to NOK 6,569 million compared to NOK 1,765 million in 2000. **Net income** for the year amounted to NOK 4,342 million compared to NOK 847 million in 2000.

Net income for the year can be divided in relation to value added in the business areas in the Group's value chain. After adjusting for lump sum

compensations, the power production and power sales business area contributes almost 88 per cent of net income from ordinary operations. The distribution grid contributes 11 per cent, while other areas, comprising i.a. end-user and consultancy made smaller contributions to the Group's net income for the year.

The overall result for the year after tax represents a return on equity of 16.1 per cent. After adjusting for the considerable lump sum compensations, the result of ordinary operations shows a rise in return from 3.9 per cent in 2000 to 9.5 per cent in 2001.

Pursuant to the provisions in the Norwegian Accounting Act, the Board confirms that the accounts are prepared on a going concern assumption.

## INVESTMENTS, FINANCING AND LIQUIDITY

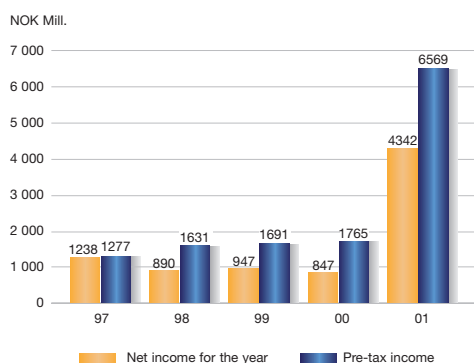
In 2001, Statkraft invested a total of NOK 5,137 million.

NOK 370 million was invested in the company's own facilities in Norway covering a number of rehabilitation projects on power plants and dams.

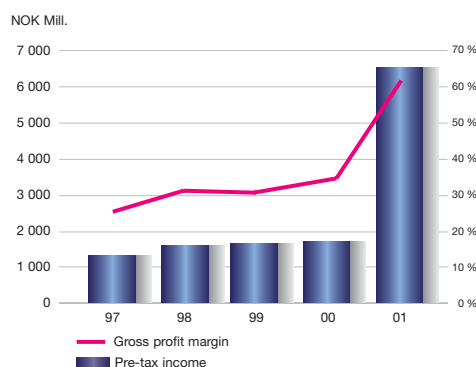
NOK 4,767 million was spent on acquiring ownership interests in other companies. These were first and foremost shares in Hedmark Energi AS, Skagerak Energi AS, and Nordic Hydropower AB and Sydkraft AB in Sweden.

Cash flow from the year's operations amounted to NOK 3,489 million. Statkraft was active on the

### Income before and after tax



### Pre-tax income



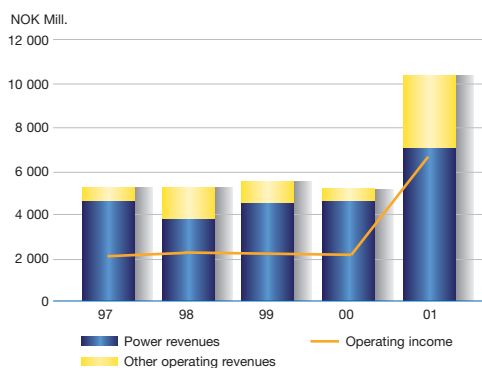
loan markets at home and abroad during the year. New long-term loans were raised for a total of NOK 3.6 billion.

NOK 2.2 billion of this was raised on the Swiss bond market and NOK 2.0 billion was raised on the Norwegian bond market. NOK 3.6 billion in long-term debt was repaid. The average remaining term of the company's long-term loans was 4.7 years at year-end. Statkraft SF's total loan and guarantee liabilities amounted to NOK 32.8 billion at the end of the year. Statkraft's financial position was strengthened during the year when the Storting (Parliament) resolved that the total loan and guarantee ceiling should be raised by NOK 10 billion to NOK 52.5 billion and increased the enterprise's equity by NOK 6 billion. Thus the company has capacity to increase its loan and guarantee liabilities by up to NOK 20 billion within the set ceiling. Much of this capacity will be used assuming that the acquisitions of ownership interests in other companies that have been resolved are carried out in 2002. Statkraft's long-term rating is stable at Aaa from Moody's and AA+ from Standard and Poor's.

Statkraft's liquidity reserve was high during the year as a result of the need for flexibility and the payment of the fresh enterprise equity in May 2001. At the end of the year the Group's net cash and cash equivalents amounted to NOK 6.9 billion and unutilised drawing rights totalled NOK 2.7 billion. The good liquidity situation must be seen in light of the high investment level expected in 2002.

At the end of 2001, Statkraft's equity totalled NOK 32.3 billion. The equity ratio stood at 45.3 per cent.

## Gross operating revenues



## ALLOCATION OF THE NET INCOME FOR THE YEAR <sup>1)</sup>

In the State Budget for 2002, Statkraft's dividend distribution for 2001 is set at NOK 2,690 million, which represents 62 per cent of the Group's net income for the year of NOK 4,342 million. Statkraft SF contributes NOK 3,884 million to the Group's net income. Against this backdrop the Board proposes the following allocation of the net income for 2001:

<i>(Amounts in NOK million)</i>	<i>Statkraft SF</i>
Net income for the year	3,884
<i>Allocation of net income:</i>	
Dividend	2,690
Transferred to other equity	1,194

In addition, a group contribution of NOK 491 million before tax has been made.

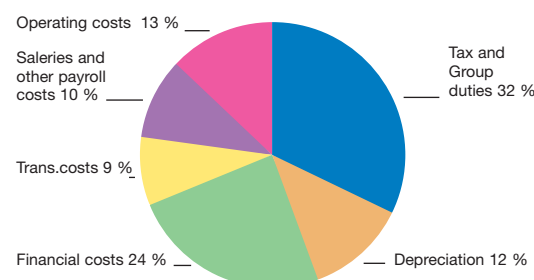
1) In the Revised National Budget for 2002, the Government has proposed a NOK 950 million increase in dividend to NOK 3,640 million. The consequences of this proposal appear on the first page of this report.

## THE NORDIC ENERGY MARKET

In 2001, market trends were characterised by far higher prices than in 2000. The average spot price for 2001 was NOK 0.187/kWh, compared to NOK 0.103/kWh in 2000 and NOK 0.112/kWh in 1999.

The price movements illustrate the energy market's sensitivity to variations in temperature and water inflow. After four successive wet years, with above average precipitation and inflow, 2001 was a year with more or less normal access to

## Cost distribution







resources. Exploitable inflow in Norway was 113.5 TWh or 94 per cent of the norm, while inflow in Sweden was 76.2 TWh or 113 per cent of the norm. Snow reserves in Norway in 2001 were considerably lower than in 2000 and were the second lowest for 20 years. 2001 was much colder than the preceding year but the mean temperature was nevertheless 0.5 °C higher than the norm.

Reservoir levels at the beginning of 2001 were 74.4 per cent of maximum capacity in Norway and 70.7 per cent of the maximum in Sweden. By way of comparison, reservoir levels at the beginning of 2000 were 79 per cent of maximum capacity in Norway and 62 per cent in Sweden.

Temperature-adjusted consumption in 2001 indicates a shift in its steady tendency to rise over the last 4-5 years in Norway. In the second half of the year in particular consumption fell compared to the year before. This might have been a reaction to the higher electricity prices in 2001, but the economic situation may also have played a role. Total power consumption in Norway in 2001 reached 123.9 TWh. This is 3.4 TWh or 2.8 per cent higher than in 2000. General supply consumption rose by 3.2 TWh or 3.9 per cent from 2000. If the fact that 2001 was considerably colder than 2000 is taken into consideration, temperature-adjusted consumption fell by 0.6 TWh or 0.7 per cent. The power-intensive industries decreased their consumption by 0.7 TWh or 2.1 per cent.

Domestic production in 2001 was 120.3 TWh, 21.1 TWh or 14.9 per cent down from the record year of 2000. Because of little snow, substantial amounts of energy were imported in the 2nd and

3rd quarters, but a wet and mild autumn resulted in net exports in the 4th quarter. For 2001 as a whole, net imports totalled 3.6 TWh. 2.4 TWh of this came from Sweden, 0.8 TWh came from Denmark, 0.2 TWh from Finland and 0.2 TWh from Russia.

## STATKRAFT'S POWER PRODUCTION AND TRADING

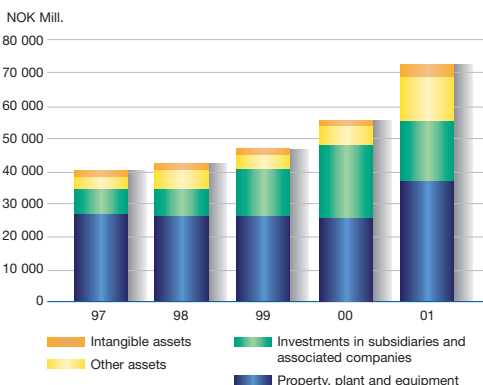
Statkraft produced 33.3 TWh in 2001, 6.9 TWh less than in the preceding year and close to mean production. The decline from 2000 was due to a decline in precipitation and water inflow.

Statkraft purchased power on physical contracts for the equivalent of 2.0 TWh in 2001. This is 1.0 TWh more than in 2000. Gross saleable power in 2001 was therefore 35.4 TWh compared to 41.2 TWh in 2000.

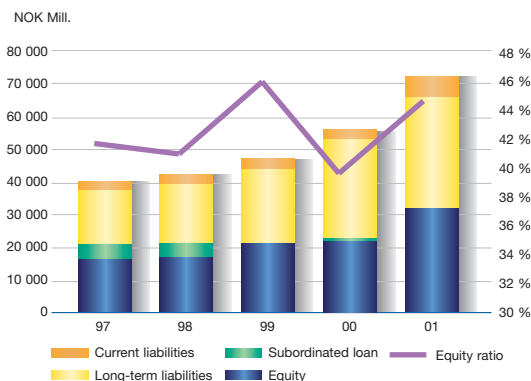
Industrial power sales totalled approximately 20 TWh. Much of this is sold at politically determined prices, but some contracts have market terms. Furthermore, 2.2 TWh licence power was sold to municipality and county authorities. Industrial and licence power accounts for 67 per cent of Statkraft's total power production.

The two international agreements with Germany's E.ON and Denmark's Elsam were converted to financial contracts at the beginning of 2001 and are not included in the year's review of physical contracts. Spot market sales totalled 13.2 TWh, 4.3 TWh lower than in 2000.

### Assets



### Equity and liabilities



Following negotiations between Statkraft and E.ON, the power exchange agreement linked to the planned Viking Cable between Norway and Germany was terminated in June 2001 on terms that are acceptable to both parties. Statnett and E.ON have decided not to continue the cable project alone. The financial power exchange agreements that Statkraft has with Elsam and E.ON continued as normal in 2001.

The NorNed cable project between Norway and the Netherlands continues and in 2001 notification was sent to the EU Commission and the Dutch regulator Dte. Together with 7 other power producers, Statkraft has an agreement for future power exchange with the Netherlands via this cable.

In 2001, Statkraft introduced a new portfolio management concept to the power-intensive industries. Through Energiservice as it is called, Statkraft sells services and know-how in the field of power trading. Such agreements have been signed with industrial companies in Norway and Sweden.

In 2001, Statnett continued the market for backup effect. As in previous years, Statnett invited to a bidding round regarding standby production capacity on both producer and consumer side. Statkraft was a significant participant in the backup effect market in 2001 as well.

With effect from 1 January 2001, Statkraft's activities in the Netherlands and Germany were integrated into Statkraft's market activities in the Nordic region. The shares in Statkraft Markets B.V. (the Netherlands) were transferred from the parent company in Norway to Statkraft Markets GmbH

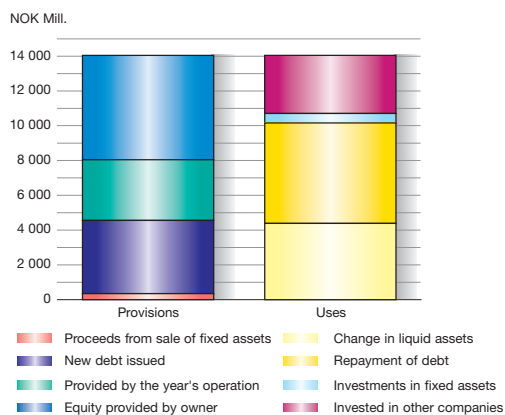
(Germany), from where the operations are now managed. These companies were active in both the power and gas markets in Europe. From 2002, the companies will operate Statkraft's share of the Baltic Cable.

In the transmission field, there has been some adjustment of the central grid tariffs between the Nordic countries during the last few years. This has been a positive development for Norwegian producers. From 2000 to 2002, the fixed part of the tariff for production in Norway will be reduced from NOK 0.0104/kWh to NOK 0.008/kWh. The Nordic system operators' goal is for the tariff for production in the Nordic market to be NOK 0,005/kWh +/- NOK 0.003/kWh. The energy duty is added to the fixed part. Norway finds itself at the higher end of the price range while its neighbours are more or less at the lower end. Statkraft applauds the positive trend in the tariff's fixed part but for reasons of competition among the producers it believes that a further harmonisation of tariffs in the Nordic market is essential. Statkraft supports the efforts to establish joint system responsibilities in the Nordic area in order to expand and operate the total power system.

