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perspectives
Statkraft annual report 2002

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Reference is also made to Statkraft's Sustainability Report 2002



More than a century of history has given Statkraft good experience in viewing its operations in perspective. Our installations provide a return for at least 60 years. This necessitates a broad, long-term perspective. As one of Norway's largest companies, Statkraft's creation of added value must be seen as an interplay between finance, the environment and society. Our model for adding lasting value illustrates how these three perspectives are interconnected and makes apparent the coherence in Statkraft's creation of value. The model also illustrates that generating added value has an internal perspective based on clear goals and values, and which calls for a high level of competence and strong common culture if it is to be realised.

Adding lasting value



Finance

Statkraft is a commercial company that generates financial results in the form of long-term added value for our owners. The production and development of environmentally friendly forms of energy and trading in such energy products lie at the centre of the added value. The market is demanding more and more environmentally friendly energy, and Statkraft intends to be a leading player in this market.



Environment

Norway and Statkraft supply one of the most unique and attractive products in the world. Our flexible, environmentally friendly source of energy is superior to the energy sources that dominate in Europe today. Our products and our expertise are in demand in a European market that is increasingly willing to pay. Yet at the same time we emphasise the preservation of nature, which is the source of our product.



Society

As Norway's third largest company, Statkraft has an important role to play in society. Our production plants account for a large part of local generation of added value in our host municipalities. Nationally, we supply an essential input

to added value generated in the society as a whole. Additionally, taxes and dividends from Statkraft are of great significance to society. Statkraft is a major employer and has a social responsibility for its employees and its surroundings, locally, nationally and, to an increasing degree, internationally.



Goals and values

Statkraft has certified management systems which contribute to our defined goals giving results. The deep rooting in common values supports the company's vision and strategy. Statkraft is committed and competent, courageous and conscious, and creates permanent value in accordance with financial, environmental and social perspectives.



Competence and culture

In addition to the natural resources, competence is Statkraft's most important competitive factor. Statkraft has world class expertise in both trading and production of environmentally friendly energy. To maintain and develop this competence, Statkraft seeks to build a strong common corporate culture that attracts and further develops knowledgeable professionals. Statkraft is engaged in R&D in such areas as technology, ecology, economics and organisation.

Environment

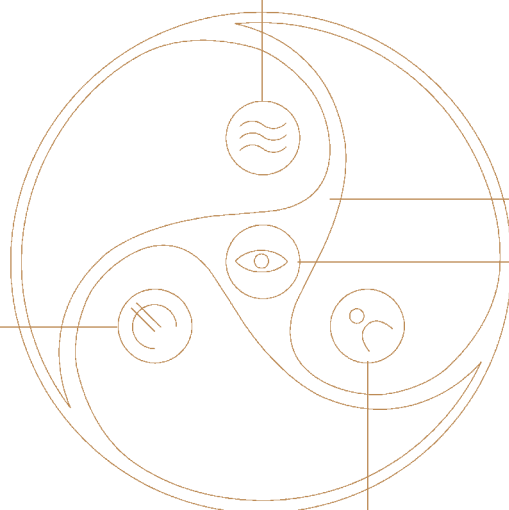
Statkraft's flexible, environmentally friendly source of energy is superior to the energy sources that dominate in Europe today. We put increasing emphasis on the preservation of nature, which is the source of our product.

Competence and culture

In addition to the natural resources, competence is Statkraft's most important competitive factor. Statkraft has world class expertise. A strong common corporate culture is necessary to attract and further develop knowledgeable professionals.

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What Statkraft is depends on the perspective

Statkraft's vision is to become a European leader in environmentally friendly energy.

Statkraft is Norway's largest producer of electric power and Norway's third largest company. Average production amounts to 42 TWh a year. This is about 1/3 of the country's total hydro-power production. Statkraft, including Skagerak Energi, Trondheim Energiverk and Statkraft Grøner, employs about 2 400 people. Statkraft is Norway's largest land-based taxpayer. It has ownership interests in the following energy companies: Agder Energi, Bergenshalvøens kommunale kraftselskap (BKK) and Fjordkraft. All of these are part of the

Statkraft Alliance. In terms of size, the Statkraft Alliance is number three in the Nordic production market and number two in the Norwegian consumer market. In addition, Statkraft has stakes in E-CO, Hedmark Energi and the Swedish company Sydkraft.

In a European perspective, Statkraft is a small power producer, yet at the same time it is Europe's second largest producer of renewable energy.

Key figures for Statkraft in 2002:

	2002	2001	2001	2000	1999	1998
Figures in NOK million	adjusted*					
Operating revenues	10 889	7 942	10 394	5 285	5 601	5 314
Operating income	5 476	4 273	6 725	2 178	2 174	2 198
Result from associated companies	871	1 054	1 054	729	442	315
Pre-tax income	4 098	4 117	6 569	1 765	1 691	1 631
Net income for the year	2 478	2 577	4 342	847	947	890
Dividend	2 192	3 640	3 640	631	600	309
Investments in ownership shares	15 850**	4 767	4 767	9 145	6 861	723
Investments in operating equipment	1 150	370	370	266	165	221
Group power production (TWh)	48.8	35.1	35.1	40.2	32.5	32.4
Man-years	2 370	2 035	2 035	1 276	1 430	1 535

* Adjusted for one-time compensations to income.

** The high investment level in 2002 was a result of the acquisition of stakes in Trondheim Energiverk, Agder Energi, BKK and Sydkraft.

A complete list of key figures can be found in the article "Statkraft in a financial perspective" on page 82.



Major events for Statkraft in 2002

Strategic events

- Approval of the acquisition of Agder Energi (45.5 %) is contingent upon Statkraft divesting Hedmark Energi (49 %) and E-CO Vannkraft (20 %). The Competition Authority demands that the newly acquired Trondheim Energiverk (100 %) or corresponding production capacity must be sold.
- Stakes in BKK increased to 49.9 % and in Sydkraft to 44.6 %.
- Statkraft manages 66.7 % of Baltic Cable (between Sweden and Germany).
- The establishment of Statkraft Norfund Power Invest (SNPI) together with the investment company Norfund for the development, building and purchase of environmentally friendly hydropower plants in Asia and Latin America.
- The establishment of the company Småkraft. The object of this company is to establish small environmentally friendly power plants in co-operation with landowners across the country.
- Amendments to the Act governing state owned enterprises resulted in Statkraft losing its Government guarantees for loans.
- The Parliamentary debate on Proposition to the Storting no. 22 (2001–2002) on state ownership provides positive guiding principles for the development of Statkraft.

Operational events

- The first stage of building the wind farm at Smøla is completed.
- An agreement is signed with the Dutch company Nuon, under which Nuon buys green certificates which, together with investment grants from Norwegian authorities, are expected to make profitable further development of wind power plants at Smøla and Hitra.
- A co-operation agreement is signed with Elektrizitätswerk der Stadt Zürich on portfolio management, risk management and power trading.
- The driest autumn and winter on record, and at the same time a very cold early winter in Norway and Sweden.
- Proposition to the Storting no. 1 indicated a 90 % dividend from Statkraft in 2002. The budget compromise in December further raised this so that the Government will take 95 % of net income.

At a watershed

By Bård Mikkelsen,
President and Chief Executive Officer

Statkraft is Norway's largest power producer and Europe's second largest producer of renewable energy. This is a good point of departure for becoming a European leader in environmentally friendly energy. Statkraft will base future profitability on producing and trading environmentally friendly energy in a manner that is beneficial to society in general.

Such a vision calls for the ability to have the right perspectives and to build bridges between various values, as well as for the will to combine financial, environmental and social considerations.

2002 was a breakthrough year for trading in green certificates and certified renewable energy. Last year the green market truly opened up, and it will probably grow in the future. The driving force behind this is the EU directive on the commitment to renewable energy and an increasing environmental consciousness among most people. Statkraft has succeeded in combining competence in the market, the environment and society so that it has become a competitive European player.



Green electricity

Our office in the Netherlands made a commitment when the Dutch authorities opened the market to import of renewable energy – green electricity – from other countries. Only two months after it opened, Statkraft Markets Continental received 25 000 green certificates, with a nominal value of 1 MWh each, for green electricity from small-scale hydropower plants in Norway. In November 2002, Statkraft signed a co-operation agreement with Nuon, the Dutch energy company, concerning green certificates issued in connection with wind power produced at Smøla and Hitra. Investment grants from Norwegian authorities, combined with green certificates from Dutch



authorities, played their part in making it possible for Statkraft and Nuon to supply green renewable energy to the markets in Norway and the Netherlands. Without green certificates, wind power development would not currently be profitable in Norway.

Statkraft is actively working for Norway to follow the EU directive and establish an obligatory system for green certificates. Such a market-driven system will be better for the development of new, renewable energy in Norway than the current support schemes. The arrangement must be technologically neutral, so that all documented environmentally friendly power production is defined as green electricity, including new environmentally friendly hydropower. With new competence and new technical solutions, existing power plants can be expanded and upgraded with net environmental benefits or with insignificant environmental burdens. This is both a cost-effective and environmentally effective way of developing new, renewable energy in Norway. At the same time, we believe that the future will bring new solutions. Statkraft is therefore investing substantial resources to remain at the forefront of development of new, renewable energy.



Opportunities in a European market

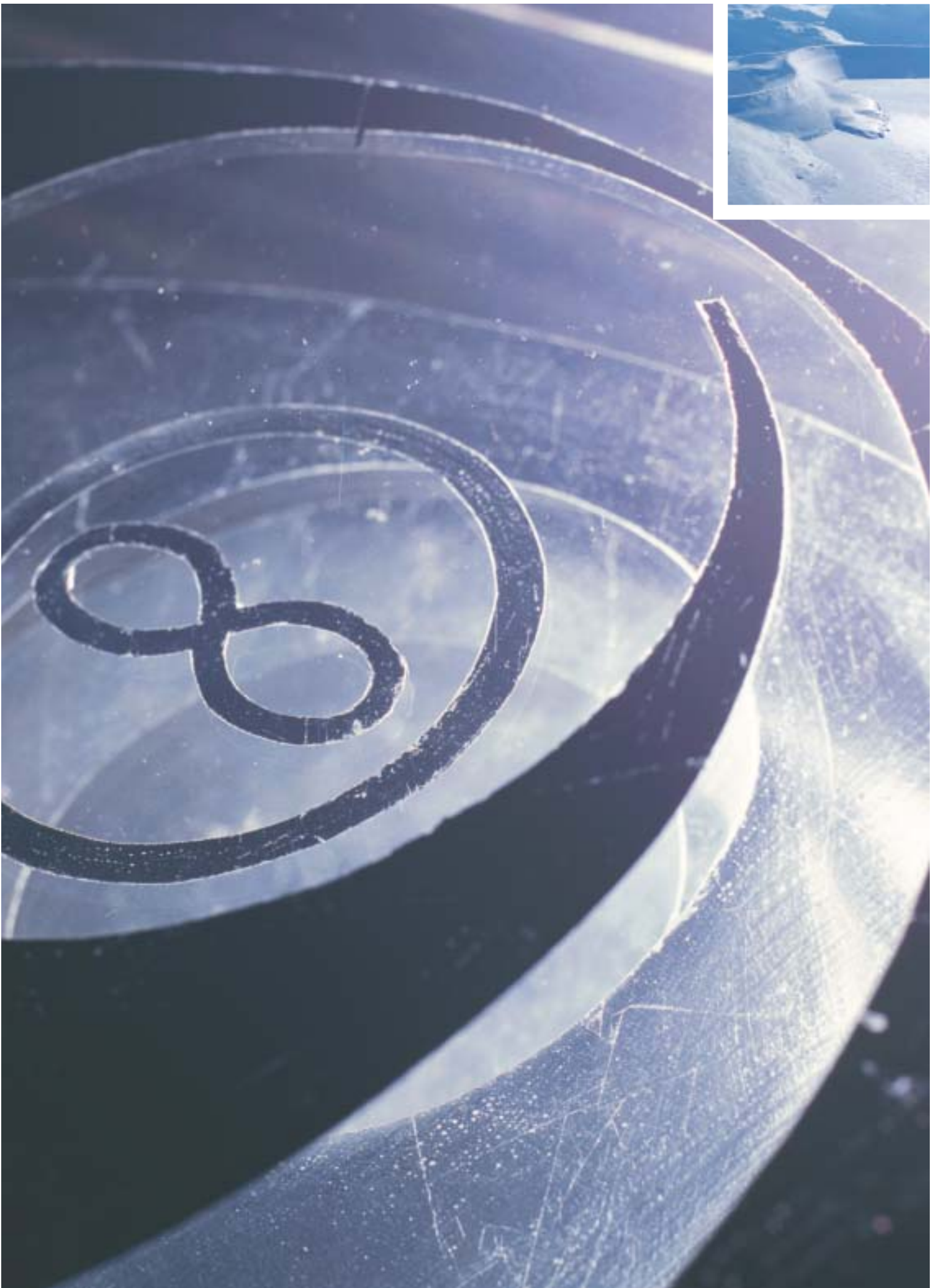
In December 2002, Statkraft signed a cooperation agreement with Elektrizitätswerk der Stadt Zürich in tough competition with other energy companies. We will support the Swiss company with portfolio management, risk management and power trading. Our high creditworthiness and our competence in the field of power trading were decisive for our being chosen.