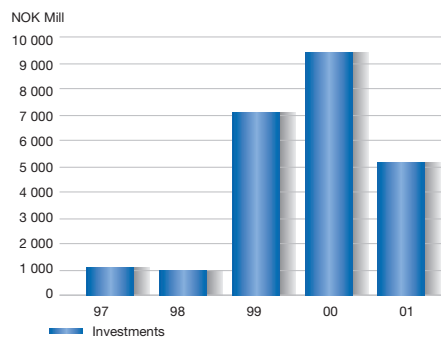
**Power plant operations and maintenance**

Availability at the company's production plants in 2001 was somewhat lower than in the last few years, namely 88.5 per cent compared to 95.4 per cent in 2000. The most important reason for the decline was the long-term breakdown of a large generator at Kvilldal. However, this has not placed any significant restrictions on Statkraft's market activities. Other power plant maintenance is adjusted to the market (production steered), and the need for current power production weighs heavily when planning and carrying out

**Cash flows – provisions and uses**



**Investments**



maintenance work. Because of the age of the power plants an increase in rehabilitation must be expected in the years to come.

The process of enhancing efficiency and downsizing the workforce engaged in production continued in 2001, with measures including early retirement, severance packages and leave of absence for further education. In 2001, the workforce was reduced by 41 man-years as a result of these measures. From 1 July 2001, Statkraft assumed responsibility for the operation of AS Tyssefaldene's power stations, and at the same time took over 22 employees from Tyssefaldene's maintenance department.

Statkraft SF has signed an agreement to sell all of the company's distribution grid facilities to Statnett with effect from 1 January 2002. A three-year agreement has been signed under which Statkraft will be responsible for operating and maintaining the facilities during the period.

**New power production in the Nordic area**

The market is moving toward power insufficiency in the Nordic area, particularly in Norway. There is already a need to import electricity in mean years. With current and expected future price levels, investments in new production capacity are barely profitable. The deficiency is therefore expected to persist in the Nordic region as a whole, based on moderate expectations for increase in demand in the area and on expected investments in new capacity.

Statkraft is seeking to develop hydropower and other environmentally friendly energy in order to realise new production capacity. Statkraft owns

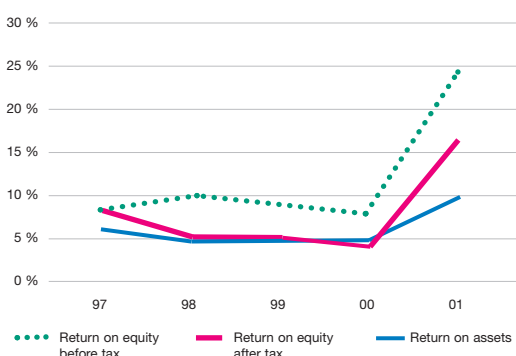
one-third of Naturkraft AS, a company that was established to develop gas-power projects in Norway.

The regulatory framework for new hydropower development in Norway was tightened in 2001 with emphasis on the environmental issues surrounding encroachment on nature. This resulted in Statkraft being instructed to stop all work on the Beiarn, Bjellåga and Melfjord projects in Nordland County. This means that about 1 TWh of new capacity will not be built as planned. The Government has paid compensation that covers Statkraft's losses as a result of this order.

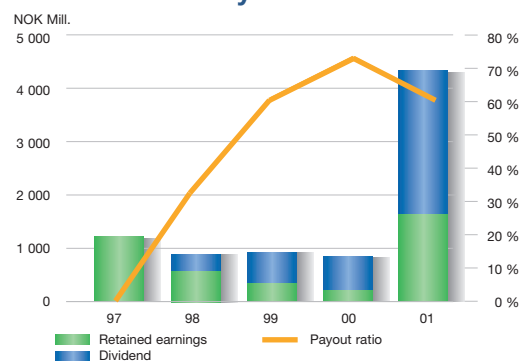
The largest ongoing hydropower development is the building of a new Bjølvo Power Plant to replace the old plant that is in poor technical shape and where a replacement of the forge-welded pipes has been ordered. Moreover, Statkraft, in association with Tinn Energi Produksjon AS, is engaged in building a small power plant at Stegaros in the county of Telemark. Together, these two power plants will increase production by about 80 GWh.

Statkraft has valid permits to build windmill parks at Smøla and Hitra, while the Ministry of Petroleum and Energy rejected the Stadlandet development following an appeal. Together, the approved projects' production capacity will be about 550 GWh p.a. In the autumn of 2001, work started on stage 1 of the construction at Smøla. Preparatory work is also underway for further windmill projects. The development of windmill parks assumes that they are profitable and that the regulatory framework allows for this, among other things by granting investment subsidies.

**Returns**



**Allocation of the net income for the year**



So far, the gas power projects under the auspices of Naturkraft AS, which is owned by Statoil, Norsk Hydro and Statkraft, have not been considered sufficiently profitable with current framework conditions and prices. The company has asked to have the licences prolonged in order to realise the developments at a later date.

### Research and development

R&D is an important tool with which to achieve long-term profitability in existing and new hydropower projects. This can be done, i.a., by using new technical solutions and production methods. Furthermore, R&D is important to reach Statkraft's goals for new energy production and to explore the possibilities of and the need for new energy carriers. The development of alternatives to traditional hydropower is important since the unexploited hydropower potential in Norway is limited. Statkraft has a long-term perspective on this development and emphasises finding environmentally sound solutions.

In 2001, Statkraft received support from the EU for its work on developing solutions that exploit the osmotic potential between freshwater and saltwater for power production. Statkraft is also working on using hydrogen as a future energy carrier in a possible co-operation with Sydkraft and ABB. Hydrogen produced from renewable energy sources, used as a fuel and for stationary energy supplies, can be extremely positive from an environmental point of view.

## OWNERSHIP IN OTHER COMPANIES

### The Nordic area

Statkraft's goal is to be a leading energy company, i.a. through ownership interests in and in association with alliance partners with considerable regional growth potential. The company's objective is to acquire a majority interest in the companies where this is desired. In negotiations on the acquisition of these ownership interests the municipalities see Statkraft as an attractive partner. Statkraft's strategy was widely supported during the Storting's (Parliament) debate on the increase in the company's equity in the spring of 2001.

In 2001, the stake in Hedmark Energi AS rose from 33.3 per cent to 49 per cent. Furthermore, Statkraft raised its stake in Skagerak Energi AS from 34 per cent to 66.6 per cent.

An agreement was reached with the municipalities that own **Agder Energi AS** regarding the acquisition of 45.5 per cent of the shares in the company, with the transfer of the shares taking place in 2002. In January 2002, an agreement was signed with the City of Trondheim authorities to buy 100 per cent of the shares in **Trondheim Energiverk AS**. In February 2002, an agreement was signed with the municipalities behind **Bergenshalvøens Kommunale Kraftselskap AS** (BKK) to take over more shares in the company, raising the ownership stake from 26 to 49.9 per cent.

The share purchases in **Agder Energi**, **Trondheim Energiverk** and **BKK** need the approval of the Norwegian Competition Authority. The agreements with Agder Energi and BKK have been signed with a proviso relating to the Authority's approval.

In March 2002, the Competition Authority rejected Statkraft's application to acquire the shares in Agder Energi. In its decision, the Authority placed emphasis on Statkraft's size compared to the competitive situation in the south of Norway. Statkraft is of the opinion that its size must be viewed in light of the common Nordic market and not regions. Possible temporary bottlenecks, which in periods can result in regional price areas, should not be emphasised in decisions relating to the long-term restructuring of the industry. It is the responsibility of Statnett and other distribution grid companies responsible for the Nordic system to remove more permanent bottlenecks in the transmission capacity in Norway and to and from the Nordic area. Transmission capacity has increased considerably over the last few years and Statkraft expects this development to continue. Statkraft will appeal the decision regarding the purchase of shares in Agder Energi to the Ministry of Labour and Government Administration.

Through the realised and agreed acquisitions, Statkraft will approach a position and size that is in line with the company's strategy. Statkraft's production capacity at its own plants is about 34

TWh. Including production in the regional companies in which Statkraft has interests, a natural production platform for the group should be 60-65 TWh in Norway. This amounts to 15-17 per cent of the total production capacity in the integrated Nordic electricity market. By way of comparison, Sweden's Vattenfall has 21 per cent of the Nordic market.

In connection with the companies' restructuring, BKK and Skagerak Energi have merged their end-user operations in the company Fjordkraft AS. Statkraft SF has a direct 3.2 per cent stake in Fjordkraft and an indirect stake of 48.8 per cent through Skagerak Energi. This ownership interest is dealt with as a joint venture in the consolidated accounts.

The energy companies in which Statkraft has purchased interests cover all parts of the value chain from production and power sales to end-user operations. As a result, Statkraft is directly or indirectly through other companies involved in the entire value chain. This implies a spreading out compared to the core activities in power production and power sales.

As part of the compensation relating to the termination of the power exchange agreement with the German company E.ON, cf. comments earlier, Statkraft has taken over 1/3 of the shares in Baltic Cable AB, which owns a cable connection between Sweden and Germany. Statkraft Markets AB was established to take care of Statkraft's interests in Sweden in connection with the cable.

In 2001, E.ON increased its stake in Sydkraft AB, Sweden to a good 50 per cent, and this triggered off a compulsory offer to buy out the other shareholders. At the end of 2001, Statkraft held 35.7 per cent of the company's capital. As part of the above-mentioned compensation, Statkraft acquired additional shares in Sydkraft AB on 1 March 2002, raising its ownership interest from 35.7 per cent to 44.6 per cent.

#### **Asia and South America**

In 2001, Statkraft purchased Vattenfall's 50 per cent holding in Nordic Hydropower AB. Statkraft thus became sole owner of the company and it increased its indirect ownership stake in the



Theun-Hinboun Power Plant in Laos from 10 to 20 per cent.

Statkraft sold a 23 per cent interest in Himal Power Ltd., which owns the Khimti Power Plant in Nepal, to BKK AS. Following the sale Statkraft's direct stake in the power plant fell from 74 to 51 per cent. Political unrest resulted in a state of emergency being declared in Nepal in November 2001. This has had no impact on production. Staffing of the power plant is constantly under review in light of the situation in which the country finds itself.

Statkraft is considering new international investments in Asia and South America.

## ORGANISATION AND THE WORKING ENVIRONMENT

Bård Mikkelsen took over as President and Chief Executive Officer on 1 September 2001. The Board would commend former Chief Executive Officer Lars Uno Thulin for his leadership of Statkraft's very considerable reorganisation and restructuring over a decade. Lars Thulin died in March 2002.

The Board avails itself of this opportunity of thanking management and all employees for their efforts that gave the positive result in 2001.

Over the last few years a great deal of focus has been put on safety and the working environment. Statkraft is involved in multiyear enhancement programmes to ensure local involvement and management follow-up of health, safety and the environment (HSE). This has resulted in more openness regarding close calls and dangerous situations. In 2001, efforts were made to improve routines and methods for implementing risk reducing and improvement measures. This work will continue in 2002.

Accident reports in 2001 include more subsidiaries than before. The injury frequency (with and without lost time – the H2 factor) fell to 12.1 compared to 13.9 in 2000. However, there was a slight rise in lost time injuries (H1 factor), to 7.1 from 6.1 in 2000.

Injury absence figures or the injury seriousness factor (F factor) was 156 compared to 57 in the preceding year. Sick leave stood at 4.5 per cent in 2001 compared to 4.2 per cent in 2000. The rise in sick leave and the F factor are due to events that occurred at the end of 2000. A traffic accident and a coupling accident resulted in long-term absence equivalent to one man-year. This accounts for almost half of the F factor.

### Definitions

#### H1 factor:

Lost-time injuries x 1 million/total number of hours worked

#### H2 factor:

Injuries with or without lost time x 1 million/ total number of hours worked

#### F factor:

No. of lost-time days x 1 million/ total number of hours worked

## THE EXTERNAL ENVIRONMENT

In 2001, a number of measures were carried out to improve Statkraft's environmental performance.

In June 2001, Statkraft was environmentally certified in accordance with the ISO-14001 standard. This certification is an important milestone in the wide-reaching efforts to systemise and enhance the efficiency of work on the external environment. Among other things a great deal of work has been done to identify potential environmental aspects of the entire business and to arrange routines so that the company's ambitious environmental goals can be reached. A separate environmental report will be published for 2001.

The impact of energy production on the environment can be documented in different ways. In 2001, Statkraft actively participated in the work of developing certifiable environment product descriptions for electricity. This work involves comprehensive documentation of the environmental aspects at the individual place of production. Such a product description will present unbiased data on the environmental impact of production at the various production facilities.

In 2001, Statkraft has worked on preparing for trading in green certificates and CO<sub>2</sub> quotas where environmental product descriptions can be included in the documentation. 5 - 6 power plants will be RECS certified (Renewable Energy Certificate System). In 2001, Statkraft exported "green" electricity to the Netherlands.

In 2001, Statkraft carried out a number of environmental improvement measures relating to existing production facilities and when establishing new production capacity.

Compensatory environmental measures in the form of maintenance of thresholds, fish ladders and other bio-tope adjustment measures are part of the day-to-day operations and are continual. In 2001, about 570,000 smolt, fry and young fish of salmon and trout were released. Statkraft owns and operates 5 fish hatcheries.

In 2001, Statkraft registered four breaches of manoeuvring regulations and four environmental breaches. None of the events had substantial environmental consequences. The organisation has sharp focus on correctional measures to better follow up licence terms and conditions.

In association with the Foundation for Scientific and Industrial Research (SINTEF), Statkraft is developing tools that simulate the environmental impact of watercourse encroachment. In new power projects emphasis is being placed on open planning processes that involve local interests and know-how from the time the idea is conceived. In addition to realising renewable energy in the form of wind power and hydropower, Statkraft is working on the development of new environmentally friendly energy sources and energy carriers.