The agreement acknowledges Statkraft's competence in Europe and shows that we are viewed as a confidence-inspiring partner. Our creditworthiness is decisive if we are to instill such confidence. As a commercial player Statkraft is not looking for special treatment, but we need latitude if we are to achieve the goals that our owners and we ourselves have set.

As a state owned enterprise, Statkraft has so far had its loans guaranteed by the Norwegian Government. These special advantages disappeared when the Storting (Parliament) passed amendments to the Act governing state owned enterprises. We must pay a guarantee premium for loans raised earlier and our creditworthiness will decide the cost of future borrowings. As long as the Government guaranteed debt issued by Statkraft, large dividend distributions and politically imposed sector-political tasks were not decisive for Statkraft's scope of manoeuvre. When the basis for assessing the company's creditworthiness becomes solely Statkraft's equity and liquidity, our scope of manoeuvre will be significantly altered. Statkraft is optimistic with regard to its owners' recognition of the need to maintain the company's financial status so as to ensure that the goals set for the company will be achieved.

Statkraft manages substantial resources and is a major contributor to the community as a whole. We are proud of that. In 2002, Statkraft paid approximately NOK 1.9 billion in taxes and licence fees and about NOK 2.2 billion in dividends to the Government. When the Government, as owner, withdraws 95 % of Statkraft's net income for the year in dividends, this affects our ability to realise profitable and environmentally friendly projects. Furthermore, imposed industrial contracts reduce net income by about NOK 1.7 billion compared to the income generated had this power been sold at market price. We serve society best by continuing to be able to run value-adding operations. Statkraft wants to operate under the same conditions as our competitors.

We are the third most valuable company in Norway after Statoil and Norsk Hydro. Our ambition is to become an important player on the European energy market while maintaining a high environmental profile and providing our owners with a good return. Profitability and the environmentally friendly production and sale of renewable Norwegian energy form the basis for our future development.



What is environmentally friendly energy?

Environmentally friendly energy can be defined along a number of axes. For example, energy production can be gauged against the demand for sustainable development. This implies that today's technological solutions must be designed so that society can satisfy its needs today without destroying possibilities for coming generations. From such a perspective, the exploitation of non-renewable energy sources such as fossil fuels can be hardly called environmentally friendly. Renewable sources, such as water and wind, and in future, perhaps tides and salinity gradients, are perpetual and can be exploited to the same extent by coming generations.

Environmental

friendliness

as a competitive factor

The impact of energy production also defines its environmental friendliness. Hydropower is a limited-impact energy form where the impact is first and foremost local. Nuclear power is considered to be a very clean form of energy, but with a high inherent risk. Fossil sources have an impact on the climate and pollute large areas. The environmental friendliness of natural gas must be assessed in relation to competing energy sources. Gas appears to be a far better alternative than coal and oil so long as it results in these being phased out. In future, when coal and oil are no longer used as energy sources, gas will be considered a non-environmentally friendly source.



Environmentally friendly energy to Europe

Hydropower is part of the solution to both global and European environmental problems. It is much more environmentally friendly than the dominant energy sources in Europe. The international value of hydropower will rise, in part in step with the implementation of the Kyoto Protocol, and in part because emissions from nuclear power and fossil sources have a cumulative negative impact on the environment.

The greatest environmental challenges energy production is facing are climate change and pollution that is spread over large tracts of land. These emissions affect both natural systems and anthropogenic urban environments and are hazardous to the health of the inhabitants. Hydropower meets these challenges better than the dominant European energy sources. Therefore, as the largest renewable energy source, hydropower has a very special role to play in supplying energy to the European market. Statkraft supplies hydropower and other environmentally friendly energy to a growing market, at home and abroad.



Energy mix in European countries

The composition of energy sources for the production of electricity is called the energy mix. The chart shows the energy mix in four European countries: Denmark, Germany, the Netherlands and Norway. Coal is the dominant energy source in both Denmark and Germany. Gas is dominant in the Netherlands. In Norway, hydropower accounted for 99 % of production in 1999.



Energy production harms the climate

Energy production's impact on the climate comes from using fossil fuels, particularly coal and oil, but also gas. IPCC, the UN climate panel, has documented that the Earth's climate is changing and that the changes are by far anthropogenic. Even though there is some scientific disagreement on climate change resulting from fossil fuels emissions, the world in general agrees on a limitation of emissions of substances such as CO₂, methane and other greenhouse gases. In this picture, Statkraft contributes energy that has only an extremely limited impact on the climate.

Life cycle assessments (LCAs) form a good basis

for comparing the impact that the various energy sources have on the environment. Such analyses indicate potential effects of different energy sources. The analyses follow the product, 1 kWh, from construction of a power plant, to operation, and finally to demolition of the plant.

The global and regional impact covered by life cycle assessments include, inter alia, global warming, acid rain, eutrophication of rivers and lakes, the creation of toxic ground-level ozone, ozone depletion in the atmosphere, the production of hazardous waste (including radioactive waste) and the effect on health. Life cycle assessments of the energy mix clearly indicate the difference in environmental friendliness of the energy sources.



Global warming

The chart shows the contribution to global warming, converted to CO₂ equivalents. The contribution from Norwegian hydropower is insignificant.

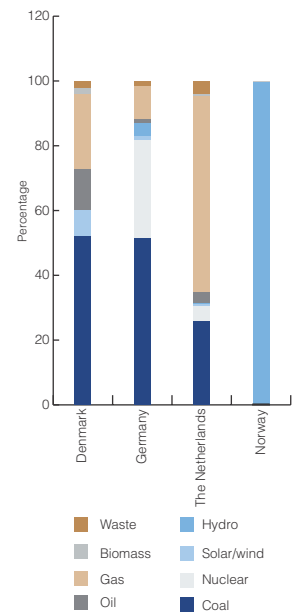
Global warming will have severe consequences on the Earth's climate. Ecosystems will be exposed to greater variations and people must adapt to less stable conditions. Internationally, focus has been placed on possible greenhouse gas emissions from water reservoirs, first and foremost in more temperate zones. Water reservoirs in colder regions probably have no measurable emissions. To document this, Statkraft is starting a research project in 2003 on emissions of greenhouse gases from its own water reservoirs.



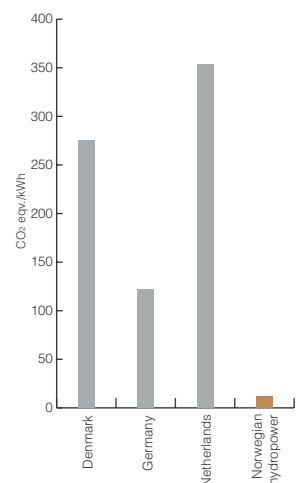
Acidification

The chart shows the contribution to acidification, converted to SO₂ equivalents. The contribution from Norwegian hydropower is insignificant. Acid rain spreads over large areas and is a regional European problem. Sulphur and nitrogen compounds (NO_x and SO_x) from fossil fuels account for most of this problem. International treaties on reduced emissions, and improved cleaning and combustion technology have resulted in the reduction of acid rain over the last decade. This is particularly true for sulphur emissions. Relatively speaking nitrogen emissions remain unchanged. Acid rain has a serious impact on ecosystems. Acid rain, mainly from other countries, has resulted in fish mortality in large parts of Southern Norway.

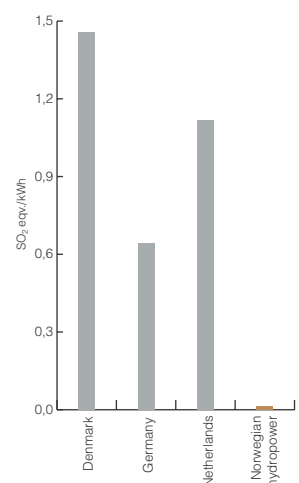
Energy mix in European countries



Global warming



Acidification

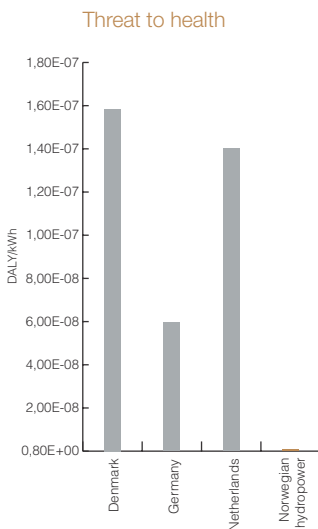




Threat to health

The chart shows the negative impact on health. The impact of Norwegian hydropower is insignificant.

One of the most frequently employed indicators to illustrate threats to health is Disability-adjusted Life Years (DALY). It is used by the World Bank and by WHO. DALY units indicate the potential effect on health, in the form of reduced life quality and life-span. The indicator includes, inter alia, the effect of global warming, effects on the ozone layer and carcinogens. Among the carcinogens are heavy metals. These are found in ash and emissions to the air from fossil fuels. In addition to heavy metals, fossil-fired power plants discharge also small noxious particles (PM 2.5 and PM 10). These can cause sickness and are considered dangerous. Internationally, efforts are underway to limit the emissions of small particles.



Hydropower is becoming increasingly environmentally friendly

Life cycle assessments of various energy mixes show that today's hydropower gives environmentally friendly electricity. Hydropower does not contribute, or contributes insignificantly, to climate change, regional acidification and detrimental health effects. Hydropower's negative impact on

the natural environment is local and can be limited a great deal by various measures.

New forms of hydropower production, including the upgrading of old power plants, will make hydropower even more environmentally friendly in future. Statkraft plans both the building and operation of power plants in close dialogue with local communities and affected, interested parties. We have access to some of the best competence in the world as regards the environment, land usage and hydropower technology, and we focus on the development of hydropower projects with minor environmental consequences, also locally. We have implemented stringent principles for environmentally friendly operations at all of our power plants. Better steering and efficiency are themselves environmentally beneficial.

Upgrading and enlarging power plants can make these facilities more profitable for the company as well as socially beneficial because the increase in energy efficiency will provide households and businesses with more electricity. And most of all, the upgrading and expansion of old power plants represents a significant chance to improve the environment. Such projects allow for remedial measures to be taken against previous encroachments on nature and to modernise old plants in line with new national and international environmental demands.



Modernisation can form a basis for applying for an international environmental product declaration for a power plant. Such eco-labelling can make it easier to sell electricity on the European market. Statkraft is working actively on this. We are also urging national and European authorities to stimulate trading in new hydropower with green certificates.



Other renewable energy sources

Hydropower forms the core of Statkraft's activities, but we are also purposefully engaged in developing and exploiting other environmentally friendly energy sources. In 2002, we opened one of Europe's largest wind farms at Smøla. However, wind alone is an unstable energy source and can be used only as a supplement to other sources. Statkraft's power portfolio of wind and hydropower is an unbeatable combination that secures supplies of clean renewable power. Our goal is to supply 2 TWh wind power by 2010 and a further 1 TWh by 2015. The wind power investments are made profitable because trading in green certificates is being stimulated by an increasing number of European countries. The agreement relating to the purchase of green certificates, entered into with the Dutch company Nuon, is increasing the profitability of the next stage at Smøla and the new wind farm at Hitra.

Statkraft installed the world's first field laboratory to test membranes for salinity power plants at Sunndalsøra in 2002. Assuming that the tests are successful, a salinity power plant may be built there some time in the future. We also want to exploit tides in the production of electricity. A number of technological solutions are under consideration. Possible environmental impact is, of course, part of this consideration.

Hydrogen can be used as an energy carrier for the production of power and heat as a fuel in itself or as part of a fuel cell. The production of hydrogen is energy-intensive. Hydrogen can be "brown" or "green", depending on whether one uses power from fossil-fired plants or hydropower in the production process. Statkraft intends to become a leading hydrogen producer and we believe that green hydrogen will be in demand in the market, in the same way as wind and hydropower are now.

Statkraft's business areas



Integration and consolidation of the power market

The electricity markets in most European countries have been deregulated over the last few years and both the energy and financial markets are being internationalised. Energy companies are being privatised and consolidated both in the Nordic market and in Europe in general. In such markets, size and competence are decisive competitive factors.

Power markets will become 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 more and more. 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.

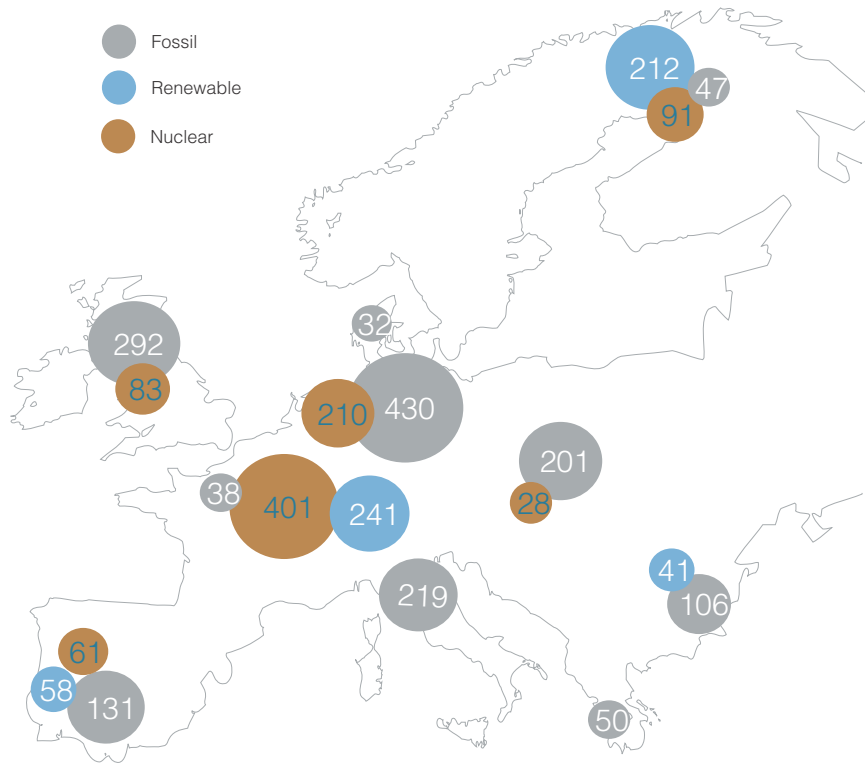
Closer market integration is expected among the different energy carriers. This will apply in particular to electricity and gas. The liberalisation of the gas market and the increase in gas consumption in power production will result in future gas and electricity prices becoming mutually dependent on 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, we expect that some of the future electricity needs will be covered by new gas-fired facilities.