## PROSPECTS

2002 will be characterised by continued sharp focus on developing Statkraft's position in line with its strategy. This implies increased value added by developing, producing and selling energy, and together with our alliance partners improving profitability in distribution and end-user activities. The implementation of the agreed purchases of new stakes in BKK, Agder Energi and Trondheim Energiverk will be important. All in all, planned acquisitions and investments in new production capacity by the Group will call for more than NOK 15 billion in capital. In this connection, the regulatory framework as regards Statkraft's size must be clarified and Statkraft will contribute to this in dialogue with the Competition Authorities.

The concurrence of European liberalisation, technological progress and demand for environmentally friendly energy places Statkraft in a unique position in an energy market that is being exposed to increasing competition. With core competence in the fields of hydropower and financial trading there are interesting business opportunities in Europe and in other selected regions in Asia and South America.

Statkraft enters 2002 with higher than normal water reservoir levels. Assuming that inflow and market conditions are about the same as in a normal year, the result of the company's ordinary operations will be much the same as in 2001. However, the energy market is volatile and there is therefore considerable uncertainty surrounding the development in the financial results.

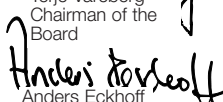
The Board of Directors of Statkraft SF  
Bærum, 19 March 2002

  
Terje Vareberg  
Chairman of the Board

  
Jon Ivar Nålund

  
Odd Vanvik

  
Marit Büch-Holm

  
Anders Eckhoff

  
Tom Andersen

  
Jan Stenersen

  
Toril Mølmshaug

  
Inger Østensjo

  
Bård Mikkelsen  
President and C.E.O.



# Openness and co-operation on new power projects

We are constantly learning new things about how our activities affect the external environment. When planning new power projects we want to be at the forefront of this development. More openness and co-operation with affected parties early in the planning stage gives more flexibility and is a good approach to a society that is constantly undergoing change.

Early involvement and open planning processes are used many places, including Helgeland, in connection with new hydropower and in connection with upgrading and expansion projects relating to the Røssåga power plants. The dialogue with the local communities has created fruitful and widespread co-operation where Statkraft and the local communities seek to find good and realistic energy projects. Consideration to environmental issues and user interests are of essence and the goal is to reap nature's plenty.

This way of working implies that the affected local community is contacted already at the time the concept is conceived and dialogue starts based on rough indications of the scope of the project, technical solutions and the location of the encroachment. The project develops thereafter in close co-operation with all affected parties, from the individual landowner to municipal and regional authorities. The intention is to arrive at a common understanding of possibilities and limitations of a commercial, technological or environmental nature, before the formal process commences. Focus is put on what nature can tolerate and environmental issues are therefore important

criteria when planning the project. The processes are carried out step by step so that planning can be broken off if the involved parties find that the project is unprofitable or that the environmental impact would be unacceptable if it should be implemented.

## **Eco-labelled electricity**

All energy production can be measured according to how environmentally friendly it is. This also applies to hydropower. In recognition of the fact that hydropower has significant environmental benefits it is important to illustrate this in a manner and with a method that is internationally accepted. In the autumn of 2001, Statkraft carried out a pre-study of various types of environmental marking (eco labelling). The study recommends the preparation of an environmental product declaration for a concrete power plant.

The environmental product declaration shall comply with an international standard (ISO 14025), it shall contain verifiable information and shall be certified by an independent third party. The template for the product description was developed in 2001 under the Nordic NIMBUS

LCA – Life cycle assessment with emphasis on the power plant's impact on the environment.

project and it shows how the production of 1 kWh impacts on the environment. The declaration shall include information relating to the power plant's total life cycle (LCA data), including information about the company's environmental management systems, resources used in building and operating the plant, emissions that can affect global warming or result in acid precipitation, affect the ozone layer, ground level ozone, nutrient enrichment of rivers and waters and the treatment of waste. If the plant is to be demolished after use, the use of resources and emissions in connection with this shall also be declared.

In addition, we are preparing a method for putting a price on the environmental consequences of hydropower by calculating the environmental cost in NOK/kWh. This method shows the weighting society puts on the individual environmental aspects. In a survey of Norwegian hydropower plants, the environmental cost varied from NOK 0.006 to NOK 0.073 per kWh in 6 existing and 2 planned power plants. The environmental cost is arrived at after interviewing a representative selection of the population, locally and regionally. The EU applies this method, under the name ExternE.

Environmental product descriptions are a type of eco-labelling used to document sales of green electricity. The preparation of descriptions is resource demanding and will probably depend on whether the market demands such documentation.



## Income statement

1.1. - 31.12.

The Group

Statkraft SF

2001	2000	1999	Amounts in NOK million	Note	2001	2000	1999
7 038	4 686	4 525	Power revenues	2,3	6 417	4 576	4 539
3 356	599	1 076	Other operating revenues	4	2 880	467	410
10 394	5 285	5 601	<b>Gross operating revenues</b>		9 297	5 043	4 949
-680	-614	-689	Transmission costs		-652	-611	-690
9 714	4 671	4 912	<b>Net operating revenues</b>		8 645	4 432	4 259
741	625	644	Salaries and other payroll costs	5,20	434	436	335
271	252	231	Compensation and licence fees	6	262	250	231
1 020	767	1 064	Other operating costs	7	829	805	730
957	849	799	Ordinary depreciation	12,13	807	801	759
2 989	2 493	2 738	<b>Operating costs</b>		2 332	2 292	2 055
6 725	2 178	2 174	<b>Operating income</b>		6 313	2 140	2 204
1 054	729	442	<b>Result from associated companies</b>	14	-	-	-
650	426	210	Financial revenues	8	1 442	893	354
-1 860	-1 568	-1 135	Financial costs	8	-1 761	-1 523	-1 118
-1 210	-1 142	-925	<b>Net financial items</b>		-319	-630	-764
6 569	1 765	1 691	<b>Pre-tax income</b>		5 994	1 510	1 440
-2 109	-759	-636	Taxes payable	9	-2 053	-845	-637
-118	-159	-108	Change in deferred tax	9	-57	49	-117
-2 227	-918	-744	<b>Taxes</b>		-2 110	-796	-754
4 342	847	947	<b>Net income for the year</b>		3 884	714	686
70	6	1	Hereof minority interests				
4 272	841	946	Hereof majority interests				
			<b>Allocation of net income for the year</b>				
			Dividend		2 690	631	600
			Provisions to other equity		1 194	83	86
			<b>Group contribution</b>				
			Group contribution paid (before tax)		491	514	14

The Board of Directors of Statkraft SF  
Bærum, 19 March 2002

  
Terje Vareberg  
Chairman  
of the Board

  
Jon Ivar Nåsund

  
Odd Vanvik

  
Marit Büch-Holm

  
Anders Eckhoff

## Balance sheet

31.12.

The Group

Statkraft SF

2001	2000	1999	Amounts in NOK million	Note	2001	2000	1999
<b>ASSETS</b>							
3 386	2 271	2 123	Intangible assets	12	2 192	2 235	2 026
36 585	25 596	26 095	Property, plant and equipment	13	23 503	23 975	24 600
19 018	22 214	14 348	Investments in subsidiaries/associated companies	14	9 075	8 627	8 262
1 411	1 959	1 717	Other financial fixed assets	15	19 898	17 049	8 197
60 400	52 040	44 283	<b>Fixed assets</b>		54 668	51 886	43 085
47	34	31	Inventories		44	33	30
3 683	1 040	1 308	Receivables	16	3 099	1 099	1 114
263	150	146	Investments	17	-	-	6
6 901	2 514	1 299	Bank deposits, cash and cash equivalents	18	5 937	1 062	1 012
10 894	3 738	2 784	<b>Current assets</b>		9 080	2 194	2 162
71 294	55 778	47 067	<b>Assets</b>		63 748	54 080	45 247
<b>EQUITY AND LIABILITIES</b>							
25 250	19 250	19 250	Paid-in capital	19	25 250	19 250	19 250
3 378	2 412	2 170	Retained earnings	19	2 722	1 528	1 444
3 698	80	83	Minority interests	19	-	-	-
32 326	21 742	21 503	<b>Total equity</b>		27 972	20 778	20 694
1 914	556	146	Provisions	20	291	231	112
100	98	82	Subordinated loan		-	-	-
31 133	30 557	21 681	Other long-term liabilities	21	30 985	30 482	21 018
33 147	31 211	21 909	<b>Long-term liabilities</b>		31 276	30 713	21 130
35	89	1 348	Interest-bearing liabilities	22	-	88	1 348
981	692	573	Taxes payable	9	693	640	578
4 805	2 044	1 734	Other non interest-bearing liabilities	23	3 807	1 861	1 497
5 821	2 825	3 655	<b>Current liabilities</b>		4 500	2 589	3 423
71 294	55 778	47 067	<b>Equity and liabilities</b>		63 748	54 080	45 247
2 098	2 100	2 105	Mortgages	24	2 098	2 100	2 105
5 803	6 750	2 466	Guarantees	24	5 722	6 652	2 172



Tom Andersen



Jan Stenersen



Toril Molmshaug



Inger Østensjø



Bård Mikkelsen  
President and C.E.O.

## Cash flow analysis

The Group

Statkraft SF

2001	2000	1999	Amounts in NOK million	Note	2001	2000	1999
<b>CASH FLOWS PROVIDED BY/ USED IN OPERATING ACTIVITIES</b>							
4 342	847	946	Provided by the year's operations		3 884	714	686
-78	-127	-4	Gain/loss on sale of fixed assets		-69	18	-1
957	849	799	Ordinary depreciation		807	801	759
91	29	-	Write-down of fixed assets		56	29	-
118	174	108	Change in deferred tax/deferred tax assets		57	-49	117
5 430	1 772	1 849	<b>Cash flow provided by operations</b>		4 735	1 513	1 561
6	93	18	Change in inventories, debtors and creditors		114	72	-189
-673	-410	-215	Share of result in associated companies		-	-	-
-1 274	-115	1 821	Change in other current assets and liabilities		-1 932	-893	1 926
3 489	1 340	3 473	<b>Net cash flow from operations</b>	A	2 917	692	3 298
<b>CASH FLOWS PROVIDED BY/ USED IN INVESTMENT ACTIVITIES</b>							
-546	-630	-391	Investments in fixed assets		-395	-394	-161
349	1 287	23	Proceeds from sale of fixed assets		173	11	16
-3 340	-8 781	-6 635	Investments in other companies		-559	-359	-2 510
-3 537	-8 124	-7 003	<b>Net cash flows from investment activities</b>	B	-781	-742	-2 655
<b>CASH FLOWS PROVIDED BY/ USED IN FINANCING ACTIVITIES</b>							
4 210	10 490	5 928	Loan proceeds		4 210	10 282	5 743
-3 622	-1 227	-2 314	Repayment of long-term liabilities and subordinated loans		-3 481	-1 212	-2 584
-2 153	-1 264	-581	Change in other long-term receivables and liabilities		-3 990	-8 970	-4 413
6 000	-	-	Payment of fresh equity		6 000	-	-
4 435	7 999	3 033	<b>Net cash flows from financing activities</b>	C	2 739	100	-1 254
4 387	1 215	-497	<b>Net change in cash and cash equivalents</b>	A+B+C	4 875	50	-611
2 514	1 299	1 796	Cash and cash equivalents as at 01.01.		1 062	1 012	1 623
6 901	2 514	1 299	Cash and cash equivalents as at 31.12.		5 937	1 062	1 012

# Accounting principles

## ACCOUNTING RULES

The accounts are prepared in accordance with Norwegian law and Norwegian accounting standards. Statkraft SF is established as a state-owned enterprise, and its activities are regulated by the Act relating to State-owned Enterprises.

## CONSOLIDATION AND GROUP ACCOUNTS

### Subsidiaries

The Group accounts include those companies where Statkraft has a controlling interest. Subsidiaries that are acquired or established during the year are included with effect from the date of acquisition/date of establishment. If the investment is considered immaterial to the Group, it is not consolidated but dealt with in accordance with the cost method of accounting in both the company's and the consolidated accounts.

The consolidated accounts are prepared in accordance with the purchase method of accounting and show the Group as one single financial unit. In the Group accounts, inter-company sales and receivables are eliminated, as are inter-company profits related to the Group's own investments.

The cost price of shares in subsidiaries is eliminated against equity at the time of the acquisition. The difference between the price paid for the subsidiary's shares and the book value of the equity is, on the basis of a valuation, assigned to those specific company assets and liabilities that have values that differ from the book values. Provisions are made for deferred tax on excess/lower values. Insofar as differences cannot be assigned to the values of assets and liabilities, they are recorded as goodwill. No provision is made for deferred tax on goodwill.

The accounts of foreign subsidiaries are translated to Norwegian kroner at current exchange rates. Possible conversion differences are recorded directly against equity.

### Partly owned power plants

Power plants with joint ownership, being power plants operated by Statkraft but with other owners as well, and plants others operate but where Statkraft has an ownership interest, are accounted for using the gross method of accounting. Co-owners directly administer electricity produced, with the exception of licensed power.

Power drawn from partly owned companies organised as joint-stock companies is included in gross power revenues. Statkraft's share of other operating revenues and operating costs is included in accordance with the shareholder agreement. The shares are recorded at cost.

Power plants that are leased to others are recorded gross in the accounts, the gross leasing charge being recorded as other operating revenues and operating costs etc. under their respective cost caption.

### Associated companies

Ownership interests where Statkraft has a considerable but not decisive influence are dealt with in accordance with the equity method of accounting in the consolidated accounts. This means that the Group's share of the associated companies' results after

tax, adjusted for depreciation of added value is shown on a separate line in the Group's income statement. The investments are recorded at cost as fixed assets in the balance sheet, adjusted for the part of the accumulated net results after tax in the associated companies, less dividends received and possible currency adjustments.

Investments that are not considered to be material to the Group are dealt with in accordance with the cost method in the company's accounts and the consolidated accounts.

## VALUATION AND CLASSIFICATION PRINCIPLES

### Principles governing revenue and cost accounting

Revenues relating to goods and services are recognised when they are earned, while costs are recorded in accordance with the accrual principle. Dividends from companies where Statkraft has a decisive influence are recognised according to the earnings principle, while dividends from other companies are recognised in accordance with the cash principle. Interest revenues on prepayments are classified as operating revenues.

Gains/losses on the sale of ordinary fixed assets are dealt with as operating revenues or costs.

## RECORDING OF REVENUE FROM POWER TRADING

### Power production

Statkraft's power production is taken to income as produced volume times sales price.

Statkraft hedges power production by entering into physical or financial contracts. Financial instruments used in power trading are financial bilateral contracts, forward contracts and futures, and options. All physical and financial trading for hedging of future production is accounted for as hedging. The prerequisite for being classed as hedging is that the hedging level is within the company's production capacity. Production capacity is defined as the production capacity that the company is 80 per cent certain to achieve. Loss/gains on hedging contracts, calculated as the margin between contract price and spot price, are recorded on realisation as part of power revenues. No valuation is made in the intermediate period. If net sales obligations exceed production capacity, the hedging contracts are transferred to the trading portfolio based on the LIFO principle.

In addition to contracts entered into to hedge future power production, the company has a separate trading portfolio. Trading contracts are valued on the lower value principle on a portfolio basis. Unrealised losses are recorded, but unrealised gains are not recognised

Provisions are made for option premiums for future power deliveries, paid or received, and recorded in the income statement in step with realised delivery. Alternatively they are recorded at the time the option lapses or the time a counter trade deal is entered into, or at the time that it is clear that the value of the option is lower than the price paid.

### Grid revenues

With effect from 1997, the Norwegian Water Resources and

Energy Directorate (NVE) introduced a regulation regime for grid operations. Each year, NVE sets a maximum income ceiling for the individual grid owner. This ceiling is reduced annually by a general efficiency enhancement demand of 1.5 per cent. In addition to this individual efficiency enhancement demands can be imposed on the individual grid owner.

Each year, an additional/lower income is calculated which is the difference between actual tariff revenues and permitted revenues (ceiling). Accumulated additional/lower income is recorded as a liability to or a receivable from distribution grid customers. Interest is calculated on the accumulated additional/lower income in accordance with an interest rate stipulated by NVE. The regulation model also includes a maximum and a minimum return on the book value of the network capital and in the event these are exceeded they are treated in the same way as accumulated additional/lower income.

Additional income for 2001 is recorded as a reduction of grid revenue. The grid revenue recorded, after deducting transmission costs from the overlying grid, will therefore correspond to the income ceiling stipulated by NVE.

#### Public grants

Public subsidies are assessed on an individual basis, and are recorded in the accounts as a correction to the item for which the subsidy is intended.

#### Compensation

The Group pays compensation to landowners for the right to use waterfalls and land. In addition, compensation is paid to others for damage caused to forests, land, telecommunication lines etc. These payments are in part lump sum, and in part recurring in the form of cash payments or in kind by the supply of compensatory power etc. Lump sum payments of compensation in relation to new power plants are capitalised as part of the investment in the plant, while recurring payments are charged as costs as and when they arise.

The present value of future compensation is calculated, and can be seen from the Notes to the Accounts.

#### Licence fees

Licence fees are paid annually to central and local authorities, for the increase in hydroelectric power that is obtained from regulating water courses and catchment transfers. These licence fees are expensed as incurred. The present value of future fees is calculated and can be seen from the Notes to the Accounts.

#### Pension costs

In the accounts, pension costs and pension obligations are treated in accordance with the Norwegian Accounting Standard for pension costs. The enterprise's pension scheme is treated as a benefit plan.

The net pension cost for the period is included in salaries and other payroll costs and is made up of the period's pension earnings, the interest costs for the obligation that has occurred and the projected yield on pension assets. The effect of plan changes is spread over the remaining average earning period.

In the case of estimate deviations the accumulated deviation is amortised if it exceeds 10 per cent of the value of gross pension obligations or pension fund assets, whichever is the greater (corridor) over the remaining average earning period.

Net pension fund assets for over-funded schemes are recorded in the balance sheet as long-term assets and are made up of the difference between fair value of pension fund assets and the present value of estimated pension obligations, together with non-amortised effect of plan changes and estimate deviations. Similarly, net pension obligations for unfunded pension schemes are classified as provisions under long-term liabilities.

#### Research and project engineering costs

Project development and project engineering costs are expensed through to necessary resolutions being passed and approval given. In the case of domestic projects, this means a Board resolution and the obtaining of a licence, if required, and for foreign projects a Board resolution and financial closing.

#### Maintenance

Ongoing maintenance is recorded as an expense on a continuous basis.

#### TAXES

Companies in groups engaged in power production are liable to special rules for the taxation of energy companies. The Group must therefore deal with four different types of tax, namely property tax, natural resource tax, resource rent tax and income tax

#### Property tax on power plants

New rules for the calculation of property tax were introduced with effect from the year 2001. The new income tax is to some extent a result-linked tax that is calculated on the basis of actual production, less actual operating for the power plant, and resource rent tax. The revenue side in the property tax is calculated on the same basis as resource rent tax, taking as the starting point the plant's production hour by hour, multiplied by the spot price for the hour in question. Actual contract prices are used for deliveries of licence power. All revenue and cost components are based on the average for the 5 preceding years.

To arrive at the property tax base, this net operating revenue for the power plant is discounted at a fixed rate in perpetuity. The discounted value of the plant's cost of replacing fixed assets is deducted. Property tax at a rate between 0.2 per cent and 0.7 per cent of the property tax basis is paid to the relative municipality.

#### Natural resource tax

Natural resource tax is an income-independent tax that is calculated on the basis of the individual power plant's average production over the last seven years. The tax rate is NOK 0.013 per kWh. Income tax can be offset against natural resource tax paid. Any natural resource tax not offset can be carried forward, together with interest, to later years, and is recorded as prepaid tax.

#### Resource rent tax

The resource rent tax is to some extent income-related. It is calculated on the individual plant's production, hour by hour,

multiplied by the spot price in the corresponding hour. In the case of supplies of licence power and power on long-term contracts with a term of more than seven years, the actual contract price is applied. The calculated revenue is thereafter reduced by the actual operating costs, depreciation and tax-free revenues, in order to arrive at the tax base: net resource rent revenue. Tax-free revenues amount to 10.2 per cent of the value of the plant's operating assets for taxation purposes.

The resource rent tax amounts to 27 per cent of net resource rent revenues at each power plant. Negative resource rent revenues per power plant can be carried forward and offset against later positive resource rent income, with interest, in the same power plant. This forms part of the basis for calculating deferred tax assets in resource rent taxation, together with deferred tax assets related to temporary difference in operating assets in power production. Calculating deferred tax assets in resource rent taxation takes into account the tax-free income, as a correction to the nominal tax rate. The estimate for effective resource rent tax is based on assessments made for all power plants where it is probable that there will be positive resource rent revenues.

#### Income tax

Income tax is calculated in accordance with ordinary taxation rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax/tax assets. Taxes payable are calculated on the basis of the year's taxable result. Deferred tax/tax assets are calculated on the basis of temporary differences between values for accounting and taxation purposes and the effect on taxes of carry forward losses. Deferred tax assets in the balance sheet are only recorded to the extent that it is probable that the asset will be realised in the future. Tax related to equity transactions is recorded against equity.

#### CLASSIFICATION OF BALANCE SHEET ITEMS

Assets intended for retention by, or long-term use are classified as fixed assets. Other assets are classified as current assets. Receivables falling due within one year are nevertheless classified as current assets. Analogue criteria are applied to current and long-term liabilities.

Fixed assets are recorded at acquisition cost and are written down to market value when the decrease in value is not considered to be of a temporary nature. Fixed assets with a limited useful economic life are depreciated systematically. Long-term liabilities are recorded in the balance sheet at the nominal amount received at the time the liability was established adjusted for premium or discount. Long-term liabilities with fixed interest rates are not appreciated to market value as a result of changes in interest rates. Current assets are valued at the lower of cost and market value. Current liabilities are recorded in the balance sheet at the nominal amount received at the time the liability was established. Current liabilities are not appreciated to market value as a result of changes in interest rates.

#### Intangible assets

Costs relating to the development of intangible assets are recorded in the balance sheet to the extent the requirements for such recording have been fulfilled. However, expenses relating to R&D are expensed as they arise.

#### Property, plant and equipment

Investments in production facilities and other long-term assets are capitalised and depreciated on a straight-line basis over the expected useful economic life of the asset from the date the asset is put into ordinary operations. Investments in power plants not operated by Statkraft SF are similarly depreciated using an average rate of depreciation.

Accrued costs of own investments in the Group are recorded as plant under construction. Interest on building loans for major investments is calculated and capitalised. Rights associated with waterfalls, and the rights to take over power plants that will revert to state ownership, are capitalised at cost and are not depreciated. Power plants that revert in the future will be depreciated from the date they are taken over.

#### Other shares and interests classified as fixed assets

All long-term investments are dealt with in accordance with the cost method in the company's accounts. Dividend received is recorded as financial income.

#### Inventories/spare parts

Standard inventories and spare parts that have been purchased for the operations of the power plants are recorded as current assets and evaluated on the lower value principle. Non-standard spare parts that are related to specific long-term assets or groups of capital assets are capitalised, and depreciated over the economic life of the underlying asset.

#### Reservoir inventory

Water in the reservoirs is not recorded as an asset in the accounts. Details of volumes are to be found in the Notes to the Accounts. Water purchased is recorded in the balance sheet through to production.

#### Receivables

Accounts receivable and other receivables are recorded at nominal value less provisions for bad debts.

#### Shares, bonds, certificates etc.

Shares, bonds and certificates etc. that are classified as current assets are, for each group of assets, valued on a portfolio basis on the lower value principle.

#### Foreign currencies

Monetary items denominated in foreign currencies are translated at the exchange rates on the balance sheet date. Liabilities in foreign currencies that are taken up as part of the hedging of assets or future income in the same foreign currency are, however, recorded at the rate applicable on the date of the transaction. Liabilities in the consolidated accounts that secure assets that are converted at the current rate are also converted at the current rate. Conversion differences are recorded directly against equity.

#### Principles for cash flow analysis

The cash flow analysis is prepared using the indirect method. This implies that the analysis is based on the company's net income/loss for the year in order to show cash flows generated by the operating activities, investment activities, and financing activities respectively.



## Note 1

### LARGE SINGLE TRANSACTIONS

In 2001, Statkraft SF recorded as income NOK 1,995 million as a result of E.ON terminating a long-term power exchange contract. Furthermore, the Storting (Parliament) has granted compensation in the amount of NOK 457 million for losses arising from stopping the Beiam, Bjellåga and Melfjord developments. The matter is reported on in the Report of the Board of Directors.

Statkraft SF has sold shares in Himal Power Ltd to BKK. This resulted in a pre-tax gain of NOK 53 million in the company's accounts. In the consolidated accounts the sale is dealt with as an equity transaction and recorded as an increase in minority interests. The subsidiary Statkraft Holding AS has sold shares in BKK Kraftsalg to BKK. This resulted in a pre-tax gain of NOK 62 million in both the company's accounts and the consolidated accounts.

During the course of the year, Statkraft has acquired more shares in Hedmark Energi AS, Skagerak Energi AS, Sydkraft AB and Nordic Hydropower AB. Reference is made to note 14 for more details.

## Note 2

### POWER SALES

Statkraft optimises its power production based on an assessment of the value of available water compared to the actual and expected future spot price. This is done irrespective of contracts entered into. In the event that Statkraft has physical contractual obligations to supply power that deviate for actual production, the difference is either bought or sold in the open market. Necessary spot purchases are recorded as a correction of power revenues. Physical and financial contracts are used to hedge the underlying production by way of entering into positions to buy or sell. Sales positions are assumed to hedge the price of a specific fraction of planned future production. Purchase positions are entered into to adjust the hedging level if assumptions change and Statkraft realises that the hedged fraction is too high. All contracts are recorded as an adjustment of the underlying revenue from production based on the margin between contract price and spot price.

#### The Group

#### Statkraft SF

2001	amounts in NOK million	2001	2000	1999
6 473	Production at spot prices	6 236	4 142	3 654
-1 622	Industrial contracts and free contracts <sup>1)</sup>	-1 622	-45	-266
722	Price hedging free contracts	782	-124	387
1 465	Other net revenue power sales <sup>2)</sup>	1 021	603	764
7 038	<b>Total</b>	6 417	4 576	4 539

1) Industrial contracts at prices determined by the Storting (Parliament).

2) Includes gain/loss on trading, margin on production optimising, international exchange contracts and licence power for power plants outside the Group.

Statkraft has the following long-term physical sales contracts with the power-intensive and the wood processing industries at terms set by the Storting (Parliament) together with delivery obligations at cost to licence power recipients:

figures in TWh	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Firm sales agreements	20.0	20.3	20.1	17.7	15.4	13.4	11.4	11.4	11.3	3.2	2.4

In addition, Statkraft has other physical contractual obligations of varying duration to both domestic and foreign customers. Statkraft has no long-term physical purchase obligations of significance. Power trading was divided among the geographic markets as follows:

#### Statkraft SF

figures in TWh	2001	2000	1999
Home market (incl. Sweden and Finland)	33.3	38.8	31.0
Denmark <sup>1)</sup>	0.0	0.6	0.7
Germany <sup>1)</sup>	0.0	0.8	0.8
<b>Total</b>	33.3	40.2	32.5

1) The export contracts were converted to financial contracts on 1.1.2001.