The European power market

Europe's total annual production is in excess of 3 000 TWh, of which about 2 500 TWh within the EU. Nordic production is about 400 TWh. The map indicates annual production in various European regions, divided into nuclear power, fossil power (coal, oil and gas) and renewable power. The technological production composition of the European countries varies a great deal. Fossil-based power accounts for most of the production in countries such as Germany, the U.K., Italy and Spain. Nuclear power is dominant in France. Hydropower plants are for the most part located in the Nordic region and in Switzerland. In Norway, the Energy Act of 1990 set the framework for the organisation of the power market. New energy legislation was introduced in Finland and Sweden in 1995 and 1996, respectively, and this paved the way for competition on the power markets, on both the wholesale and the end-user markets. These three countries now operate in an integrated Nordic market, of which Denmark is part of the wholesale market. Internationally, the



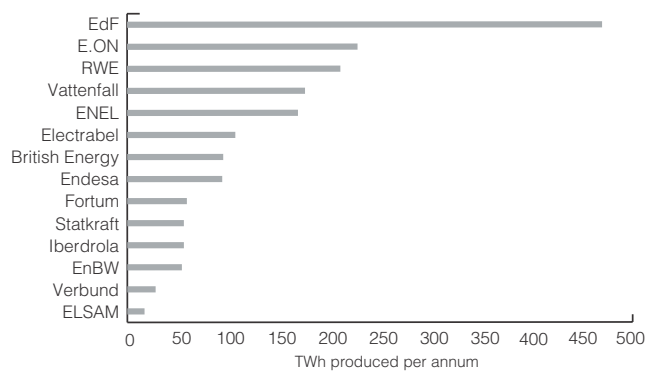
Total power production 2002 EU: 2 490 TWh, OECD-Europe: 3 070 TWh
 Source: IEA Monthly Electricity Survey, June 2002. Figures for Yugoslavia are 1999/2000 figures (CERA)

Nordic power market is regarded as the best functioning market with a large number of participants, a liquid spot market and extensive financial trading.

The EU electricity directive of 1996 sets common rules for a single market for electricity. The overriding purpose of the directive is to arrange for a competition-based single electricity market. The process of fully opening up the markets will be time-consuming, but there is a clear tendency toward real competition and a level playing field. In the long term, stronger political and economic integration will enable the Nordic countries, the Baltic States and several Central European countries such as Germany, the Netherlands, Austria and Switzerland to participate in an integrated market. A considerable increase in trading in both the physical and the financial markets in Europe is expected. The importance of risk management will increase and greater interest is expected from producers and customers alike for products and solutions that are adapted to the individual risk exposure. A wider selection of instruments for financial hedging is expected to be available on the market, such as instruments that hedge volume-related risks, bottlenecks in the grid, price fluctuations over different time periods and other risk elements.

In many European countries a few large companies dominate the power industry. The chart below shows the largest energy companies in Europe in terms of volume. Most of these companies are vertically integrated with considerable involvement in distribution grid and end-user activities. In addition, several of the companies have considerable activities in other industries.

Power producers in Europe



E.ON Energie incl. EZH, PowerGen and Sydkraft. RWE incl. Innogy. Vattenfall incl. HEW, Veag and Bewag. Electrabel incl. EPON. Statkraft incl. Agder Energi, Skagerak Energi, Trondheim Energiverk and BKK. Fortum incl. Birka. Source: Annual reports for 2001



Fewer but larger Nordic participants

In the Nordic region, the ongoing restructuring process is expected to result in the creation of a small number of leading energy companies. The four leading companies in terms of volume produced are Vattenfall, Fortum, Statkraft and Sydkraft. These companies also have considerable activities in distributing and selling power to consumers.

Statkraft has been an active participant in the restructuring process in the Nordic market for many years; 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 Statkraft can increase added value and improve competitiveness throughout the entire alliance through new profitable business development.

One important event for Statkraft in 2002 was the purchase of 45.5 % of Agder Energi. This company is viewed as an attractive partner by Statkraft because it is a sizeable energy company with production activities and a geographic location close to Statkraft's and Skagerak Energi's existing operations in the south of Norway. The initial agreement with Agder Energi's owners was signed in September 2001, but final approval from the Competition Authority was not given until October 2002 and the shares were transferred in December 2002.

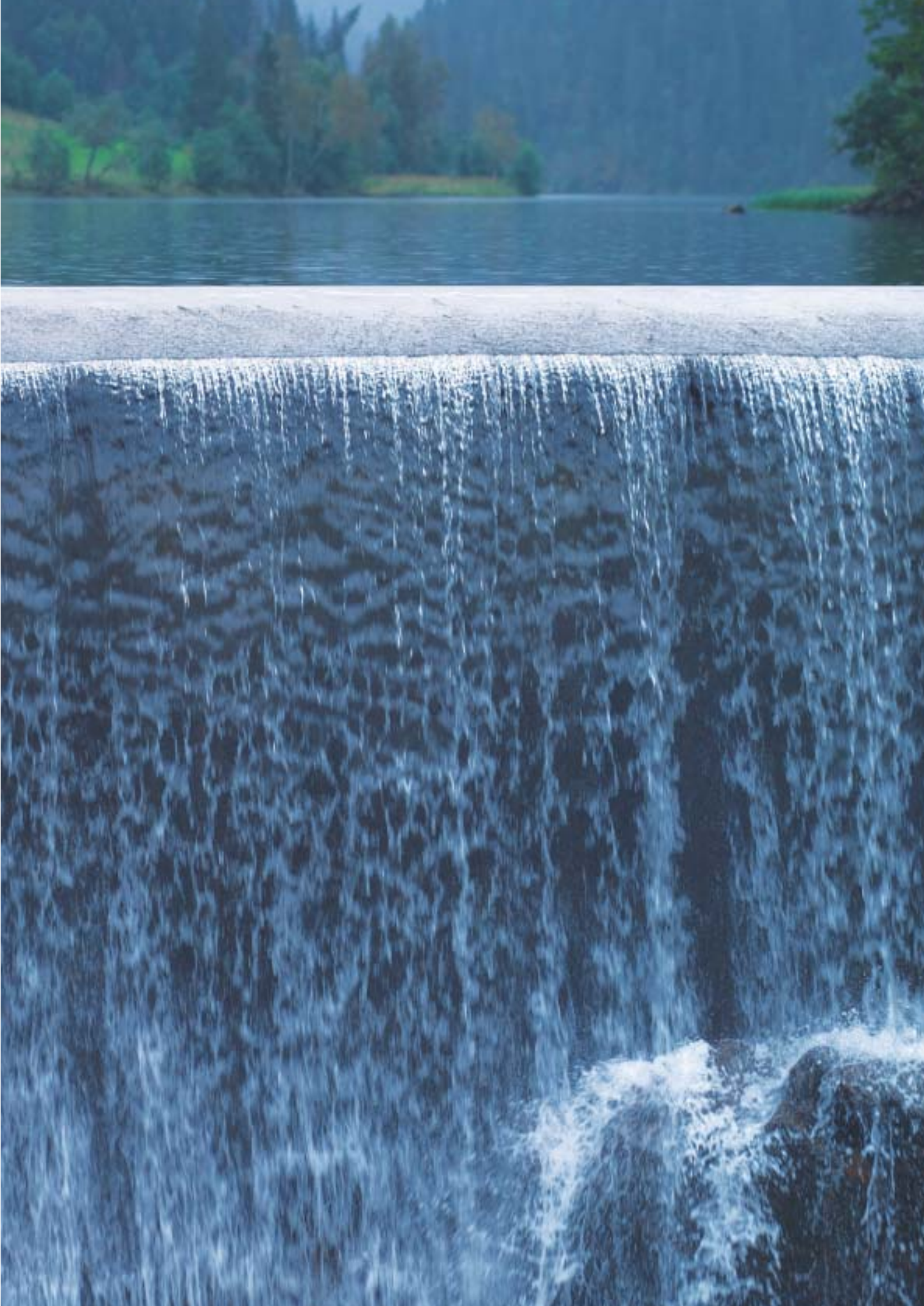
In September 2001, notice concerning the acquisition of 45.5 % of the shares in Agder Energi was submitted to the Competition Authority. When the Authority refused to approve the acquisition, Statkraft appealed the decision to the Ministry of Labour and Government Administration. In October 2002, Statkraft received approval for the acquisition of the shares in Agder Energi, but on the condition that Statkraft divested its stakes in E-CO Vannkraft (20 %) and Hedmark Energi Holding (49 %). In addition, Statkraft must sell other production capacity corresponding to 1 TWh if the import capacity to the south of Norway does not increase. With these impositions and the adjustments to the agreements with Agder Energi, Statkraft decided to accept the terms and buy the shares in Agder Energi. Subsequent to the resolution being adopted, the transmission capacity between Sweden and Southern Norway has been increased.

In February 2002, Statkraft reported the acquisition of Trondheim Energiverk (TEV) to the Competition Authority. In July 2002, the Authority instructed Statkraft to either sell 100 % of the shares in TEV, divest all of TEV's production capacity or sell other production facilities in Central and Northern Norway that correspond to reservoir capacity of 1–1.5 TWh. Statkraft appealed the decision but in February 2003, the Ministry of Labour and Government Administration upheld the Competition Authority's ruling; however, it extended the deadline. Statkraft is considering the alternative actions it can take on the basis of this ruling.



Statkraft's relations with the Competition Authority

In 2002, the Norwegian Competition Authority and the Ministry of Labour and Government Administration, which acts as the appellate body, resolved limitations in Statkraft's acquisition of shares in other Norwegian power companies. However, the Competition Authority appears to accept further acquisitions in the companies in which Statkraft is already a shareholder. In March 2002, Statkraft notified the Competition Authority that the stake in Bergenshalvøens kommunale kraftselskap (BKK) had risen from 26 % to 49.9 %, and, in May 2002, the Authority advised that it found no grounds for intervening in the acquisition.



Statkraft's 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 help to secure future revenues. Risk and portfolio management, production from our own reservoirs, power trading, gas sales and the maintenance of power plants constitute an important part of Statkraft's core activities.



Statkraft SF's production

Statkraft's vision of becoming a leader in environmentally friendly energy is the lodestar for the production division's activities. To exploit the water resources in the best possible manner, efficient energy production is essential. When the scope of supplies to the spot market are set for a group of power plants, advanced models are used, in addition to local knowledge from our four operating centres, in order to produce the agreed amount of power using as little water as possible through what Statkraft terms generator and station optimisation. Statkraft reckons that this

optimisation saves about 1 % of the water resources, i.e. about 350 GWh a year.

Statkraft's production division is responsible for production management, maintenance, rehabilitation and further development of the power plants that the company is responsible for. The division operates 56 power plants with a total capacity of approx. 9 000 MW. Statkraft's production activities affect 35 watercourses and more than 100 reservoirs in almost 100 municipalities. The production division is managed from Statkraft's head office in Oslo and is made up of four regions: Region Northern Norway with its management in Narvik, Region Central Norway with its management at Gaupne, Region Western Norway with its management at Sauda, and Region Eastern Norway with its administration at Dalen in Telemark. In order to exploit the possibilities inherent in the large price variations of the power market, flexible and reliable production facilities are critical. Maintenance of the production plants is attuned to the current market and water situation. The expressed goal is also to minimise total maintenance while maintaining the highest degree of availability possible in periods when prices are high. Statkraft is currently engaged in major riprap dam rehabilitations. In 2002, Songa and Trollidalen

Dams in the Tokke development were fully rehabilitated. Statkraft also completed the work on Pålсбу Dam in the Nore development. In 2002, the production division started to upgrade Power Station 5 at Høyanger.

In power production, reliability and efficiency are key words. Statkraft administers and monitors the power plants from four regional operating centres. In December 2002, the power plants at Høyanger were the first to be phased into the new ProSam system that will replace the six different operating systems that are in use today.

In the long-term, Statkraft wants to combine upgrading and rehabilitation of power plants. In 2002, Statkraft started to replace vane wheels and optimise the efficiency at several power plants. This will increase production by about 85 GWh per year as a result of the improved efficiency.

In 2002, the production division carried out 21 000 maintenance assignments and completed 100 projects.