## Note 3

### WATER RESERVOIRS AND SALEABLE PRODUCTION

figures in TWh	Statkraft SF reservoirs			maximum capacity	Statkraft SF saleable production			Mean
	31.12.2001	31.12.2000	31.12.1999		2001	2000	1999	
	26.5	28.2	28.5	33.9	33.3	40.2	32.5	33.1

In a normal year, the water in reservoirs varies around the average level by - 11 TWh at the minimum in April, and + 5 TWh at the maximum in October. Inflow in 2001 was lower than normal, while production was at about mean level so that reservoir levels at the year-end were reduced by 1.7 TWh compared to 2000.

## Note 4

### OTHER OPERATING REVENUES

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
245	239	223	Revenues from leasing out power plants	245	239	223
131	94	121	Revenues from leasing out transmission lines	120	93	119
175	-	-	Net revenues distribution grid companies	-	-	-
337	255	722	Other lease revenues and sale of services	47	66	62
16	11	10	Gain on sale of fixed assets	16	69	6
2 452	-	-	Compensation	2 452	-	-
<b>3 356</b>	599	1 076	<b>Total</b>	<b>2 880</b>	467	410

Net revenues distribution grid companies, NOK 175 million, is Skagerak Energi Group's net revenues relating to the sub-group's network operations from the time the group was established and through to year-end.

Compensation of NOK 2,452 million is comprised of settlement from E.ON of NOK 1,725 million relating to the termination of the Viking Cable agreement, realised gains of NOK 270 million from financial positions linked to the Viking Cable and compensation from the Government in the amount of NOK 475 million as a result of the Beiarn, Bjellåga and Melfjord development being stopped.

Pursuant to the regulations to the Energy Act, separate accounting information is presented for the profit centres for the central grid, the regional grid and distribution grid (monopoly activities) for Statkraft SF, cf. revenues from leasing power transmission lines above.

The figures for 2001 will be finally settled in 2002. The revenue ceiling for 2001 is NOK 105.9 million.

amounts in NOK million	central grid		regional grid		distribution grid	
	2001	2000	2001	2000	2001	2000
Operating revenues	60.6	62.5	48.3	36.8	8.9	1.6
Operating costs	26.8	31.6	23.9	16.6	8.1	2.9
Result	33.8	30.9	24.4	20.2	0.8	-1.3
Correction	-	-3.9	-	-7.6	-	-5.1
Corrected result	-	27.0	-	12.6	-	-6.4
Yield	20.8 %	15.2 %	20.9 %	10.2 %	5.8 %	-43.5 %

## Note 5

### SALARIES AND OTHER PAYROLL COSTS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
577	512	507	Salaries	357	371	268
87	27	72	National Insurance contribution	56	51	35
48	17	51	Pension costs	20	13	31
29	69	14	Other benefits	1	1	1
741	625	644	<b>Total</b>	434	436	335

The former President and Chief Executive Officer resigned his position in Statkraft SF on 31 August. In 2001 he received NOK 1,551,789 and NOK 61,666 in salary and other remuneration respectively. He was entitled to a pension equivalent to 66.7 per cent of his annual salary at the time of retirement. The new President and C.E.O., from 1 September, has received NOK 700,000 in salary and NOK 42,330 in other remuneration for 2001. The year's estimated pension costs related to the new President and C.E.O. amounts to NOK 451,114.

Remuneration to members of the Board of Directors amounted to NOK 1,156,000, of which NOK 197,000 to its Chairman.

Members of Group management have a pension age of 65 years with a right to 66 per cent of their salary. In the case of retirement between the age of 60 and 65 years, members of Group management have agreements that imply a mutual decline in work assignments and remuneration for work carried out. For 2002, members of Group management, with the exception of the President and C.E.O. are entitled to an annual bonus of up to NOK 200,000. This bonus is paid on the basis of achievement of individually set goals.

Neither the President nor members of Group Management have severance arrangements in addition to what is mentioned above, nor are there any bonus schemes, loans or guarantees given. The Board has no agreement other than remuneration and no loans have been granted or guarantees issued in favour of board members.

In 2001, the average number of employees in the Group was 1,995, while it was 825 in the parent company.

## Note 6

### COMPENSATION AND LICENCE FEES

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
221	201	186	Licence fees	213	200	186
50	51	45	Compensation	49	50	45
271	252	231	<b>Total</b>	262	250	231

Licence fees are adjusted 5 years after the licence has been issued, and thereafter at intervals of 5 years, based on the Consumer Price Index. Annual and permanent fixed compensation payments for damage and inconvenience, which arise as a result of hydropower development, are adjusted in accordance with the same rules that apply to licence fees. The present value of current and fixed licence fees and compensation obligations related to plants are estimated to be NOK 3,040 million and NOK 320 million, respectively, discounted at a interest rate of 7 per cent in accordance with the regulations applicable to redemption.

## Note 7

### OTHER OPERATING COSTS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
43	29	309	Materials	30	29	30
442	309	245	External services	399	313	340
42	87	83	Costs, power plants leased out	91	87	83
75	72	64	Costs, power plants operated by others	65	72	64
91	17	-	Write-down of fixed assets	72	16	17
327	253	361	Other operating costs	172	288	196
1 020	767	1 064	<b>Total</b>	829	805	730

In 2001, Statkraft SF paid auditor's fees of NOK 850,000 for external audit services, NOK 3,983,040 for internal audit services and NOK 5,431,759 for consultancy services. Correspondingly, NOK 600,000 and NOK 470,335 were charged to the accounts of Norwegian subsidiaries for external audit and consultancy services respectively.

In 2001, the Group spent NOK 60 million on research and development, which has been charged to the accounts in its entirety. Statkraft is engaged in research and development in the field of hydropower and other renewable energy such as wind power, tidal power, hydrogen and salt gradients.

The write-down of fixed assets in the amount of NOK 72 million refers to a write-down of shares in Naturkraft.

## Note 8

### FINANCIAL REVENUES AND COSTS

#### Financial revenues:

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
-	-	-	Interest income from group companies	935	637	180
237	206	185	Other interest revenues	441	229	153
413	220	25	Other financial revenues	66	27	21
650	426	210	<b>Total</b>	1 442	893	354

#### Financial costs:

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
-1 805	-1 555	-1 112	Interest costs	-1 704	-1 515	-1 112
-55	-13	-23	Other financial costs	-57	-8	-6
-1 860	-1 568	-1 135	<b>Total</b>	-1 761	-1 523	-1 118

## Note 9

### TAXES

The Group

Statkraft SF

2001	2000	1999	amounts in NOK million	2001	2000	1999
478	460	448	Natural resource tax	455	454	442
279	342	335	Property tax <sup>1)</sup>	266	338	331
-1	-4	-5	Refunded/reversed from previous years	-1	-4	-5
756	798	778	Income-independent taxes	720	788	768
1 503	242	190	Income tax	1 552	333	177
-1 385	-194	-183	Income tax offset <sup>2)</sup>	-1 507	-333	-177
924	-265	-265	Brought forward/reversed <sup>3)</sup>	1 052	-121	-265
229	175	116	Resource rent tax	222	175	116
82	3	-	Changes for previous years/restatements	14	3	18
1 353	-39	-142	Income-dependent tax	1 333	57	-131
2 109	759	636	Taxes payable	2 053	845	637
118	159	108	Change in deferred tax	57	-49	117
2 227	918	744	Taxes	2 110	796	754

1) With effect from 2001, property tax is calculated according to new rules for valuing assets and is based on the profitability of each power plant, cf. accounting principles.

2) Income tax charged by the central authorities is offset against the natural resource tax.

3) In the event that the natural resource tax cannot be fully co-ordinated with income tax, the excess amount of natural resource tax and interest can be carried forward and offset against income tax in later years. In 2001, a large part of prepaid natural resource tax in earlier years is utilised.

The following shows how one arrives at the tax base for calculating income tax on the basis of the accounts.

The Group

Statkraft SF

2001	2000	1999	amounts in NOK million	2001	2000	1999
6 569	1 765	1 691	Pre-tax income	5 994	1 510	1 440
-452	-819	-565	Permanent differences	-268	-452	-332
-455	38	-435	Changes in temporary differences	-178	148	-467
5 662	984	691	Tax basis for the year	5 548	1 206	641
28/35%	28%	28%	Tax rate	28%	28%	28%
1 601	275	194	Estimated income tax	1 553	337	180
-98	-33	-4	Tax credit for deduction	-1	-4	-3
-1 385	-194	-183	Natural resource tax offset	-1 507	-333	-177
118	48	7	Income tax after offset	45	-	-
34%	52%	44%	Effective tax rate <sup>1)</sup>	35%	53%	52%

1) Taxes/pre-tax income

The following is a specification of the temporary differences and the taxable loss to be carried forward as well as the calculation of deferred tax, cf. note 12. Deferred tax assets are recorded in the balance sheet to the extent that it is probable that they will be used. The deferred tax assets related to operating assets include temporary differences in both income taxation and resource rent taxation. Net deferred tax assets that are presented as an intangible asset relate to companies that are treated as a single taxable unit pursuant to the tax rules. Changes in deferred tax/deferred tax assets from 2000 to 2001 do not correspond to the change in temporary differences because of deferred tax in companies that have been acquired.

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
-265	-280	-327	Current assets/current liabilities	-202	-396	-239
-2 398	-1 975	-2 051	Fixed assets	-1 838	-1 821	-1 825
-433	-60	-	Carryforward loss/credit	-	-	-
-3 096	-2 315	-2 379	Total temporary differences and loss brought forward	-2 040	-2 217	-2 064
-867	-648	-666	Deferred tax assets	-571	-621	-578
20	-61	-395	Temporary differences, resource rent taxation	20	-60	-395
-207	-198	-126	Resource rent tax brought forward	-207	-198	-126
-203	-211	-205	Deferred tax assets, resource rent taxation	-203	-210	-205
-1 070	-859	-871	Total deferred tax assets	-774	-831	-783
28/20%	28/20%	28/20%	Tax rate	28/20%	28/20%	28/20%

The following is a specification of the temporary differences and deferred tax in the Group that is not offset against deferred tax assets, cf. note 20. For the Group, deferred tax assets and deferred tax related to different tax subjects/regimes are presented separately. With effect from 2000, deferred tax is calculated on shares of results of foreign associated companies. In 2000, the amount was presented as net deferred tax assets.

The Group		
2001	2000	amounts in NOK million
1 129	579	Shares of results
3 882	-	Excess values acquired companies
5 011	579	Total temporary differences
1 403	162	Deferred tax
461	-	Temporary differences, resource rent taxation
-33	-	Resource rent tax brought forward
42	-	Deferred tax resource rent taxation
1 445	162	Total deferred tax
28/16%	28%	Tax rate

## Note 10

### TREATMENT OF REVENUES AND COSTS IN POWER PLANTS OPERATED BY OTHERS

In energy companies where Statkraft SF has an ownership interest without operating responsibility, cf. note 13, the enterprise takes out for own sale a part of that company's electricity production that corresponds to the ownership share. This is part of ordinary power revenues, in line with the power produced by the power plants the company operates itself. Exception is made for contractual sales of licence power arranged by the power company in question, where the revenue on sales is distributed among the owners.

For such joint ventures, the power company's operating costs and revenues related to the sale of licence power etc. are distributed among the owners by means of current settlement accounts. The following is a review of Statkraft SF's share of the income statement items in these power plant companies. Calculated revenues are Statkraft's actual take-out of power multiplied by the average price for saleable production, and Statkraft's share of licence power revenue.

amounts in NOK million	Statkraft SF		
	2001	2000	1999
Calculated revenues	673	544	440
Other operating revenues	10	10	9
Transmission costs	-52	-52	-39
<b>Net operating revenues</b>	<b>631</b>	502	410
Compensation and licence fees	22	23	22
Other operating costs	83	82	61
Ordinary depreciation	80	80	60
<b>Operating costs</b>	<b>185</b>	185	143
<b>Net financial items</b>	<b>1</b>	2	2
<b>Calculated income before taxes</b>	<b>445</b>	315	265

## Note 11

### PRO FORMA FIGURES FOR THE GROUP

amounts in NOK million	Statkraft konsern	
	2001	2000
Operating revenues	10 860	6 609
Operating income	6 977	2 607
Pre-tax income	6 688	2 031
Net income for the year	4 385	1 034
Hereof minority interests	106	68

The pro forma figures for the Group show Group items as though the acquisition of Skagerak Energi took place on 1 January 2000.

Adjustments have been made for recorded shares of the results of Skagerak Energi in the periods before the establishment of the Group. Furthermore, consideration has been given to annual amortisation of excess values as these were calculated at the time of the acquisition.

The result is adjusted for imputed interest (7 per cent) relating to financing the acquisition.

Based on an assessment of material importance, the acquisition of Nordic Hydropower is not included in the pro forma figures.

## Note 12

### INTANGIBLE ASSETS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
2 063	1 409	1 249	Licences, fall rights etc..	1 418	1 404	1 243
1 070	859	871	Deferred tax assets	774	831	783
253	3	3	Goodwill	-	-	-
<b>3 386</b>	<b>2 271</b>	<b>2 123</b>	<b>Total</b>	<b>2 192</b>	<b>2 235</b>	<b>2 026</b>

amounts in NOK million	rights	goodwill	total
<b>Statkraft SF</b>			
Acquisition cost 01.01.01	1 423	-	1 423
Additions 2001	33	-	33
Disposals 2001	-	-	-
Accumulated depreciation 31.12.01	38	-	38
Book value 31.12.01	1 418	-	1 418
Current year's ordinary depreciation	19	-	19
<b>The Group</b>			
Acquisition cost 01.01.01	1 428	14	1 442
Additions 2001	674	255	929
Disposals 2001	-	-	-
Accumulated depreciation 31.12.01	39	16	55
Book value 31.12.01	2 063	253	2 316
Current year's ordinary depreciation	19	4	23
Estimated useful economic life	7 years to perpetuity	5 years	-

Depreciation of rights is linked to the acquisition of shares in Tyssefaldene. Statkraft SF's stake is 20.29 per cent, giving Statkraft SF a right to take out part of the production of 3 power plants at cost. The plants revert to Statkraft SF in 2007 and 2010. The book value of these rights was NOK 113 million at 31.12.2001.

Deferred tax assets are referred to in more detail in note 9.

The NOK 255 million addition in goodwill is linked to the acquisition of Skagerak Energi. This is the amount of goodwill in Skagerak Energi's books at the time the Group was established.



## Note 13

### FIXED ASSETS

amounts in NOK million	regulating-plant	turbines, generators etc.	grid-facilities	shares in powerplants operated by others	buildings roads, bridges and quays	plant under construction	other	total
<b>Statkraft SF</b>								
Acquisition cost 01.01.01	15 876	6 426	-	2 716	4 663	119	947	30 747
Additions 2001	9	30	-	17	6	262	38	362
Disposals 2001	-	-	-	-	7	42	1	50
Capitalised building interest	-	-	-	-	-	7	-	7
Acc. depreciation and write-down 31.12.01	2 835	2 587	-	608	922	-	611	7 563
Book value 31.12.01	13 050	3 869	-	2 125	3 740	346	373	23 503
Current year's ord. depreciation	309	238	-	61	93	-	87	788
<b>The Group</b>								
Acquisition cost 01.01.01	16 307	7 875	-	2 716	4 896	121	992	32 907
Additions 2001	7 909	33	3 117	17	332	361	184	11 953
Disposals 2001	-	-	-	-	7	45	2	54
Capitalised building interest	-	-	-	-	-	7	-	7
Acc. depreciation and write-down 31.12.01	3 095	2 798	32	608	1 039	-	656	8 228
Book value 31.12.01	21 121	5 110	3 085	2 125	4 182	444	518	36 585
Current year's ord. depreciation	349	292	32	61	98	-	102	934
Estimated useful economic life	30-60 years	15-30 years	25-30 years	5-50 years	50-60 years	-	3-40 years	-

Power plants etc. where ownership is shared between Statkraft and others or where county local authorities etc. have a right to take out and administer part of the power produced in return for financing part of the costs involved, are recorded after deducting the value of others' take-out rights, calculated as their relative share of the take-out.

County local authorities and publicly owned power companies have the following rights to take out power from power plants owned by Statkraft:

power plant	others' share
Kobbelv	17.50 %
Grytten	12.00 %
Svorka	50.00 %
Leirdøla	35.00 %
Vikfalli	12.00 %
Ulla-Førre	28.00 %
Folgefonn	14.94 %
Eidfjord	35.00 %

Statkraft has the following ownership interests in power plants operated by others:

amounts in NOK million	ownership	share of fixed assets
Aurlandsverkene	7.00 %	391
Kraftverkene i Øvre Namsen	50.00 %	269
Mørkfoss-Solbergfoss	33.33 %	76
Røldal-Suldal Kraft AS	8.74 %	-
I/S Sira-Kvina kraftselskap	32.10 %	1 389
<b>Total</b>		<b>2 125</b>

# Note 14

## INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Shares in subsidiaries and associated companies are dealt with in accordance with the cost method in the company's accounts.

amounts in NOK 1 000 kroner	registered office	owner-ship	share of votes	book value
<b>Shares in subsidiaries owned by the parent company</b>				
Statkraft Energy Enterprise AS	Bærum	100 %	100 %	3 354 066
Statkraft Holding AS	Bærum	100 %	100 %	4 935 007
Finnmark Energiverk AS	Alta	100 %	100 %	343 256
Himal Power Limited	Kathmandu	51 %	51 %	119 179
Statkraft Energy Europe AS	Bærum	100 %	100 %	98 316
Statkraft Forsikring AS	Bærum	100 %	100 %	30 000
Statkraft Grøner AS	Bærum	92 %	92 %	18 500
Nordic Hydropower AB	Stockholm	100 %	100 %	165 518
Statkraft Peru AS	Bærum	100 %	100 %	100
<b>Total</b>				<b>9 063 942</b>
<b>Shares in associated companies owned by the parent company</b>				
Naturkraft AS	Bærum	33 %	33 %	-
Peru Hydro SA	Peru	50 %	50 %	10 224
Settefiskanlegget Lundamo AS	Trondheim	47 %	47 %	700
Aursjøveien AS	Sunnalsøra	33 %	33 %	17
Aktieselskapet Tyssefaldene	Odda	20 %	20 %	101
<b>Total</b>				<b>11 042</b>
<b>Total shares in subsidiaries and associated companies owned by the parent company</b>				<b>9 074 984</b>

### Shares in consolidated subsidiaries owned by other Group companies

name	registered office	owner-ship	share of votes
Statkraft Markets GmbH	Düsseldorf	100 %	100 %
Statkraft Markets BV	Amsterdam	100 %	100 %
Statkraft Invest AB	Malmö	100 %	100 %
Skagerak Energi AS	Porsgrunn	66.62 %	66.62 %

Shares in associated companies that are considered to be of insignificant size for the Group are dealt with in accordance with the cost method also in the consolidated account. This applies to all of the parent company's shares in the tables above, as well as shares in the table below, that are owned by other Group companies.

### Shares in associated companies and non-consolidated subsidiaries owned by other Group companies

amounts in NOK 1 000	registered office	owner-ship	share of votes	book value
Scanenergi AS	Herning	24 %	24 %	14 582
Energy Future Park AS	Hamar	50 %	50 %	13 000
BVT Tele AS	Porsgrunn	89 %	89 %	3 905
Skagerak Elektro AS	Porsgrunn	100 %	100 %	5 500
Energimåling AS	Skien	85 %	85 %	6 382
Miljøbil Grenland	Porsgrunn	40 %	40 %	2 000
Vestfold Energitjenester AS	Tønsberg	100 %	100 %	1 500
Other companies (book value less than NOK 1 000)		50-100 %	50-100 %	2 470
<b>Total</b>				<b>49 339</b>

Shares in associated companies of a significant size are dealt with in accordance with the equity method in the consolidated accounts. This applies to the following companies:

name	registered office	owner-ship	share of votes
E-CO	Oslo	20 %	20 %
Sydskraft AB <sup>1)</sup>	Malmö	36 %	29 %
BKK	Bergen	26 %	26 %
HEAS	Hamar	49 %	49 %
Fjordkraft AS <sup>2)</sup>	Bergen	3 %	3 %
Theun Hinboun Power Company limited	Laos	20 %	20 %

1) E.ON raised its stake in Sydkraft AB to more than 40 per cent in 2001. This triggered of a compulsory offer pursuant to Swedish law to buy all the shares. Statkraft considered the offer, but decided to keep its shareholding in Sydkraft. In 2002, Statkraft increased its stake in Sydkraft to 45 per cent and has entered into closer co-operation with E.ON regarding the development of the company. In this connection, Statkraft has been given an option to sell its share of Sydkraft to E.ON by the year 2005.

2) Fjordkraft AS is owned by Statkraft SF (3.15 per cent), BKK AS (48.85 per cent) and Skagerak Energi AS (48 per cent), and is considered to be a jointly controlled activity in the Statkraft Group. The company is dealt with using the equity method in the consolidated accounts.

amounts in NOK million	E-CO	Sydskraft	BKK	HEAS	SKK/VK	THPC	FK	total
Opening balance	2 076	11 570	2 666	1 332	4 498	-	-	22 142
Acquisitions	-	252	-	620	-	399	422	1 693
Sales	-	-	-95	-	-	-	-	-95
Decrease in capital	-	-	-	-	-422	-	-	-422
Share of result	84	860	49	18	36	19	-12	1 054
Dividend	-	-282	-52	-14	-3	-18	-	-369
Currency losses	-	-928	-	-	-	-8	-	-936
Transferred to subsidiaries	-	-	-	-	-4 109	-	-	-4 109
Closing balance	2 160	11 472	2 568	1 956	-	392	410	18 958
Depreciation added value in 2001	-	592	18	18	14	14	7	663
Added value 31.12.01	-	4 376	960	768	-	253	279	6 636
Depreciable added value 31.12.01	-	3 212	246	532	-	253	279	4 522

At the beginning of the year, Statkraft owned 34 per cent of SKK and VK. The companies merged in 2001 and Statkraft's stake in the merged company, Skagerak Energi, remained unchanged. On 01.10.2001 Statkraft increased its shareholding in Skagerak Energi to 66.62 per cent. For the first three quarters of 2001 Skagerak Energi is dealt with in accordance with the equity method with continuation of book values and excess values relating to SKK and VK. For the 4th quarter, Skagerak Energi is consolidated using the acquisition method of accounting. New added value analyses were made in connection with the establishment of the Group and changed added values from the first to the second share acquisition are recorded against the Group's equity. Total excess of purchase price over net assets acquired in Skagerak Energi amounted to NOK 3,885 million at 31.12.01, of which added values that can be amortised amount to NOK 3,418 million.

In 2001, Statkraft raised its shareholding in Nordic Hydropower AB from 50 per cent to 100 per cent. The company is consolidated using the acquisition method with effect from 01.07. Nordic Hydropower's investment in THPC is an associated company and from that date dealt with using the equity method in the Group

# Note 15

## OTHER FINANCIAL FIXED ASSETS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
629	732	779	Loans to associated companies	629	729	779
-	-	-	Loans to group companies	18 657	15 127	6 534
770	1 220	940	Bonds and other long-term receivables	605	1 186	877
12	7	8	Other shares and interests	7	7	7
<b>1 411</b>	<b>1 959</b>	<b>1 717</b>	<b>Total</b>	<b>19 898</b>	<b>17 049</b>	<b>8 197</b>

### Specification of other shares and interests:

amounts in NOK 1 000	ownership	book value
<b>Other shares and interests owned by the parent company</b>		
Røldal-Suldal Kraft AS <sup>1)</sup>	9 %	958
Settefisk AL	19 %	566
Sauda Industriutvikling AS	9 %	40
Labroskolen AS	12 %	53
Vefsenlaksen AS	10 %	10
Capital contribution Statkraft Pension Fund		5 000
Interests in housing co-operatives		160
<b>Total</b>		<b>6 787</b>
<b>Other shares and interests owned by other subsidiaries</b>		
NEFO AS	1 %	420
Kvænanen Kraftverk AS	5 %	25
Eurokraft Norge AS	5.89 %	60
Norsk Energiverk Forsikring AS	6.71 %	2 940
Enit Sør AS	5.7 %	474
Labroskolen AS	10.3 %	62
IT & Process ASA	1.34 %	1 000
Other shares		146
<b>Total</b>		<b>5 127</b>
<b>Grand total Group</b>		<b>11 914</b>

1) Statkraft owns 8.74 per cent of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79 per cent of the power plant IS Røldal-Suldal Kraft. Thus, Statkraft's indirect stake in that partnership is 4.79 per cent.

## Note 16

### RECEIVABLES

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
1 012	578	457	Accounts receivable	427	501	340
405	345	226	Accrued revenues etc.	268	283	185
68	29	77	Prepaid costs	41	26	65
2 198	88	548	Other receivables	2 363	273	135
-	-	-	Current receivables from group companies	-	16	389
3 683	1 040	1 308	<b>Total</b>	3 099	1 099	1 114

Accounts receivable are recorded after provision for bad debts. For Statkraft SF the provision in 2001 was NOK 1 million compared to NOK 18 million at 31.12.00 and NOK 10 million at 31.12.99.

The increase in the Group's accounts receivable from 2000 to 2001 is mainly due to the consolidation of Skagerak Energi from 2001 and the increase in Statkraft Energy Europe Group's activity in Germany and the Netherlands.

The increase in other receivables is the claim on E.ON relating to the Viking Cable compensation. See note 1.

## Note 17

### INVESTMENTS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
50	38	24	Shares – financial placements	-	-	-
213	112	122	Bonds	-	-	6
263	150	146	<b>Total</b>	-	-	6

#### Bonds by debtor category

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
74	26	41	Commercial/savings banks	-	-	6
10	9	5	Mortgage companies	-	-	-
18	5	10	Industry	-	-	-
111	72	66	Public sector	-	-	-
213	112	122	<b>Total</b>	-	-	6

All bonds are in NOK.

## Note 18

### BANK DEPOSITS, CASH AND CASH EQUIVALENTS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
1 562	650	-	Certificates and promissory notes	1 562	300	-
3 582	1 864	1 299	Cash and bank deposits	2 618	762	1 012
1 757	-	-	Foreign certificates	1 757	-	-
6 901	2 514	1 299	<b>Total</b>	5 937	1 062	1 012

Restricted bank accounts for withholding taxes at source totalled NOK 56.5 million for the Group and NOK 20.3 million for Statkraft SF. Collateral accounts linked to power trading on the Exchange totalled NOK 105.7 million. Statkraft Group has long-term committed credit lines of up to NOK 3,803 (of which USD 300 million) of which NOK 400 million was drawn down, and an overdraft facility of NOK 200 million.