Statkraft SF's power sales



Statkraft has been an active participant in the deregulated power market since the Energy Act came into effect in 1991. This implies that Statkraft is active in the spot market, the regulating power market, Nord Pool's futures, forwards and options markets, in addition to the physical and financial bilateral market.

Responsibility for these tasks lies with Statkraft's market division. This division is located at Statkraft's head office, but separate trading offices that buy and sell power on the European market have been established in Germany and the Netherlands. The market division is organised according to various activities.

The analysis section analyses the most important issues that affect price determination in the power market. Here, weather data, snow forecasts, precipitation volumes, power consumption, price data and power plant information is fed into the calculation models. The result of the calculations is Statkraft's own forecast of future prices. These price forecasts set limits for how much Statkraft decides to produce and which contracts it decides to enter into.

The production optimisation section is responsible for the individual Statkraft power plant producing the amount of electricity needed to satisfy the phy-

sical contractual obligations, while at the same time ensuring that water resources in Statkraft's reservoirs are exploited to the maximum degree. Statkraft's own price forecasts are used to support decisions relating to energy optimisation. To do this, namely optimise Statkraft's production, active trading on Nord Pool's spot market and Statnett's regulating power market are necessary preconditions. In these markets, the part of the production that exceeds obligations is sold, or power is purchased in the event that production does not meet the amount that the company has contracted to sell.

Statkraft is engaged in hedging activities in order to handle the risk linked to revenues from its own power production and its considerable portfolio of physical and financial hedging contracts. Uncertainty surrounds access to water, future precipitation and future power prices. Hedging is used actively to reduce this risk and to generate further revenues. The actual hedging transactions are decided by the company's own price forecasts, the portfolio of hedging contracts that has been entered into at the time of the decision, the attitude the company has toward risk, and an assessment of the company's future production ability. In this connection there is no difference in principle between physical and financial contracts even though the actual transaction that takes place in the market is by and large of a financial nature. Price is the primary element when choosing the type of transaction, product and marketplace. Furthermore, the market division is actively engaged in financial trading. This trading is not linked to Statkraft's production, but business-wise, it is of a purely financial nature. This type of trading seeks to achieve gains by recognising and exploiting opportunities before the competition does so, and by exploiting fluctuations in market prices for the various products. Statkraft uses all the contract and option types available on Nord Pool (the Nordic Power Exchange).

Market activities are governed by ceilings and risk exposure limits decided by Statkraft's management. Separate units in the market division are responsible for ensuring that trading is within the limits that have been set.

Statkraft's market operations in Europe are organised through Statkraft Markets Continental (SMC). SMC has offices in Dusseldorf and Amsterdam

and is active in trading and origination in the Continental power and gas markets. So far, most activity has been in green electricity and cross-border trading. In addition, they steer the Continental activity linked to Statkraft's share of Baltic Cable. SMC has its own staff for back-office, middle-office, personnel, analysis and IT functions. They work closely together with corresponding staff at the head office.



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. NVE sets a maximum annual income ceiling based on historical costs for each distribution grid company. The income is adjusted annually by an efficiency factor, fixed through efficiency assessments of the different companies. The distribution grid companies have accepted that a regulation of the monopoly activity is necessary, and that at the same time this regulation has strengthened the Norwegian distribution grid companies' commercial understanding. Furthermore, the average amount paid by the ordinary customer for using the grid has fallen.

The grid regulation regime for 2002–2006 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 of importance 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 regulations result in a reduction in revenue for the distribution grid companies. This will increase the pressure to reduce costs and will over time lead to significant changes in technical solutions, organisation and commercial operations.



End-user

Statkraft is currently directly involved in the end-user market through TEV and its ownership interests in Fjordkraft and the Danish company Scanenergi. Fjordkraft, which in addition to Statkraft is owned by BKK and Skagerak Energi, is one of Norway's largest end-user companies. Statkraft also has indirect stakes in end-user acti-

vities through its ownership interests in Agder Energi, Sydkraft and Eidsiva energi.

The Norwegian end-user market has been deregulated since the liberalisation of the Norwegian power market in 1991. The end-user companies have been financially weakened over the last few years. The restructuring of this market has helped to 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

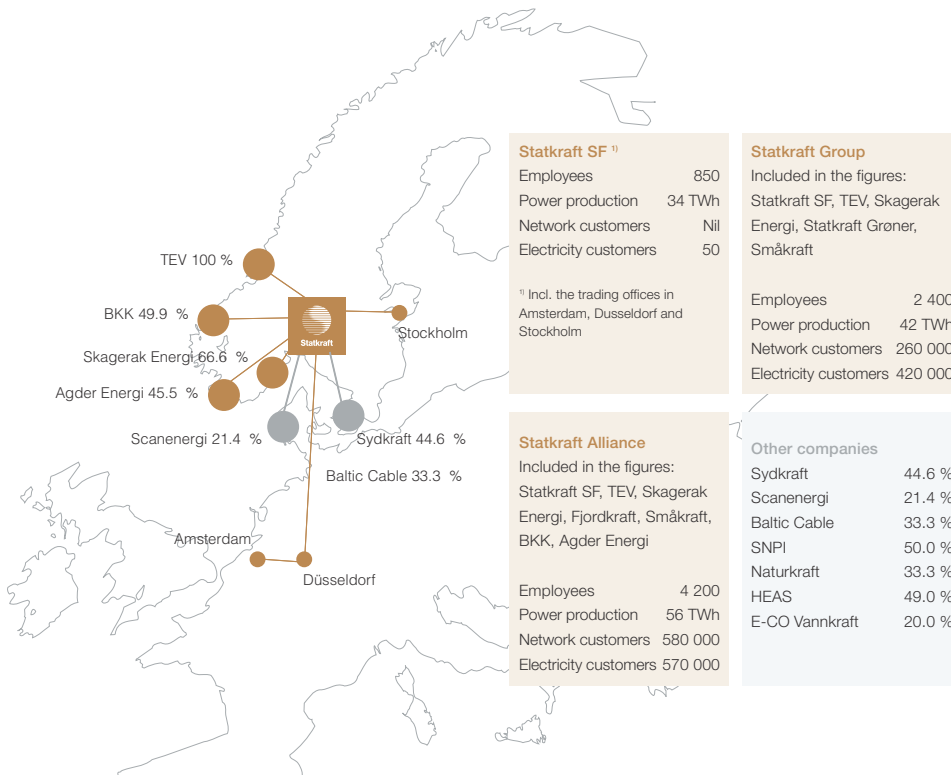
Statkraft Grøner AS is one of Norway's largest consultancy firms offering advisory services in a very wide range of fields. The company supplies solutions that bring together techniques, aesthetics, finance and economy, and the environment. It has four business areas: Energy, Environment, Industry/Construction 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 a tradition as one of Norway's leading consultancy firms, with a history that goes back more than 80 years. Statkraft Grøner has a great deal of experience in researching, designing, planning and advisory services for building projects at home and abroad.



Other activities

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 region. 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. So far, the profitability of these projects has not justified their realisation.

Statkraft Norfund Power Invest AS (SNPI) was established in 2002 by Statkraft and the investment company Norfund on a 50/50 basis and with NOK 1 billion in initial capital. The company will develop, build and purchase environmentally friendly hydropower plants in Asia and Latin America and run these on a commercial basis.



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 decided 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. 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. TEV is a major player in the field of district heating, and BKK and Agder Energi are currently getting involved in this field as well.



The Statkraft Alliance

Statkraft has acquired ownership interests in a number of Norwegian energy companies. Statkraft's alliance partners are BKK, Skagerak Energi, TEV and Agder Energi. The alliance's goal is to further develop these companies and the cooperation amongst them in order to improve profitability based on existing competitive advantages in the production, distribution and sale of environmentally friendly energy.

The five companies in the alliance represent more

than 100 years of Norwegian hydropower expertise and their annual production capacity is 56 TWh. They have a total of almost 600 000 end-user customers. The Statkraft Alliance is a leading producer of hydropower and the second largest producer of renewable energy in Europe. Based on its renewable hydropower production, the alliance has credibility and an opportunity to develop new and environmentally friendly solutions for the future as well.



Agder Energi AS

Agder Energi was established in the summer of 2000, following a merger of three companies, namely Aust-Agder Energi, Kristiansand Energiverk and Vest-Agder Energiverk. 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. Agder Energi is organised as a group, with subsidiaries engaged in production, distribution grid, end-user sales, wind power and district heating. The company has 29 wholly owned power stations and is co-owner of a further 16. Agder Energi is one of the owners of the Ulla-Førre and Sira-Kvina Power Plants.

The largest owners in Agder Energi are Statkraft (45.5 %), Arendal Municipal Authorities (6.4 %) and Kristiansand Municipal Authorities (5.3 %).



BKK AS

Bergenshalvøens Kommunale Kraftselskap AS (BKK) was established in 1920. The company produces power at its 27 power plants, and it has one of the nation's largest distribution grids. BKK is organised as a group with subsidiaries engaged in production, distribution, and district heating and broadband activities. 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 end-user markets. BKK, Skagerak Energi and Statkraft own Fjordkraft. BKK's ambition is to be the leading energy company in Western 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-Western-Norwegian company covering the area from Romsdal Fjord in the north to Bokna Fjord in the south.

The largest shareholders are Statkraft (49.9 %), Bergen Municipal Authorities (37.8 %), and Askøy Municipal Authorities (2.5 %).



Skagerak Energi AS

Skagerak Energi was established on 1 January 2001 through the merger of Skiensfjordens kommunale kraftselskap AS 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 is one of the co-owners of the Sira-Kvina plants and the power plants in Otra. It 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.

The shareholders are Statkraft (66.6 %), Skien Municipal Authorities (15.2 %), Porsgrunn Municipal Authorities (14.8 %) and Bamble Municipal Authorities (3.4 %).



TEV AS

Trondheim Energiverk (TEV) was established in 1901 and is organised as a group with subsidiaries in production, distribution grid operations, district heating and power sales. The group has 14 wholly owned power plants on the Nea and Nidelv river systems and is co-owner of 5 plants in Orkla/Grana. TEV's distribution grid company distributes 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 end-user sales subsidiary, has some 74 000 customers in the Trondheim area.

Statkraft owns 100 % of the shares in TEV.



Financial investments

Statkraft's shareholdings in Hedmark Energi Holding, E-CO Vannkraft and Sydkraft are classified as financial investments and these companies are not part of the Statkraft Alliance. However, Statkraft took a stake in Hedmark Energi with a desire to be engaged in an industrial partnership. The Competition Authority's demands in connection with the approval of Statkraft's acquisition in Agder Energi call for Statkraft's ownership stakes in Hedmark Energi Holding and E-CO Vannkraft to be divested.





Bård Mikkelsen



Chr. Rynning-Tønnesen



Jørgen Kildahl



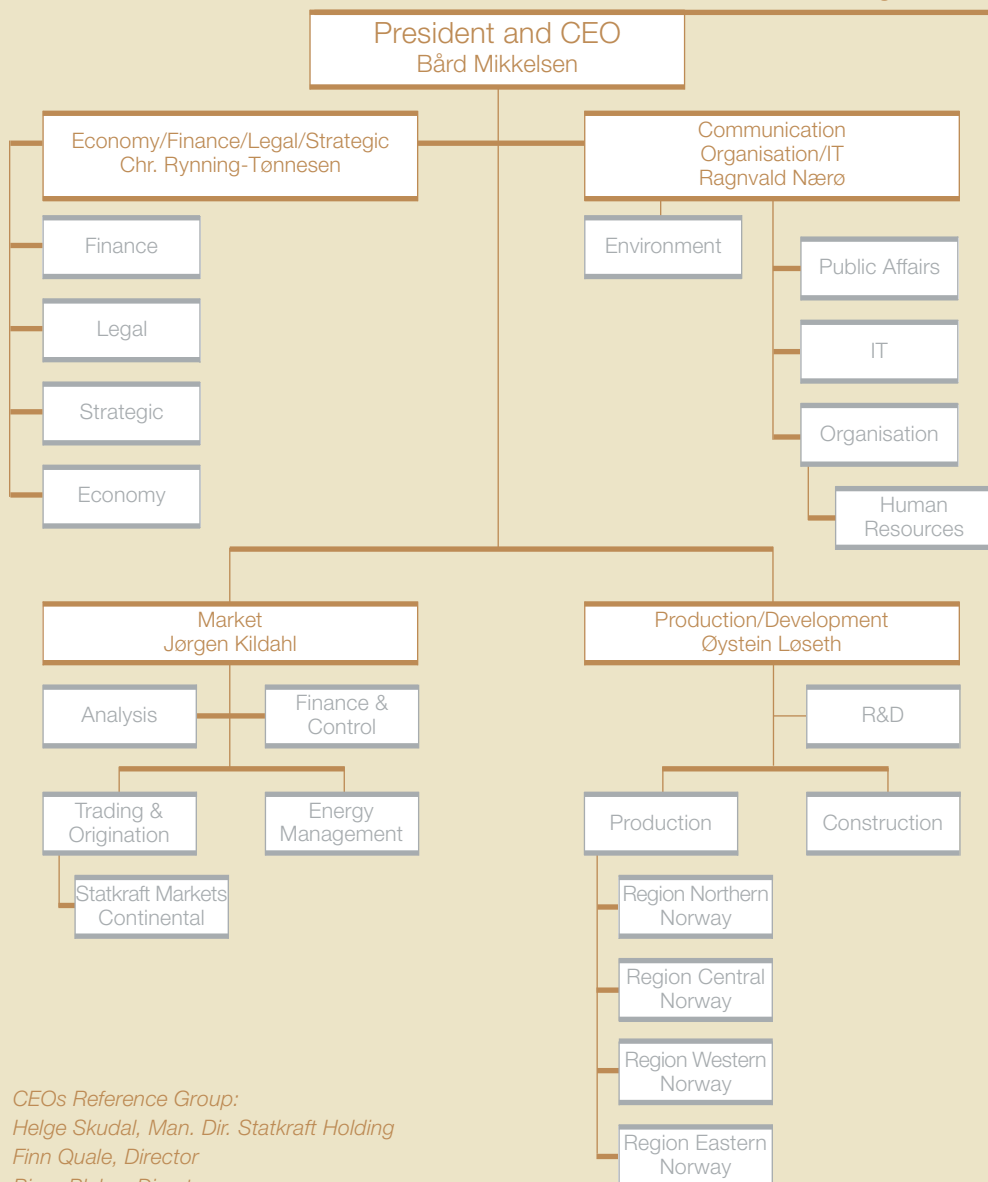
Ragnvald Næro



Øystein Løseth

Presentation of the group management

Organisation chart



CEOs Reference Group:
 Helge Skudal, Man. Dir. Statkraft Holding
 Finn Quale, Director
 Bjørn Blaker, Director

Name	Year of birth	Position	Employer	Board member since
Vareberg, Terje	1948	Managing Director	Sparebank 1 SR-Bank	2000
Büch-Holm, Marit	1952	General Manager	NORDEA	1994
Mølmen, Toril	1960	Director	SND Buskerud	1998
Østensjø, Inger	1954	Director	Rogaland University Centre	2001
Vanvik, Odd	1952	Group employee representative	Statkraft	1993
Larsen, Astri Botten	1964	Group employee representative	Statkraft	2002
Holøs, Thorbjørn	1957	Group employee representative	Skagerak Energi	2002
Nygaard, Erik	1957	Attorney-at-Law	Bryn Eiendom	2002
Nålsund, Jon Ivar	1942	Head of Department	Norwegian Federation of Trade Unions – International Department	1996

Presentation of the **board**



Inger Østensjø



Toril Mølmen



Terje Vareberg



Thorbjørn Holøs



Marit Büch-Holm



Erik Nygaard



Astri Botten Larsen



Odd Vanvik



*Jon Ivar Nålsund,
passed away 4 January 2003*



annual report

from the Board

In 2002, the market was characterised by large price variations that represented major challenges to power producers, other Nordic market participants, and consumers alike. As a consequence, Statkraft's financial results varied a great deal during the course of the year, but for the year as a whole, income was satisfactory.

Pre-tax income amounted to NOK 4 098 million and net income to NOK 2 478 million. This is about the same as the result from ordinary operations in 2001 after adjustment for one-time compensations.

There was a great deal of focus on Statkraft's framework conditions in 2002, as well as on the preconditions for the enterprise's future development. The intervention in the purchase of shares in Agder Energi and Trondheim Energiverk (TEV) by the Norwegian Competition Authority creates the framework for for the enterprise's role in the restructuring of the energy sector in Norway, given the current transmission capacity. The retraction of the government guarantee for loans raised after 1 January 2003 will impair the company's competitiveness and creditworthiness if equity is not strengthened. The Government is also preparing a proposition to convert Statkraft into a limited liability company. The Board is positive to the Government's initiative and believes that a re-evaluation of the form of business organisation can help to clarify Statkraft's future framework conditions.



Income statement

Operating revenues. In 2002, Statkraft Group recorded gross operating revenues of NOK 10 889 million, which is NOK 495 million higher than in 2001. In all, subsidiaries contributed NOK 3 938 million to gross operating revenues, while Statkraft SF had gross operating revenues of NOK 6 951 million.

In 2001, Statkraft took one-time compensations totalling NOK 2 452 million before tax to income. This was compensation for the termination of a power exchange agreement with Germany's E.ON and the authorities' order to stop building the planned power plants at Beiarn, Bjøllåga and Melfjord. If the 2001 accounts are adjusted for these one-time items, gross operating revenue rose NOK 2 947 million in 2002. Of this, NOK 2 841 million is related to the consolidation of subsidiaries in the accounts. The most important changes were that Skagerak Energi AS was consolidated with effect from 1 October 2001, while Trondheim Energiverk AS was consolidated with effect from 1 January 2002. NOK 106 million of the increase represents a rise in the revenues of Statkraft SF, including an accounting gain of NOK 180 million from the sale of the parent company's central distribution grid.

The cost of power transmission rose from NOK 680 million in 2001 to NOK 840 million in 2002, inter alia, as a result of consolidating Skagerak Energi and Trondheim Energiverk.

Operating costs aggregated NOK 4 572 million in 2002, rising by NOK 1 583 million from the preceding year. This was for the most part due to consolidating subsidiaries in the Group accounts. The parent company's operating costs rose by a good NOK 100 million or less than 5 %.

Operating income in 2002 totalled NOK 5 476 million, compared to NOK 6 725 million in 2001, or a decline of NOK 1 249 million. Adjusted for the one-time compensation items referred to above, operating income rose by NOK 1 203 million. The consolidation of new subsidiaries accounts for NOK 1 064 million of this, while Statkraft SF's operating income rose by NOK 139 million.

Results from associated companies. Results from Sydkraft AB, E-CO Vannkraft AS, Bergenshalvøens Kommunale Kraftselskap AS (BKK) and Hedmark Energi Holding AS amounted to NOK 871 million after amortisation of goodwill, compared to NOK 1 054 million the preceding year. The results fell partly because the status of Skagerak Energi changed from associated company to subsidiary and partly because Sydkraft recorded a significant gain on the sale of shares

in 2001. The results from associated companies were, therefore, extremely high that year. These reductions are compensated for, in part, by the increase in ownership interests in Sydkraft and BKK, and by the general improvement of the companies' results from ordinary operations in 2002 as compared to 2001.

Net financial costs rose by NOK 1 039 million, from NOK 1 210 million in 2001 to NOK 2 249 million in 2002. The main reason for this was higher interest costs due to increased borrowing in connection with the acquisition of ownership interests in other companies. Furthermore, with effect from 1 July 2002, Statkraft pays a guarantee premium of 0.6 % to the State for loans covered by government guarantees. In the second half of 2002 the premium amounted to NOK 113 million.

Taxes and duties. Taxes were charged against income in the amount of NOK 1 620 million in 2002 compared to NOK 2 227 million in 2001. Most of this change is due to the high tax burden in 2001 as a result of one-time compensations. Taxes payable were NOK 828 million lower in 2002 than in 2001. Including licence fees and compensation, the total tax and duty burden amounted to NOK 1 923 million in 2002.

Income for the year before taxes amounted to NOK 4 098 million compared to NOK 6 569 million in 2001. Net income for the year amounted to NOK 2 478 million compared to NOK 4 342 million in the preceding year. The NOK 1 864 million decline is primarily due to one-time revenues in 2001.

The power production and power trading business area contributed almost 90 % of the year's net income. The distribution grid and consultancy areas made a positive contribution, while other business areas, comprising, inter alia, end-user activities, made a negative contribution in all.

Pre-tax income represent a 13.0 % return on average equity. This is about the same level as the average return of several of the large European energy companies over the last few years. Net income represents a return of 7.8 %. The Board considers the return for 2002 to be satisfactory. In this connection, Statkraft's considerable portfolio of industrial contracts at publicly determined

prices and the high tax level on power companies in Norway must be emphasised.

The Board expects a current return on equity over time at the same level as for other large energy companies.

The year's operations generated a good NOK 2.7 billion in cash flow, while NOK 10.7 billion was generated by the issue of net debt. In addition, cash and cash equivalents, which were especially high at the beginning of the year as a result of the planned share purchases, were reduced by NOK 5.4 billion. NOK 16.1 billion was used for net investments, while changes in other short-term tied-up capital was NOK 2.7 billion at the end of the year.

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



Allocation of the net income for the year

In the State Budget for 2003, Statkraft's dividend distribution to the central authorities is set at 95 % of the Group's net income. The Board would like to stress that the dividend adopted is yet again a breach of the predictability principle and the 50 % payout ratio that the Storting (Parliament) resolved in the autumn of 2000. Both unpredictability in the payout ratio, and the level at which the owner makes withdrawals, impair the financial basis for realising the company's strategy. Net income less minority interests represents the State's share of the net income of NOK 2 307 million. This means that the dividend to the State is NOK 2 192 million.

Statkraft SF contributes NOK 2 130 million to the Group's net income. Against this backdrop the Board proposes the following allocation of the net income for 2002:

(Amounts in NOK million)	Statkraft SF
Net income for the year	2 130
Allocation of net income:	
Dividend	2 192
Transferred from other equity	-62

In addition, a group contribution of NOK 1 803 million before tax has been made to subsidiaries.



Balance sheet and financial structure

In 2002, Statkraft invested a total of

NOK 17 billion. Of this, almost NOK 16 billion was used to purchase shares in other companies. Investments in the company's own facilities totalled approximately NOK 1 150 million, of which a good NOK 600 million was invested in Statkraft SF.

Because of its high investment level, Statkraft had a considerable need to borrow funds in 2002. NOK 21.1 billion was raised in new long-term loans. Of this, Statkraft SF raised a good NOK 19 billion. The parent company raised NOK 17.5 billion in the Norwegian bond market and NOK 1.5 billion in foreign bond markets. Repayments of long-term liabilities aggregated NOK 6.7 billion for the Group and NOK 4.6 billion for the parent company. Statkraft SF's total loan and guarantee portfolio was NOK 49 billion at the end of the year. The need for long-term financing was covered by issuing three large bond loans in the Norwegian market for a total of NOK 14.5 billion, maturing in the period 2007–2009. In connection with the extraordinarily high electricity prices a significant liquidity need arose at the end of the year to cover provisions in relation to the market value of power contracts entered into on Nord Pool. This contributed to the high level of long-term borrowings.

During the year, Statkraft's cash and cash equivalents fell as a result of the large investments that were made. At year-end, cash and cash equivalents amounted to approximately NOK 1.5 billion, of which NOK 274 million was restricted, while unutilised credit facilities totalled NOK 1.8 billion. By way of comparison, the current year's instalment on long-term liabilities is NOK 1.6 billion. The Storting (Parliament) resolved that the Group's dividend should be 95 % of net income. The dividend is based on the consolidated result, but is paid by the parent company, Statkraft SF. Because Statkraft SF does not have disposal of profit in partly owned companies, but only receives dividends from them, some of the dividend to the State will have to be debt-financed.

At year-end the equity ratio stood at 34.5 % compared to 45.3 % at the beginning of the year. The decline in the equity ratio is due to the rise in long-term liabilities as a result of investments and of debt-financing the temporary need for liquidity vis-à-vis Nord Pool as mentioned above. In addition there were high withdrawals by the owner in the form of accrued dividend for 2002 and the addi-

tional dividend of NOK 950 million for 2001 that was resolved in June 2002. At year-end the Group's total equity amounted to NOK 30 844 million compared to NOK 32 326 million at the beginning of the year.

Subsequent to the decline in equity capital, Statkraft's financial structure is unsatisfactory and the Board has requested the owner to provide fresh equity.



Consequences of the amendments to the Act governing state owned enterprises

enterprises

Amendments to the Act governing state owned enterprises were adopted with effect from 1 January 2003. These amendments imply that provisions in the Act stating that state owned enterprises cannot be compulsory wound up have been repealed. Debt and other obligations assumed by a state owned enterprise after 1 January 2003 are therefore no longer supported by an implicit government guarantee.

Over the last few years, Statkraft has made significant investments and carried out major acquisitions on the basis of the government guarantee and the owner's financial framework. This has given the company a capital structure that is not suited to a retraction of the government guarantee. The high debt-equity ratio has significant consequences for the company's creditworthiness. A possible transition to a limited liability company puts extra focus on the financial status.

In its work, the Board has assumed that Statkraft's competitiveness will not be impaired as a result of changes in government guarantees or form of business organisation. A strengthening of capital is absolutely essential to compensate for the effect of the changes in the company's framework conditions inasmuch as the government guarantee has been retracted. The power market is characterised by large fluctuations in prices and the power industry is extremely capital intensive. The ability to service debt will therefore be of crucial importance to the company. The Board assumes that an A-level credit rating is necessary to ensure good future development of the company.

The Government confirms that it has a liability for existing obligations in that transitional regulations have been established to ensure that obli-

gations entered into before the amendments to the law came into effect will have the same protection as before. This is secured by the Government assuming these obligations within six months of a possible forced liquidation situation arising, so that creditors receive full coverage plus interest on arrears no later than that point in time. For loans raised prior to 31 December 2002 and which the government implicitly guarantees, Statkraft pays a guarantee premium. This guarantee premium is based on market terms and is decided annually by the Storting (Parliament). From 1 July 2002 the premium is set at 0.6 % p.a. The European Surveillance Agency (ESA), which monitors the compliance of EEA countries' such as Norway with the EU's competition law, has assessed the amendments to the Act governing state owned enterprises and has protested against guarantees being furnished for state owned enterprises' obligations above and beyond loans, without the payment of a guarantee premium. This protest is under consideration by the Ministry of Labour and Government Administration and one cannot rule out the possibility that guarantees for other obligations will be retracted. However, such an amendment will have no impact on the support for state owned enterprises' loans, which will still have an implicit government guarantee in line with the above mentioned transitional rules for amendments to the Act governing state owned enterprises.