## Note 19

### EQUITY

amounts in NOK million	The Group	Statkraft SF
Equity as at 31.12.00	19 250	19 250
Equity paid in	6 000	6 000
<b>Equity as at 31.12.01</b>	<b>25 250</b>	<b>25 250</b>
Minority interests as at 31.12.00	80	-
Issue/sale to minority interests	122	-
Net income for the year	70	-
Dividend	-77	-
Changes as result of acquisitions	3 503	-
<b>Minority interests as at 31.12.01</b>	<b>3 698</b>	-
Retained earnings as at 31.12.00	2 412	1 528
Net income for the year	4 272	3 884
Dividend	-2 690	-2 690
Changes as a result of step-by-step acquisitions	-386	-
Conversion differences	-230	-
<b>Retained earnings as at 31.12.01</b>	<b>3 378</b>	<b>2 722</b>
<b>Total equity as at 31.12.01</b>	<b>32 326</b>	<b>27 972</b>

## Note 20

### PROVISIONS

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
123	30	28	Pension obligations	20	15	14
1 445	162	-	Deferred tax	-	-	-
346	364	118	Other provisions	271	216	98
1 914	556	146	<b>Total</b>	291	231	112

For more details on deferred tax see note 9.

Other provisions for liabilities are mostly provisions for option premiums to Statkraft SF and restructuring costs in Skagerak Energi.

#### The National Pension Fund/other group pension schemes

Statkraft has a group pension scheme for its employees with the National Pension Fund. The pension scheme in the National Pension Fund provides benefits in accordance with the National Pension Fund Act. These benefits are retirement pension, disability pension, surviving spouse's and dependent children's pension, and Agreement-linked early retirement pension (AFP). The pension benefits are co-ordinated with the benefits from the National Insurance Scheme. In 2001, the National Pension Fund increased benefits from 8G (the basis amount in the National Insurance Scheme) to 12 G. The effect of this is recorded as a plan change.

Statkraft Grøner has a group pension scheme for its employees with a private insurance company. This covers salaries up to 12G. For accounting purposes, the pension schemes are treated in accordance with the Draft Norwegian Accounting Standard for pension costs.

The fixing of premiums and estimates of the value of pension obligations are made on actuarial principles. The National Pension Fund scheme is not asset-based. Payment of pensions is guaranteed by the State (Section 1 of the Pension Act). Financial management of the pension assets (fictive assets) is simulated as though the assets were invested in long-term Government bonds. In this simulation, it is assumed that the bonds are held to maturity. Pension assets are therefore valued at book value.

#### Statkraft's own pension fund

Statkraft has approved a supplementary pension scheme that provides benefits in addition to those from the National Pension Fund. The supplementary scheme covers full pension (66 per cent) up to 12 times the basis amount in the National Insurance Scheme (G), as well as full surviving spouse's pension for all employees. All Statkraft SF's employees are members of the scheme. With effect from 2001 no additional rights to old age pensions are earned in Statkraft's pension Fund since the National Pension Fund now covers the extra benefits that Statkraft's own pension fund was intended to cover.

#### Uncovered pension obligations

In addition to the above, Statkraft SF has entered into pension agreements with 12 of the Group's senior executives. These pensions are covered through the company's running operation. Statkraft Grøner has pension obligations in respect of 9 people that are covered through the company's running operation.

It should be pointed out that Statkraft is not legally bound by the recorded obligations

#### Assumptions

When calculating the year's net pension cost, and net pension assets (obligations), the following assumptions were made:

Annual discount rate	6.0 %
Salary adjustment	3.3 %
Pension adjustments	2.9 %
Annual increase in G (Nat. Insurance Scheme's basis amount)	2.9 %
Forecasted voluntary retirement	
• Up to 45 years of age	2.5 %
• Between 45 and 60 years	0.5 %
• Over 60 years	0.0 %
Projected yield	7.0 %
Rate of inflation	2.5 %

The pension cost for the period was as follows:

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
49	30	28	Present value of earned pensionrights for the year	22	23	20
66	35	38	Interest costs on pension obligations	26	25	23
115	65	66	<b>Gross pension cost for the year</b>	48	48	43
67	40	43	Projected yield on pension funds	26	28	25
-	-10	28	Recognised effect of change in estimates, pension plans and deviation in yield	-2	-1	13
48	15	51	<b>Net pension cost for the year</b>	20	19	31

Reconciliation of obligations and pension fund assets

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
1 204	610	645	Gross pension obligations	480	444	398
1 095	645	655	Pension fund assets	456	461	399
-109	35	10	<b>Net pension fund assets (obligations)</b>	-24	17	1
70	-	-	Non-amortised changes	15	-	-
41	-	-	Non-recognised plan changes	35	-	-
-15	-2	-2	National Insurance contribution – unfunded schemes	-2	-2	-2
-13	33	8	<b>Net pension fund assets (obligations) in balance sheet</b>	24	15	-1
123	30	28	Obligations pensions through operations – unfunded schemes	20	15	14
110	63	36	Pension assets (funded schemes)	44	30	13



# Note 21

## OTHER LONG-TERM DEBT

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
21 557	23 706	15 706	Bond loan	21 902	23 706	15 706
4 101	1 618	1 107	Liabilities to credit institutions	4 210	1 972	476
5 475	5 233	4 868	Other long-term liabilities	4 873	4 804	4 836
31 133	30 557	21 681	<b>Total</b>	30 985	30 482	21 018

Detailed specification of the above table:

amounts in NOK million	2001	2000	1999
Government loans	2 125	2 550	2 975
Other long-term loans in NOK	14 284	12 545	8 036
Loans in SEK	11 796	10 176	6 419
Loans in EURO	-	2 921	1 686
Share of loan in Sira-Kvina Kraftselskap	31	36	41
Prepayments/accrued power sales	1 743	1 741	1 847
Loans from subsidiaries	1 006	513	14
<b>Total Statkraft SF</b>	30 985	30 482	21 018

The foreign exchange distribution in the above table takes into account the underlying currency and interest rate swaps with the exception of NOK 340 million in Government loans that has an underlying currency and interest rate swap contracts from NOK to SEK.

Other long-term liabilities in Norwegian kroner comprise 16 Norwegian bond issues amounting to NOK 8.0 billion net, and loans in foreign currency for the countervalue of NOK 6.3 billion net, where Statkraft has an exposure in NOK as a result of currency and interest rate swaps. The loans with SEK as the effective currency were raised in connection with Statkraft's investment in Sydkraft AB and are recorded in the company's accounts at the exchange rate on the date the loans were disbursed. The weighted average SEK/NOK rate is 94.27. In the consolidated accounts the SEK loans and the ownership interest in Sydkraft are valued at the rate on the balance sheet date. The average effective interest rate on Statkraft SF's loans in NOK was 6.6 per cent at the end of the year. The corresponding figures for SEK and EURO were 4.9 per cent and 4.7 per cent respectively.

### Instalment schedule

amounts in NOK million	2002	2003	2004	2005	2006	rest
Instalment schedule Government loans	425	425	425	425	425	-
Instalment schedule other loans	3 988	1 205	2 428	2 319	3 857	15 211
<b>Total for the Group</b>	4 413	1 630	2 853	2 744	4 282	15 211

Statkraft is free to take up loans in the private market, provided that the company's total loans and guarantee obligations do not exceed the value of the company's assets. The value of the assets is fixed on the basis of the latest official balance sheet, corrected for additions and disposals of assets after the balance sheet date. In addition, consideration shall be given to post-balance sheet reductions which are considered not to be of a temporary nature. These constraints do not apply to credits or guarantees on customary terms, and which are related to ordinary commercial transactions. In order to limit the Government's liability for Statkraft's obligations, a limit of NOK 52.5 billion has been placed on the company's total loans and guarantee obligations by the Storting (Parliament). In the event that the company is reorganised from a state owned enterprise to a limited liability company, lenders may claim default if the Government does not issue guarantees for loans and accrued interest.

## Note 22

### INTEREST-BEARING CURRENT LIABILITIES

Interest-bearing liabilities totalling NOK 35.7 million are comprised of liabilities to credit institutions by subsidiaries.

## Note 23

### OTHER NON INTEREST-BEARING LIABILITIES

The Group				Statkraft SF		
2001	2000	1999	amounts in NOK million	2001	2000	1999
599	168	149	Accounts payable	191	141	118
357	165	203	Public duties payable	220	149	169
760	964	651	Accrued costs	635	899	557
322	116	131	Other non interest-bearing liabilities	42	36	42
2 767	631	600	Dividend payable	2 690	631	600
-	-	-	Short-term liabilities to group companies	29	5	11
4 805	2 044	1 734	<b>Total</b>	3 807	1 861	1 497

## Note 24

### MORTGAGES, OBLIGATIONS AND GUARANTEES

#### Mortgages

County administrations and publicly owned power companies are, in certain cases, entitled to utilise part of the power production from Statkraft SF's power plants, in return for paying part of the construction costs, cf. note 12. As a basis for financing the acquisition of such rights, permission has been given for the county administrations/companies to offer lenders collateral in the power plants in question. At 31 December 2001, such mortgage debt amounted to an aggregate NOK 2,098 million, while the book value of the pledged assets amounted to NOK 5,927 million.

#### Obligations and guarantee liability

Statkraft Group has obligations and guarantees for a total of NOK 5,803 million while the corresponding figure for Statkraft SF is NOK 5,722 million. For Statkraft SF, NOK 92 million refers to projects, NOK 1,891 million to power exchange agreements and NOK 179 million to guarantees issued by the parent company, NOK 1,009 million in rental guarantees and NOK 2,550 million to put options to buy shares. Subsidiaries have guarantees, mainly referring to projects and power trading, for a total of NOK 71 million.

Statkraft has signed agreements to buy further shares in BKK, Agder Energi and Trondheim Energiverk for a total of NOK 15 billion.

Statkraft entered into an agreement with Mustad Eiendom AS to lease an office building at Lilleakerveien 6, Oslo from June 2002. The agreement has a lease period of 20 years with an option to renew for a further 10 years. The annual lease is NOK 51.5 million.

## Note 25

### OFF-BALANCE SHEET ITEMS

#### Forward contracts, foreign exchange

Currency amounts in million	Bought	Sold	Market value in NOK
EUR	160	151	24.6
DKK	-	13	0.3
USD	-	201	-18.5
<b>Total</b>			<b>6.4</b>

The forward contracts mature between 2002 and 2004. These transactions are linked to agreed sales revenues in the respective currencies, or loans taken up to hedge such revenue. The forward contracts are therefore classified as hedging transactions, and according to the principles for recording such hedging transactions, are not recorded at market value in the accounts. This is countered by the sales revenues that are hedged being recorded at the agreed forward exchange rate for hedging transactions. Forward contracts are recorded gross. At 31 December 2001, the market value of the contracts was NOK 6.4 million. Realised, unrecorded gains on hedging contracts in foreign currencies totalled NOK 20 million at 31 December 2001.

#### Interest swaps

Currency amounts in million	Principal amount in currency	Market value in NOK
NOK	17 879	-57
CHF	400	-43
SEK	6 300	-32
EUR	578	73
<b>Total</b>		<b>-59</b>

Interest swaps are used to adjust the interest sensitivity of the company's loans to what the company regards as adequate hedging. As per 31 December 2001 the market value of the agreements was NOK -59 million.

#### Interest and foreign exchange swaps

Currency amounts in million	Principal amount in currency	Market value in NOK
From currency to NOK	6 173	-52
From currency to SEK	12 373	1 673
From currency to DKK	237	15
From currency to USD	197	-332
<b>Total</b>		<b>1 304</b>

Interest and foreign exchange swaps are used to achieve favourable financing in the desired currency when a combination of financing in another currency and a customised interest and foreign exchange swap gives lower interest costs than financing in the desired currency. Statkraft has underlying financing in CHF, FRF, DKK, NOK and JPY. The market value of the agreements as per 31.12.01 was NOK 1 304 million.

### Options on loans and interest swaps

At year-end, Statkraft had entered into options to extend a loan for a total underlying amount of NOK 1 054 million.

### Interest options

Interest options are entered into to adjust the interest rate sensitivity on the company's floating rate loans to what the company at any time considers adequate hedging. At year-end Statkraft had entered into interest options in NOK for a total underlying amount of NOK 500 million. The market value of the agreements as per 31.12.01, including the option premium, was NOK – 1.1 million.

### Interest rate exposure for Statkraft SF

#### Re-pricing table (NOK million)

Re-pricing period

Duration	0-3 mths	3-6 mths	6-12 mths	1-3 years	>3years
Bank deposits	2 618	-	-	-	-
Funding, investments and derivatives	-553	-8 177	-4 053	-6 889	-3 582

(positive figures = investments, negative figures = funding)

The table shows which parts of Statkraft's investments and funding portfolios are exposed to interest rate adjustment in the various duration intervals.

### Exposure by currency as at 31.12.01

Currency	NOK	SEK
Modified duration <sup>1)</sup>	1.81	1.25

1) Statkraft uses modified duration to measure interest rate sensitivity in the funding portfolio. The figures show the percentage change in market value if market rates change by one percentage point.

## Note 26

### MARKET AND FINANCIAL RISK

In its business, Statkraft is exposed to various types of risk. The most important naturally enough relate to production of and trading in energy, but the company is also exposed to other financial and operational risks.

#### Market risk

Statkraft's main activities are the production of and trading in electric power. In a market with a great deal of hydropower, where access to water varies a great deal from year to year, price and production capacity will also vary considerably. This may have a marked impact on Statkraft's results. Since production and price are often negatively correlated, i.e. a great deal of water and high production brings about lower prices, and vice versa, this means that the outcome of the revenue is naturally dampened. In addition, Statkraft is active in risk management to adjust to the actual market situation. This way, Statkraft endeavours in the long term to achieve maximum earnings from production, taking into account the company's risk criteria.