The rating agencies have assessed Statkraft and loans taken up by Statkraft before the amendments to the Act governing state owned enterprises came into effect. Standard & Poor's and Moody's both maintain their ratings of loans raised by Statkraft prior to the amendments. Hence, Standard and Poor's rating for existing long-term loans is still AA+, whilst Moody's long-term rating of outstanding debt is Aaa.

Subsequent to the amendments to the Act governing state owned obligations, Standard & Poor's has adjusted down its long-term credit rating of Statkraft to BBB+ with a positive outlook. For short loans the rating is A-2. Moody's credit rating of ordinary long-term obligations is Baa2, with a stable outlook, while short-term loans issued by Statkraft are rated P2.

As regards risk weighting of Statkraft's loans, the absence of an implicit government guarantee for

new loans in connection with the amendments to the Act governing state owned enterprises, implies that this will rise to 100 % for Norwegian financial institutions. For loans raised prior to 1 January 2003, the risk weighting is still 10 %. A higher risk weighting for loans implies that the investor's required rate of return increases, leading to higher funding costs for Statkraft. The risk weighting for foreign financial institutions depends on what the authorities in the individual countries decide, but, in any case, the risk weighting for new loans must be expected to be 100 %.

The Government has indicated that an initiative will be taken to convert Statkraft from a state owned enterprise to a limited liability company, with the State holding 100 % of the shares (cf. Report to the Storting no. 22 (2001–2002) – A smaller and better State ownership). It has not yet been decided when the proposal to convert the company will be presented to the Storting. The Board is positive to the Government's initiative, which can help to clarify Statkraft's future framework conditions.



The Nordic power market

In 2002, the power market was characterised by sharp fluctuations in prices. In the first half of the year prices were low on Nord Pool, the Nordic Power Exchange (NOK 0.144/kWh on average), as a result of heavy inflow in Norway and Sweden, and production was relatively low during the first months of the year. Inflow was 18 TWh or 15 % more than normal in weeks 1–30. Mild, wet weather made the situation worse and at the same time resulted in snow-melting in Norway and Sweden starting earlier than normal. Because of a risk of losing water in the hydropower plants, the production rate was increased and more electricity was produced in the summer months than is normal, which resulted in low market prices in this period.

The situation changed dramatically in the second half of the year. Inflow in Norway and Sweden was reduced from August through the end of the year. Compared to the norm, inflow was down 33 TWh in weeks 31–52 representing a deficit of a good 50 %. In combination with the early winter's cold weather, this led to constantly rising prices, which on average were NOK 0.257/kWh in the second half of the year. Prices hit a historical high in November with an average of NOK 0.317/kWh, and in December with an average of NOK 0.544/kWh. The cold, dry weather in December, combined with predictions of the same weather conditions for some time to come, had a particularly strong impact, as did the increasing concern for the water resources in the hydropower plants' reservoirs.

From the early autumn, Norway and Sweden, which have the dominant share of Nordic hydropower production, were net importers of power. In the autumn months there was an exchange between the countries with power flowing to Sweden at the beginning of the period and back to Norway at the end of the period.

Power prices over the last decade have been relatively low (approximately NOK 0.15/kWh on average) because of surplus capacity in the power system during the first years and because of greater-than-normal inflow. It is therefore not surprising that power prices rise quite considerably when we experience the effect of electricity consumption exceeding production capacity. Furthermore, we saw a considerable deficiency in water inflow in the last five months of 2002 and a very cold early winter. However, the average price in 2002 on the physical market in the Nordic area was no higher than NOK 0.201/kWh compared to NOK 0.187/kWh in 2001.

Nordic power consumption and power production

Figures in TWh	2002	2001	Change
Nordic consumption	383.8	393.0	-2.3 %
<i>Hereof Norwegian consumption</i>	<i>118.3</i>	<i>123.9</i>	<i>-4.5 %</i>
Nordic production	379.1	387.0	-2.0 %
<i>Hereof Norwegian production</i>	<i>129.0</i>	<i>120.3</i>	<i>7.2 %</i>



Statkraft's power production and sales Power sales

In 2002, the Statkraft Group produced 48.8 TWh compared to 35.1 TWh in 2001. Statkraft SF produced 40.4 TWh compared to 33.3 TWh in 2001 or approximately 7 TWh more than mean production. High inflow and corresponding pressure on production because of a risk of water loss periodically resulted in high production levels in the first half of the year.

The level of Statkraft SF's water reservoirs was very high at the beginning of autumn. This allowed the company to maintain a high production level throughout the winter season with its challenging market situation. In all, Statkraft maintained a high production level in the second half of the year.

For Statkraft SF, power sales to industry at publicly determined prices accounted for 17.9 TWh at an average price of NOK 0.107/kWh. Furthermore, 2.3 TWh was sold as licence power by Statkraft SF to counties and local municipalities at an average of NOK 0.089/kWh. Of total power sales, sales at prices that are politically determined accounted for 50 % of the power produced. In a normal year such sales account for about 60 %. Effective 1 January 2002, Statkraft's offices in Germany and the Netherlands operated Statkraft's share of the Baltic Cable between Sweden and Germany, 33 % through to June and thereafter 67 %. The companies are active in the power markets in Europe, and most of their activities are linked to supplies of green power, cross-border supplies (including deliveries over Baltic Cable between Germany and Sweden) and structured agreements for individual customers.

In the transmission field there has been some accommodation between the Nordic countries as regards central grid tariffs over the last few years. This has resulted in a decline in tariffs for the Norwegian producers. Statkraft applauds this development but is of the opinion that further harmonisation of producer-side tariffs will be necessary, taking into consideration the competition between the producers.

The Nordic power market is made up of four countries and five system operators, of which Denmark has two. System operators are responsible for the overriding exploitation of the power system. Rather different regimes in the four countries result in the Nordic system not being exploit-

ed optimally and efficiently. In the long run Statkraft would like to see a single Nordic system operator. Until this can be accomplished we would like a closer and more binding co-operation among the Nordic system operators, inter alia, the harmonisation and removal of unnecessary hindrances for an effective exchange of power.

Power plant operations and maintenance

By and large, the availability of the Group's production facilities was good in 2002. For the parent company, availability was higher in 2002 than in 2001, 90.4 % compared to 88.5 %. Non-availability has not placed any significant restrictions on Statkraft's power market activities. Power plant maintenance is adjusted to the market (production steered) and the need for current power weighs heavily when planning and carrying out maintenance.

The Group has sharply focused on the process of enhancing operational efficiency through a range of measures, where downsizing the workforce is one element. This work has been going on for some years in the parent company's production division, and 2002 was characterised by consolidation and a focus on preserving the purpose of the changes being carried out over time. Similar processes are underway or in their initial stage at several of the subsidiaries.

Effective 1 January 2002, Statkraft SF sold the company's entire central grid facilities to Statnett. A 3-year agreement has been signed under which Statkraft will operate and maintain the grid in the period.

New power production

Norway has a power deficiency and already now there is a need to import power in a normal year. Demand for electricity has risen steadily over the last decade but power prices have been too low to make new production development profitable. The market imbalance is illustrated in years with less than normal precipitation and inflow, as seen at the end of 2002 and the beginning of 2003 when power prices were high. Higher prices and a harmonisation of conditions of competition will lay the foundation for the building of new production capacity. In light of this, Statkraft is endeavouring to develop profitable projects in



hydropower and other environmentally friendly energy.

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. The plan is to put the power plant into operation in the fourth quarter of 2003. Moreover, Statkraft, in association with Tinn Energi Produksjon AS, has built a small power plant at Stegaros in the county of Telemark, which was put into operation in January 2003. Together, these two power plants will increase production by about 80 GWh. Statkraft is at the planning stage for development at Helgeland, which will provide about 1.5 TWh of new hydropower.

Together with partners in the Statkraft Alliance, Statkraft has established a new company, Småkraft AS. The company will work with private landowners to develop small-scale hydropower plants and has an ambition of realising 2.5 TWh of new production capacity over the next 10 years. Statkraft has permits to build wind farms at Smøla and Hitra. The approved projects' production capacity will be about 550 GWh a year. Stage I of the construction at Smøla was officially opened in September 2002 with 20 windmills that will produce 120 GWh a year. The wind farm is managed by the subsidiary, Smøla Vind AS, and Statkraft

and the Dutch company Nuon have entered into an agreement that secures the project's profitability through Nuon's purchasing of green certificates from the plant. Nuon has an option to purchase a minority interest. In accordance with the licence, Stage II at Smøla can first be started in the autumn of 2003. 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 by granting investment subsidies, among other things.

So far, the two 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 gas prices. The company had the licences prolonged in order to realise the developments at a later date.

Research and development

Statkraft's ambition to become a European leader in environmentally friendly power calls for the company to be at the forefront, using new systems, technologies and production solutions. Research and development is an important tool that will secure Statkraft access to technology and competence, so that the company can maintain its leading position also in future. R&D develops knowledge and technologies that enhance the



exploitation of our existing production facilities and help to improve the environmental status of our watercourses.

Statkraft's goal is to develop new environmentally friendly energy. R&D will identify new production solutions and ensure that Statkraft has competitive advantages because of its knowledge of and its rights to new technology. The purpose of research on and later development of tidal and salinity power is to strengthen Statkraft's position as a major participant in renewable energy in Europe. R&D involvement in the use of hydrogen as an energy carrier is a long-term commitment that will give the company a position in the energy market of the future.



Ownership in other companies

Statkraft's goal is to be a leading energy company, inter alia, through ownership interests in and in association with Norwegian alliance partners with considerable regional growth potential. The company's goal is to acquire a majority interest in a few selected companies. In negotiations on the acquisition of these ownership interests, the municipal authorities view Statkraft as an attractive partner.

In 2002, Statkraft was provided with NOK 6 billion in fresh equity and its loan ceiling was raised by NOK 10 billion, mainly to allow for the strategy of acquiring shares in Norwegian regional alliance

partners. As part of this strategy, Statkraft acquired 100 % of the shares in Trondheim Energiverk AS in 2002, as well as 45.5 % of the shares in Agder Energi AS. In addition, Statkraft increased its stake in BKK from 26 % to 49.9 %.

Following a thorough review by the Norwegian Competition Authority, the Ministry of Labour and Government Administration approved the acquisition of the shares in Agder Energi AS. However, as part of the approval certain remedial measures have been imposed on Statkraft, which imply that the company must divest its shareholdings in Hedmark Energi Holding AS and E-CO Vannkraft AS. In addition, 1 TWh of production capacity in the south of Norway must be sold if transmission capacity to that part of the country is not increased by 200 MW.

The final agreement regarding the transfer of shares in Agder Energi was signed in December 2002. This company is consolidated into the accounts with effect from 1 December 2002.

Statkraft is negotiating with the owners of Eidsiva energi AS on the sale of the stake in Hedmark Energi Holding. A letter of intent has been signed with a view to transferring the shares by the end of 2003.

The acquisition of shares in Trondheim Energiverk was also subject to the approval of the Competition Authority. In February 2003, the Ministry of Labour and Government Administration decided

to uphold the Competition Authority's intervention against the share acquisition. This means that Statkraft must sell all the shares in Trondheim Energiverk, sell the part of the company that generates power, or sell other power production facilities. The Competition Authority has approved the acquisition of shares in BKK.

The decision by the Ministry of Labour and Government Administration in the Agder case and the TEV case puts certain restrictions on how large Statkraft and its alliance partners can grow in the country until the central grid's transmission capacity is increased. Statkraft and its alliance partners are operating in a Nordic market where significant bottlenecks must be considered to be of a temporary nature so long as Statnett and its sister organisations in the other Nordic countries properly play their role. Temporary bottlenecks should not be used to influence long-term structural development.

In 2002, as part of the compensation following the termination of the power exchange agreement with E.ON, Statkraft increased its stake in Swedish Sydkraft from 35.7 % to 44.6 %.

Statkraft and the investment company Norfund have established a new company, Statkraft Norfund Power Invest AS (SNPI). It is owned on a 50/50 basis. The first part of the equity was transferred to the company in the third quarter of 2002. The company will build and buy environmentally friendly hydropower plants in Asia and Latin America and operate these on a commercial basis. Statkraft is planning to transfer its holdings in the hydropower plants in Nepal and Laos to the company, assuming that the relevant authorities, lenders and co-owners agree.

To strengthen trading activities in the Nordic market, Statkraft has acquired the Swedish company ABB Financial Energy from ABB Financial Service.

The energy companies in which Statkraft has acquired an interest, cover all parts of the value chain from power production and wholesaling to end-user operations. As a result, Statkraft is directly or indirectly involved, through the other companies, in the entire value chain. This implies a broadening of its activities beyond the scope of its core activities in power production and power sales.



Organisation and the working environment

In 2002, the average number of employees was 2 627 in the Group and 813 in Statkraft SF.

Statkraft SF introduced in 2002 a wide-reaching campaign to define the company's core values that can be summed up in the sentence "Adding lasting value". The core values are elaborated by the attitudes: "Courage – Conscious – Committed – Competent."

Statkraft's personnel policy expresses the company's recruitment challenges, among which is a focus on equality of the sexes. The company will actively endeavour to even out the differences between the genders, by increasing the number of women in leading positions, and by creating a desirable cultural and age mix.

Statkraft maintains the last few years' sharp focus on safety and the working environment.

The company is involved in a multiyear enhancement programme to ensure local involvement and management follow-up of health and safety. In 2002, on the basis of risk analyses, a range of risk-reduction measures were introduced. The comprehensive road safety campaign that Statkraft SF has been running together with Trygg Trafikk (Safe Traffic) is particularly worthy of mention.

The total injury frequency for the Group as a whole (H2 factor, which shows the number of injuries with and without lost time per million hours worked) was reduced from 14.6 in 2001 to 11 in 2002. The injury frequency with lost time (H1 factor, which shows the number of injuries with lost time per million hours worked) was reduced from 9.2 in 2001 to 4. Injury absence figures or the injury seriousness factor (F factor, which shows the number of lost days per million hours worked) was 45 compared to 188 one year earlier. There were no serious injuries in 2002. Sick leave in the Group rose somewhat from 2001 to 2002, from 3.9 % in 2001 to 4.2 % in 2002.

Jon Ivar Nålsund, who was a member of Statkraft's Board of Directors, passed away at the turn of the year. The Board would like to applaud Nålsund for the work he did for Statkraft during the many years he sat on its Board.



The external environment

Hydropower is a clean and renewable energy source that is environmentally friendly compared to other energy sources, and it is emission and discharge-free. However, hydropower development causes some encroachment on nature and affects the environment. Statkraft emphasises the follow up of the environment, and in 2002 a range of actions were taken to improve the company's environmental performance.

In 2001, Statkraft SF was environmentally certified in accordance with the ISO-14001 standard. This certification was an important milestone, and in 2002 a great deal of work was done to develop and enhance the efficiency of our work on the external environment. The organisation, implementation and follow-up of internal monitoring have been central. A common system has been designed for registering and following up environmental breaches and undesirable occurrences. In addition, Statkraft has worked with its host municipalities in developing local environmental initiatives and contributed to local energy and resource mapping.

In 2002, Statkraft actively participated in the further development of eco-labelled electricity – the Environmental Product Declaration (EDP). This involves a comprehensive documentation of the environmental aspects at the individual production plants. Such a declaration has been prepared for Trollheim Power Plant.

Statkraft has participated in a test scheme for trading green certificates (RECS – Renewable Energy Certificate Scheme). In 2002, the company exported green electricity to the Netherlands, and the sale of green certificates is also the basis for profitability in the wind power projects.

In 2002, 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 biotope adjustment measures are part of the day-to-day operations and are continual. In 2002, about 490 000 smolt, fry and young salmon and trout were released. Statkraft owns and operates five fish hatcheries.

In 2002, Statkraft registered very few breaches of manoeuvring regulations and few environmental

breaches. None of the events had substantial environmental consequences. The organisation has a sharp focus on correctional measures to better follow up licence terms and conditions.



Prospects

In 2003, work on further developing the Statkraft Group in line with its strategy and the vision of being a European leader in environmentally friendly energy will continue. Statkraft wishes to increase added value by developing, producing and selling energy, and together with its alliance partners, it wishes to further improve profitability in distribution and end-user operations. The concurrence of European liberalisation, technological advancement and the demand for environmentally friendly energy puts Statkraft in a unique position in a highly competitive power market. With core competence in hydropower and financial trading, and environmentally friendly and flexible production facilities, interesting commercial possibilities are present.

Statkraft will continue to focus sharply on securing the company's competitiveness and financial basis in light of the retraction of government guarantees resulting from the amendments to the Act governing state owned enterprises. These amendments mean that Statkraft, from a financial point of view, will be viewed as though it were a limited liability company, and its credit rating will be based on the underlying profitability and the balance sheet structure. Statkraft's financial situation is not fully suited to a situation without any guarantee from the owner and its creditworthiness is therefore weakened. Statkraft will endeavour to arrange for future capital needs and has applied to the owner for fresh capital.

Statkraft enters 2003 with water reservoir levels that are lower than normal. Assuming that inflow and market conditions in 2003 are about what they are in a normal year, Statkraft expects that the result of its ordinary operations will be somewhat lower than in 2002.

However, the market situation at the beginning of 2003 is more volatile than usual due to low reservoir levels for many of the producers and there is a great deal of uncertainty surrounding the development of the financial results.

The Board thanks management and all employees for their efforts,
which generated a satisfactory result in 2002.

The Board of Directors of Statkraft SF
Oslo, 19 March 2003



Terje Vareberg
Chairman of
the Board



Marit Büch-Holm
Vice-Chairman of
the Board



Erik Nygaard



Toril Mølmen



Inger Østensjø



Astri Botten Larsen



Odd Vanvik



Thorbjørn Holøs



Bård Mikkelsen
President and Chief Executive Officer

income statement

The Group			Amounts in NOK million	Note	Statkraft SF		
2002	2001	2000			2002	2001	2000
7 979	7 038	4 686	Power revenues	3	6 423	6 417	4 576
2 910	3 356	599	Other operating revenues	5	527	2 880	467
10 889	10 394	5 285	Gross operating revenues		6 951	9 297	5 043
-840	-680	-614	Transmission costs		-503	-652	-611
10 049	9 714	4 671	Net operating revenues		6 448	8 645	4 432
1 379	741	625	Salaries and other payroll costs	6,7	476	434	436
303	271	252	Compensation and licence fees	8	257	262	250
1 401	1 020	767	Other operating costs	9	936	829	805
1 490	957	849	Ordinary depreciation	14,15	778	807	801
4 573	2 989	2 493	Operating costs		2 448	2 332	2 292
5 476	6 725	2 178	Operating income		4 000	6 313	2 140
871	1 054	729	Result from associated companies	16	-	-	-
535	650	426	Financial revenues	10	1 908	1 442	893
-2 783	-1 860	-1 568	Financial costs	10	-2 221	-1 761	-1 523
-2 249	-1 210	-1 142	Net financial items		-313	-319	-630
4 098	6 569	1 765	Pre-tax income		3 687	5 994	1 510
-1 281	-2 109	-759	Taxes payable	11	-1 472	-2 053	-845
-339	-118	-159	Change in deferred tax	11	-85	-57	49
-1 620	-2 227	-918	Taxes		-1 557	-2 110	-796
2 478	4 342	847	Net income for the year		2 130	3 884	714
171	70	6	Hereof minority interests				
2 307	4 272	841	Hereof majority interests				
			Allocation of net income for the year				
			Dividend		2 192	2 690	631
			Provisions to other equity		-62	1 194	83
			Group contribution				
			Group contribution paid (before tax)		1 803	491	514

balance sheet 31.12.

The Group			Statkraft SF				
2002	2001	2000	Amounts in NOK million	Note	2002	2001	2000
ASSETS							
2 997	3 386	2 271	Intangible assets	14	2 108	2 192	2 235
44 077	36 585	25 596	Property, plant and equipment	15	22 908	23 503	23 975
29 749	19 018	22 214	Investments in subsidiaries/associated companies	16	10 878	9 075	8 627
1 532	1 411	1 959	Other financial fixed assets	17	36 326	19 898	17 049
78 356	60 400	52 040	Fixed assets		72 220	54 668	51 886
43	47	34	Inventories		39	44	33
9 241	3 683	1 040	Receivables	18	7 809	3 099	1 099
217	263	150	Investments	19	-	-	-
1 518	6 901	2 514	Bank deposits, cash and cash equivalents	20	724	5 937	1 062
11 019	10 894	3 738	Current assets		8 571	9 080	2 194
89 375	71 294	55 778	Assets		80 792	63 748	54 080
EQUITY AND LIABILITIES							
25 250	25 250	19 250	Paid-in capital	21	25 250	25 250	19 250
1 820	3 378	2 412	Retained earnings	21	1 663	2 722	1 528
3 774	3 698	80	Minority interests	21	-	-	-
30 844	32 326	21 742	Equity		26 913	27 972	20 778
2 731	1 914	556	Provisions	22	281	291	231
74	100	98	Subordinated loan		-	-	-
47 814	31 133	30 557	Interest-bearing long-term liabilities	23	46 001	30 985	30 482
50 620	33 147	31 211	Long-term liabilities		46 282	31 276	30 713
729	35	89	Interest bearing current liabilities	24	2 532	-	88
1 066	981	692	Taxes payable		826	693	640
6 116	4 805	2 044	Other non-interest-bearing liabilities	25	4 239	3 807	1 861
7 910	5 821	2 825	Current liabilities		7 597	4 500	2 589
89 375	71 294	55 778	Equity and liabilities		80 792	63 748	54 080
2 095	2 098	2 100	Mortgages	26	2 095	2 098	2 100
3 802	5 803	6 750	Guarantees	26	3 583	5 722	6 652

The Board of Directors of Statkraft SF

Oslo, 19 March 2003



Terje Vareberg

Chairman of
the Board


Marit Büch-Holm

Vice-Chairman of
the Board



Erik Nygaard



Toril Mølmen

cash flow analysis

The Group					Statkraft SF		
2002	2001	2000	Amounts in NOK million	Note	2002	2001	2000
CASH FLOW PROVIDED BY/USED IN							
OPERATING ACTIVITIES							
4098	6569	1765	Provided by the year's operations (pre-tax)		3 687	5 994	1 510
-187	-78	-127	Gain/loss on sale of fixed assets		-208	-69	18
1 490	957	849	Ordinary depreciation		778	807	801
- 91	29	-	Write-down of fixed assets		-	56	29
-871	-1 054	-729	Result from associated companies		-	-	-
-1 786	-2 109	-744	Taxes payable		-1 472	-2 053	-845
2 744	4 376	1 043	Cash flow provided by operations		2 785	4 735	1 513
-1 354	6	93	Change in inventories, debtors and creditors		-1 489	114	72
905	381	319	Dividend from associated companies		-	-	-
-2 273	-643	485	Change in other current assets and liabilities		-1 511	-1 301	-293
22	4 120	1 940	Net cash flow from operations	A	-215	3 548	1 292
CASH FLOW PROVIDED BY/USED IN							
INVESTMENT ACTIVITIES							
-1 387	-546	-630	Investments in fixed assets		-672	-395	-394
856	349	1 287	Proceeds from sale of fixed assets		697	173	11
-15 598	-3 340	-8 781	Investments in other companies		-	-559	-359
-16 129	-3 537	-8 124	Net cash flow from investment activities	B	25	-781	-742
CASH FLOW PROVIDED BY/USED IN							
FINANCING ACTIVITIES							
21 097	4 210	10 490	Long-term loan proceeds		19 616	4 210	10 282
-6 663	-3 622	-1 227	Repayment of long-term liabilities and subordinated loans		-4 560	-3 481	-1 212
-70	-2 153	-1 264	Change in other long-term receivables and liabilities		-16 439	-3 990	-8 970
-	6 000	-	Payment of new equity		-	6 000	-
-3 640	-631	-600	Dividend distributed to owner		-3 640	-631	-600
10 724	3 804	7 399	Net cash flow from financing activities	C	-5 023	2 108	-500
-5 383	4 387	1 215	Net change in cash and cash equivalents	A+B+C	-5 213	4 875	50
6 901	2 514	1 299	Cash and cash equivalents 01.01.		5 937	1 062	1 012
1 518	6 901	2 514	Cash and cash equivalents 31.12.		724	5 937	1 062


Inger Østensjø


Astri Botten Larsen


Odd Vanvik


Thorbjørn Holøs


Bård Mikkelsen
President and Chief
Executive Officer

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 governing state owned enterprises.

Changes in accounting principles

The principle of valuing financial contracts that form part of the trading portfolio has been changed from the lower value principle to market value pursuant to section 5-8 of the Accounting Act. The effect as of 1 January has been recorded against equity. The trading activity is explained in more detail in the paragraph relating to recording of power revenues.

Consolidation and Group Accounts

Subsidiaries

The Group accounts show the total financial results and the total financial situation for Statkraft SF and its controlling ownership interests in other companies, presented as though they were a single financial entity. Group accounts include companies in which Statkraft has a direct or indirect 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.

In the Group accounts, inter-company sales and receivables are eliminated, as are inter-company profits related to the Group's own investments.

When businesses are acquired, the cost price and goodwill is estimated at the time of the agreement. Earned income and other changes in equity, as well as interest on the payment in the period from the date of the agreement and through to the date of implementation are recorded directly against equity. 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 that cannot be assigned to the values of assets and liabilities are recorded as goodwill. No provision is made for deferred tax on goodwill.

Foreign subsidiaries are considered to be independent entities and their accounts are therefore 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 limited liability 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 a controlling interest 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 goodwill amortisation, 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, less dividends received and possible currency adjustments.

The principle for consolidating ownership interests purchased in associated companies is the same as for subsidiaries.

Investments that are not considered to be material to the Group are dealt with in the 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 con-

trolling interest are recognised according to the earnings principle, while dividends from other companies are recognised in accordance with the cash principle. Interest revenue on significant contract prepayment is classified as operating revenue.

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 and financial contracts. Financial instruments used in power trading are financial bilateral contracts, forward contracts and futures, and options. Physical and financial trading for hedging of future production is accounted for as hedging. The prerequisite for being classified 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 % 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 excess is dealt with on the lower value principle based on the LIFO principle.

Paid and received option premium for future power supplies on fixed terms are recorded in line with realised supplies. In the event that that total value of options in the portfolio is lower than the premium in the balance sheet, the value is written down to market value.