#### Risk management

To a considerable extent, Statkraft makes use of forward contracts and other financial instruments in its hedging of revenues. Contract trading helps stabilise Statkraft's revenues from year to year. This is desirable because of the great uncertainty surrounding the total revenue from power sales. This depends on a volatile spot price and uncertain production capacity. In this connection there is no difference between physical and financial contracts that are traded bilaterally and via brokers or financial contracts in the forward market (NordPool). Price is the prime criterion when selecting the trading form. Hence, the most important factor is that contracts are good seen in relation to existing power contracts and the scope of the outcome on both own production and spot prices. The company is constantly adjusting the contract portfolio so that expected earnings are maximised within the given risk criteria.

#### Use of derivatives for hedging purposes

Statkraft deals in various instruments, physical and financial in order to hedge revenues. This hedging, which also takes into consideration the company's present and future production capacity, is intended to ensure an optimal contract position in relation to risk criteria. Statkraft is exposed to both price and volume risks because future prices and water inflows are unknown. At the end of 2001, the company had hedged more than 40 per cent of mean production through to and including the year 2012. The largest change is due to the termination of the power exchange agreement with E.ON. The total market risk can be quantified as the scope of net power revenue, after transmission, in relation to expectations. With a probability of 80 per cent, it is estimated that net power revenue will be within +/- NOK 1,100 million in 2002 and +/- NOK 900 million in 2003 and +/- NOK 1,000 million in 2004. Taxation of power plants will dampen the impact on the company's net income after taxes.

#### *Use of derivatives for trading purposes*

In addition to hedging activities, Statkraft also uses financial derivatives to take limited short-term positions in the market. Here, Value at Risk is an important risk management tool. The volume traded is significant but the financial exposure at any one time is extremely limited compared to hedging activities. Internal guidelines have been established for market exposure, both for hedging and trading purposes.

#### **Foreign exchange risk**

Statkraft's goal for its foreign exchange risk management is to limit fluctuations in the present value of foreign exchange revenues and assets in foreign currencies and to maximise the present value of these within given limits. To achieve the desired risk level the company uses loans in the currencies in question, interest and currency swaps to the desired currency and forward foreign exchange contracts. Statkraft's long-term investments in assets denominated in foreign currencies refer primarily to the ownership stake in Sydkraft. 70-100% is to be hedged. At year-end Statkraft had hedged about 100% of the company's foreign currency assets. A change in the value of Statkraft's assets in foreign currency because of fluctuations in an exchange rate would therefore be offset by a corresponding change in the value of Statkraft's liabilities in the same currency. 40-70% of the present value of the foreign exchange revenue that Statkraft expects to receive 3 or more years hence is to be hedged. At year-end 100% was hedged. In the case of revenue that will be realised earlier, the degree of hedging is set higher.

#### **Interest rate risk**

Statkraft's goal for interest rate management is to minimise interest costs, reduce fluctuations in these, and limit changes in the value of the company's net liabilities. Modified duration is used to measure interest rate sensitivity. This indicates changes in market values as a result of a one percentage point change in market interest rates. Based on Statkraft's foreign exchange exposure the funding portfolio is divided into NOK (about 59%) and SEK (about 41%). The portfolio shall have a modified duration between 1 and 3, both on the whole and for each currency. Statkraft uses mainly interest rate swaps to achieve the risk goal. At the end of 2001 the modified duration for the NOK portfolio was NOK 1.8 years and for the SEK portfolio 1.3 years. This implies that the market value of these portfolios would be changed about 1.8 per cent and 1.3 per cent respectively in the event of a one percentage point change in the market interest for these currencies. Reference is also made to the re-pricing table in note 25.

#### **Liquidity risk**

Statkraft assumes a liquidity risk because the term of the financial obligations are not matched to the cash flow generated by the assets. The company's credit worthiness is very high, which is confirmed by the long-term credit ratings, namely Aaa and AA+ from the rating agencies Moody's Investor Service and Standard & Poor's respectively. These good ratings are rooted to a great extent in the provision in the Act relating to State-owned Enterprises, which stipulates that winding up proceedings cannot be filed against state enterprises. In the event that the company is liquidated, the state is responsible for the creditors receiving full cover. Based on the state enterprise corporate form, the good ratings and standardised loan programmes, the company will normally be able to finance, at short notice, the payment obligations that might arise. As an extra security against possible unrest on the financial markets, Statkraft has established long-term committed credit lines for the countervalue of USD 300 million. The company's policy is to limit short-term borrowing to the sum of cash and cash equivalents and committed credit lines.

#### **Credit risk**

Statkraft enters into financial contracts on Nord Pool and bilaterally with individual companies. The latter result in Statkraft assuming a counterparty risk for the contract's counterpart. The reasons for entering into such bilateral contracts are that some types of contract are not traded on Nord Pool (applies to some option contracts with lengthy terms), for financial reasons (i.e. better contractual terms and conditions) and for strategic considerations pertaining to our market positions. To deal with this risk Statkraft's Market Division has established its own Counterparty Committee, which sets ceilings for exposure to individual companies. A special procedure has been introduced that regulates the process around bilateral transactions and this procedure regulates the term and scope of the contracts that can be entered into with different companies. During the last few years Nord Pool has been the counterpart for the vast majority of the contract volume.

Statkraft also assumes a credit risk primarily by placing excess liquidity with issuers of securities and from the use of hedging instruments such as interest rate swaps, currency and interest rate swaps, and forward contracts. The limits for each debtor are set on the basis of formal credit ratings or assumed creditworthiness. Quantification of the risk in placements is based on the principal amount of Statkraft's receivables, but in the case of financial instruments a loss potential is calculated in the event the counterpart should fail to fulfil its obligations. At year-end Statkraft's exposure related to placements and financial instruments was NOK 9 billion. The exposure was for the most part divided between foreign financial institutions with A ratings or better and the major Norwegian banks.

#### **Insurance risk**

Statkraft has a considerable risk exposure in its operations related to damage/loss of assets (primarily power plants), production losses and damage to third-party lives and property, e.g. from fire, floods or inundation following damage to or fractures in dams. Statkraft has directly, and through its captive insurance company Statkraft Forsikring AS, bought coverage in the insurance market under a comprehensive insurance programme. The maximum loss for own account arising from individual damage to assets is NOK 15 million and this is also the maximum loss per year. In the case of production losses the maximum loss for own account is NOK 6 million per insurance event and NOK 8 million per year.

In order to reduce the risk of losses arising from a failure on the part of the insurance company to pay compensation, Statkraft has required that both the direct insurance company and reinsurance companies shall have a rating of BBB or better. Furthermore, Statkraft's risk is limited by the Norwegian authorities having established a guarantee scheme that ensures that policyholders receive claim payments even though the insurance cover is with a Norwegian insurance company that goes into liquidation.

## Note 27

### OTHER ISSUES

#### Disputes

There are currently two disputes relating to Statkraft's tax assessments under the tax system for power plants that came into effect in 1997. Both relate to the calculation of resource rent tax.

NVE has ordered that the pipe trench for the Sauda I-III power plants shall be replaced. The power plants are leased to AS Saudefaldene. Statkraft and Saudefaldene disagree on which of them shall defray the cost of the replacement and some other work that the parties agreed should be carried out in the period 2001-2010. Statkraft has issued a writ of summons. The main hearing will be held at Stavanger City Court in March 2002.

Statkraft has at all times a small number of cases in connection with compensation for properties and plant in regulated watercourses. These cases are for modest amounts.

Prudent and conservative assessments of the liabilities represented by the disputes are made in the accounts.

## Auditor's report for 2001

To the Corporate Meeting of Statkraft SF

We have audited the annual financial statements of Statkraft SF as of 31 December 2001, showing a profit of NOK 3 884 million for the Enterprise and a profit of NOK 4 342 million for the Group. We have also audited the information in the director's report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit. The financial statements comprise the balance sheet, statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements are the responsibility of the Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on 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 auditing standards and practices generally accepted in Norway. Those standards and practices require 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 auditing standards an audit also comprises a review of the management of the Enterprise'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 have been prepared in accordance with law and regulations and present the financial position of the Enterprise and of the Group as of 31 December 2001, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway.
- the Enterprise's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway.
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit is consistent with the financial statements and comply with law and regulations.

Oslo, 19 March 2002

ARTHUR ANDERSEN & CO.



Olve Gravråk  
State Authorised Public Accountant (Norway)

## Key figures

## The Group

	Unit	2001	2000	1999	1998	1997
<b>Financial result:</b>						
Gross operating revenues	NOK mill.	10 394	5 285	5 601	5 314	5 353
Net operating revenues	NOK mill.	9 714	4 671	4 912	4 760	4 702
Operating income	NOK mill.	6 725	2 178	2 174	2 198	1 998
Pre-tax income	NOK mill.	6 569	1 765	1 691	1 631	1 277
Net income for the year <sup>1)</sup>	NOK mill.	4 342	847	947	890	1 238
<b>Investments:</b>						
Investments	NOK mill.	5 137	9 411	7 026	944	1 085
<b>Balance sheet 31.12:</b>						
Cash and cash equivalents	NOK mill.	6 901	2 514	1 299	1 796	1 153
Equity	NOK mill.	32 326	21 742	21 503	17 322	16 669
Total assets	NOK mill.	71 294	55 778	47 067	42 430	40 075
<b>Key ratios:</b>						
Return on total assets before tax <sup>2)</sup>	%	13.3	6.5	6.3	6.5	6.2
Return on total assets after tax <sup>3)</sup>	%	9.8	4.7	4.7	4.7	6.1
Return on equity before tax <sup>4)</sup>	%	24.3	8.2	8.7	9.6	8.2
Return on equity after tax <sup>5)</sup>	%	16.1	3.9	4.9	5.2	7.9
Gross profit margin <sup>6)</sup>	%	63.2	33.4	30.2	30.7	23.9
Net profit margin <sup>7)</sup>	%	41.8	16.0	16.9	16.7	23.1
Equity ratio <sup>8)</sup>	%	45.3	39.0	45.7	40.8	41.6
Current ratio 1 <sup>9)</sup>		1.9	1.3	0.8	1.5	1.1
Interest coverage <sup>10)</sup>		3.3	1.5	1.9	1.8	2.0
Net cash flow provided by operations	NOK mill.	5 430	1 772	1 849	1 256	1 427
<b>Staff:</b>						
Employees 31.12	Number	2 016	1 187	1 430	1 535	1 400
<b>Production and turnover:</b>						
Production Statkraft SF*	TWh	33.3	40.2	32.5	32.4	27.5
Statkraft SF's industrial and licence power	TWh	21.2	19.9	20.6	21.3	19.6
Production subsidiaries*	TWh	6.3	-	-	-	-
Installed generator capacity - Statkraft SF	MW	8 815	8 815	8 800	8 700	8 700
Installed generator capacity - subsidiaries	MW	1 240	-	-	-	-
Wholly and partly owned plants	Number	132	93	91	91	86

\* after pumping and losses

1) 1997 and 1998 have been restated in accordance with the new Accounting Act.

2)  $\frac{\text{Pre-tax income} + \text{financial expenses}}{\text{Average total assets}} \times 100$

3)  $\frac{\text{Net income} + \text{financial expenses}}{\text{Average total assets}} \times 100$

4)  $\frac{\text{Pre-tax income}}{\text{Average equity}} \times 100$

5)  $\frac{\text{Net income}}{\text{Average equity}} \times 100$

6)  $\frac{\text{Pre-tax income}}{\text{Gross operating revenues}} \times 100$

7)  $\frac{\text{Net income}}{\text{Gross operating revenues}} \times 100$

8)  $\frac{\text{Equity}}{\text{Assets}} \times 100$

9)  $\frac{\text{Current assets}}{\text{Current liabilities}}$

10)  $\frac{\text{Net income} + \text{financial expenses}}{\text{Financial expenses}}$



## Social audit - Value added statement

Value added in NOK mill.	2001	2000	1999	1998	1997
Gross operating revenues	10 394	5 285	5 601	5 314	5 353
- Consumption of goods and services purchased	1 750	1 419	1 798	1 495	1 458
<b>Gross value added</b>	<b>8 644</b>	3 866	3 803	3 819	3 895
- Ordinary depreciation	957	849	799	830	824
<b>Net value added</b>	<b>7 687</b>	3 017	3 004	2 989	3 071
+ Financial income	650	426	210	156	217
+ Result from associated companies	1 054	729	443	315	255
- Minority interests	70	6	1	3	10
<b>Value added for distribution</b>	<b>9 321</b>	4 166	3 655	3 457	3 533
<b>Distribution of value added in NOK mill.</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Employees</b>					
Gross wages and social benefits	645	554	575	530	396
<b>Lenders/owners</b>					
Interest	1 860	1 568	1 135	1 038	1 193
Dividend	2 690	631	600	309	-
Taxes and levies	2 544	1 202	999	1 002	716
<b>The company</b>					
Change in equity	1 582	210	346	578	1228
<b>Total distributed</b>	<b>9 321</b>	4 166	3 655	3 457	3 533

## Statkraft's 10 largest municipal recipients of tax 1998 - 2001

## Taxes and levies in NOK million

Municipality	2001	2000	1999	1998
1 Vinje	64.5	65.6	65.3	64.6
2 Hemnes	59.0	57.2	57.4	60.1
3 Suldal	48.5	60.2	59.1	60.1
4 Rana	48.4	48.8	49.5	51.2
5 Tokke	35.1	42.7	42.3	42.6
6 Eidfjord	33.5	36.6	36.7	37.7
7 Narvik	29.0	31.9	32.0	32.5
8 Nore og Uvdal	28.7	27.7	27.4	27.3
9 Luster	28.4	38.1	35.9	35.9
10 Odda	26.7	24.5	23.4	22.5
<b>Total</b>	<b>401.8</b>	433.3	429.1	434.4

The figures include taxes and licence fees paid directly to the municipalities. The amounts refers to tax paid for the individual year. Possible additional payments and refunds from earlier years are not included.



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