Trading activities

The company has a separate trading portfolio of financial power contracts that is managed independently of the company's expected power production. This portfolio is used in the market with a view to achieving gains in short-term and long-term fluctuations in the market price of electric power. The portfolio is for the most part made up of products traded on Nord Pool or bilateral standardised products. The portfolio is recorded at market value pursuant to section 5-8 of the Accounting Act.

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 %. 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 distribution grid capital and, in the event that these are exceeded, they are treated in the same way as accumulated additional/lower income. Additional income/lower income is recorded as an adjustment 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 watercourses 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 Group's pension schemes are for the most part benefit plans. Certain schemes in subsidiaries are organised as

municipal pension funds and are dealt with as contribution schemes.

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 % 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 the non-amortised effect of plan changes and estimate deviations. Similarly, net pension obligations for under-funded 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 the Group that are 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 natural resource tax, property tax, income tax and resource rent tax.

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 that exceeds income tax can be carried forward, together with interest, to later years, and is recorded as prepaid 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 for each power plant on the basis of actual production, less actual operating costs for the power plant and resource rent tax paid. 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. To arrive at the property tax base, the preceding 5 years' 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 % and 0.7 % of the property tax basis is paid to the relative municipality.

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.

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 % of the value of the plant's operating assets for taxation purposes.

The resource rent tax amounts to 27 % 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 revenues, with interest, in the same power plant. This then 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 taxa-

tion 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.

Classification of balance sheet items

Assets intended for permanent ownership 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 diminution 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 possible discounts. 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 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 recorded in the balance sheet 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 operation. 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 (remainder), are capitalised at cost and are not depreciated. Power plants that revert in the future (remainder) 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 revenue.

Inventories/spare parts

Standard inventories and spare parts that have been purchased for the operation 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 with a view to hedging assets or future revenues 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.

notes to the accounts

NOTE 1 LARGE SINGLE TRANSACTIONS

Acquisitions

In 2002, Statkraft acquired 100 % of the shares in Trondheim Energiverk AS for NOK 4 338 million and 45.5 % of the shares in Agder Energi AS for NOK 4 487 million. In addition, Statkraft increased its ownership interest in Bergenshalvøens kommunale kraftselskap (BKK) from 26 % to 49.9 % and its interest in the Swedish company Sydkraft from 35.7 % to 44.6 %. Statkraft paid NOK 3 224 million and NOK 3 451 million for these higher stakes.

The Norwegian Competition Authority has approved the acquisition of the shares in Agder Energi AS. However, as part of the approval, certain remedial measures have been imposed on Statkraft, which imply that it must sell its shareholdings in Hedmark Energi Holding AS and E-CO Vannkraft AS. In addition, 1 TWh of production capacity in the south of Norway must be sold if transmission capacity to that part of the country is not increased by 200 MW.

The company does not expect that the shares in Hedmark Energi Holding AS and E-CO Vannkraft AS will be realised at a price that is less than the book value of these investments.

Costs related to the increase in transmission capacity are estimated at NOK 260 million. Half of this is to be defrayed by the sellers (i.e. the local authorities) by way of a reduction in the price of the shares. A provision has been made for Statkraft's share of the estimated costs, and this is recorded in the balance sheet as part of the price paid for the Agder Energi AS shares.

The acquisition of shares in Trondheim Energiverk was also subject to the approval of the Competition Authority. In February 2003, the Ministry of Labour and Government Administration decided to uphold the Competition Authority's intervention against the share acquisition. This means that Statkraft must sell all the shares in Trondheim Energiverk, sell that part of the company that generates power or sell other power production facilities.

These matters are dealt with in more detail in the annual report and in Note 16.

Other issues

Statkraft and the investment company Norfund have established a new company, Statkraft Norfund Power Invest AS. It is owned on a 50/50 basis. Statkraft's international activities outside of Europe are being transferred to Statkraft Norfund Power Invest AS. Negotiations are underway to transfer the investments in Nepal and Laos to this company. However, this assumes approval from the competition authorities, lenders and co-owners. This is also dealt with in the annual report.

NOTE 2 SEGMENT INFORMATION

The Statkraft Group had the following results in the most important business areas.

Reference is made to page 20 of the annual report for more detailed descriptions of the business areas.

Figures for The Statkraft Group 2002

Amounts in NOK million	The Group	Production and sales	Distribution grid	End-user	Consultancy	Group	
						Other	functions and eliminations
Gross operating revenues	10 889	9 269	1 385	358	323	256	-702
Operating income	5 476	5 179	306	-9	15	54	-69
Result from associated companies	871	661	421	-67	0	-51	-94
Net financial items	-2 249	-1 805	-300	-21	-1	-67	-55
Pre-tax income	4 098	4 036	427	-96	14	-64	-218
Net income for 2002	2 478	2 386	414	-89	10	-65	-177
Hereof minority interests	-171	-146	-57	22	-1	2	8
Net income for 2001	4 342	4 034	294	-66	7	2	71

NOTE 3 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 from 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		
2002	2001	Amounts in NOK million	2002	2001	2000
10 111	6 473	Production at spot prices	8 766	6 236	4 142
-2 296	-1 622	Deviation from spot prices on publicly determined contracts ¹⁾	-2 128	-1 622	-45
-767	722	Price hedging free contracts	-539	782	-124
932	1 465	Other net revenue power sales ²⁾	324	1 021	603
7 979	7 038	Total	6 423	6 417	4 576

1) Industrial power contracts at prices determined by the Storting (Parliament) as well as licence power to local authorities. In 2002, the price for this power was NOK 0.107 and NOK 0.089/kWh respectively.

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

Statkraft SF 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	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Industrial contracts	17.6	17.5	15	13	10.9	9.4	8.8	8.9	0	0	0
Licence contracts	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Firm sales agreements	20.3	20.2	17.7	15.7	13.6	12.1	11.5	11.6	2.7	2.7	2.7

As a result of the agreement on accelerated reversion/remainder in the period 1957 to 1966, Statkraft SF has ownership of the power plants Saudefaldene, Tyssefaldene, Bjølvo, Høyanger and Svelgen. Statkraft operates Bjølvo and Høyanger. The others are leased out at parliamentary-decided terms in accordance with the white paper Report to the Storting no. 52 (1998–99). In 2002 and through to 2006 this applies to Saudefaldene, Tyssefaldene and Svelgen. The power plants Tysso II and Sauda IV revert to Statkraft in 2007 and 2010, respectively, with mean production and leased-out volume aggregating 1.1 TWh. From 2011, Statkraft will regain the right of disposal to several of the Tyssefaldene power plants. The other power plants are leased out through to 2030.

Figures in TWh	2003	2004	2005	2006	2007	2008	2009	2010	2011-2030
Volume leased out	1.7	1.7	1.7	1.7	2.6	2.6	2.6	2.8	2.2

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.

The traded energy volume refers in its entirety to the Nordic home market.

NOTE 4 WATER RESERVOIRS AND SALEABLE PRODUCTION

Figures in TWh	Statkraft SF Reservoirs				Statkraft SF Production ¹⁾			
	Maximum							
	31.12.2002	31.12.2001	31.12.2000	capacity	2002	2001	2000	Median
	18.8	26.5	28.2	33.9	40.4	33.3	40.2	33.1

1) After losses

In a normal year, water in the reservoirs varies around the average level of - 11 TWh at the minimum in April and + 5 TWh at the maximum in October. Inflow in the first half of 2002 was significantly higher than normal, but in the second half of 2002 it was far lower than is normal. The combination of high production in some parts of the year and the deficiency in inflow in the second half of the year resulted in year-end reservoir levels being reduced by 7.7 TWh compared to the preceding year.

NOTE 5 OTHER OPERATING REVENUES

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
315	245	239	Revenues from leasing out power plants	249	245	239
1 285	306	94	Net revenues from distribution grid operations	-13	120	93
430	-	-	Net revenues end-user operations	-	-	-
700	337	255	Other lease revenues and sale of services	83	47	66
180	16	11	Gain on sale of fixed assets	208	16	69
-	2 452	-	Compensation	-	2 452	-
2 910	3 356	599	Total	527	2 880	467

Negative income from the lease of distribution grid for Statkraft SF is due to settlements relating to earlier years.

On 1 January 2002, Statkraft SF sold its central distribution grid. This generated a gain on the sale of fixed assets of NOK 180 million. Statkraft SF is no longer involved in distribution grid operations. The income ceiling and net capital have been transferred to the new owner. As a consequence, information on the monopoly activity is no longer reported in Statkraft SF's accounts.

NOTE 6 SALARIES AND OTHER PAYROLL COSTS

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
900	577	512	Salaries	343	357	371
145	87	27	National Insurance contribution	65	56	51
178	48	17	Pension costs	66	20	13
155	29	69	Other benefits	2	1	1
1 379	741	625	Total	476	434	436

The President and Chief Executive Officer's salary amounted to NOK 2 100 000 in 2002. The year's pension cost amounted to NOK 1 721 049 and other benefits to NOK 138 331.

Members of the Group Management have a pension age of 65 years with a right to 66 % 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 the 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 the Group Management have severance arrangements in addition to what is mentioned above, nor have they been given loans or guarantees. The Board has no agreement other than remuneration and no loans have been granted or guarantees issued in favour of board members.

Remuneration to members of the Board of Directors amounted to NOK 1 243 000, of which NOK 210 000 to its Chairman.

In 2002, the average number of employees in the Group was 2 627, while it was 813 in the parent company.

NOTE 7 PENSIONS**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 2000, the National Pension Fund increased benefits for pension bases in the interval 8G (the basis amount in the National Insurance Scheme) to 12 G from 22 % to 66 %. The effect of this is expensed in 2002.

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 a supplementary pension scheme, Statkraft Pension Fund, which provides benefits in addition to those from the National Pension Fund. The supplementary scheme covered 44 % of the pension base in the interval 8G to 12G through to 2001, as well as survivors' benefits for all employees. With effect from 2001 no additional rights to old age pensions are earned since the National Pension Fund now covers the extra benefits that Statkraft's own pension fund was intended to cover. The scheme for survivors' benefits is closed for those employed after 1 July 2002.

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 for 9 employees; these are covered through the company's running operation. It should be pointed out that Statkraft is not legally bound by the recorded obligations.

Other schemes

Skagerak Energi and Statkraft Grøner have group pension schemes for their employees in a private insurance company. These cover salaries up to 12G. Trondheim Energiverk has a pension scheme in Trondheim Municipal Pension Fund. This is dealt with as a contribution scheme.

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 adjustment	2.9 %
Annual increase in G (National 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	0.0 %
Projected yield	7.0 %
Rate of inflation	2.5 %

The pension costs for the period were as follows:

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
141	49	30	Present value of earned pension rights for the year	30	22	23
76	66	35	Interest costs on pension obligations	32	26	25
217	115	65	Gross pension cost for the year	62	48	48
-78	-67	-40	Projected yield on pension funds	-32	-26	-28
3	-	-	Recognised effect of estimate deviations	1	-	-
36	-	-10	Recognised effect of plan changes	35	-2	-1
178	48	15	Net pension cost for the year	66	20	19

Reconciliation of obligations and pension fund assets:

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
1 456	1 204	610	Gross pension obligations	555	480	444
1 240	1 095	645	Pension fund assets	499	456	461
-216	-109	35	Net pension fund assets/(obligations)	-56	-24	17
117	70	-	Non-amortised estimate deviation	54	15	-
22	41	-	Non-recognised plan changes	-	35	-
-15	-15	-2	National Insurance contribution – unfunded schemes	-3	-2	-2
-92	-13	33	Net pension fund assets/(obligations) in balance sheet	-5	24	15
-258	-123	-30	Obligations pensions through operations – unfunded schemes	-46	-20	-15
166	110	63	Pension assets (funded schemes)	41	44	30

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

NOTE 8 COMPENSATION AND LICENCE FEES

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
236	221	201	Licence fees	201	213	200
67	50	51	Compensation	56	49	50
303	271	252	Total	257	262	250

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 2 870 million and NOK 400 million, respectively, discounted at a interest rate of 7 % in accordance with the regulations applicable to redemption.

NOTE 9 OTHER OPERATING COSTS

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
97	43	29	Materials	44	30	29
663	442	309	External services	472	399	313
138	42	87	Costs, power plants leased out	96	91	87
85	75	72	Costs, power plants operated by others	59	65	72
0	91	17	Write-down of fixed assets	0	72	16
418	327	253	Other operating costs	265	172	288
1 401	1 020	767	Total	936	829	805

The proposed auditor's fee for Statkraft SF for 2002 amounts to NOK 920 000. Furthermore, NOK 2.7 million was billed in 2002 for internal auditing services and NOK 6.3 million for other services. Similarly, the fees to the Group auditor for Norwegian subsidiaries were NOK 1.7 million for external auditing and NOK 996 800 for other services. Fees to chartered accountants other than the Group auditor totalled NOK 458 000 for external auditing and NOK 450 000 for other services.

NOTE 10 FINANCIAL REVENUES AND COSTS

Financial revenues:

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
-	-	-	Interest revenues from group companies	1 479	935	637
487	237	206	Other interest revenues	381	441	229
48	413	220	Other financial revenues	48	66	27
535	650	426	Total	1 908	1 442	893

Financial costs:

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
-	-	-	Interest costs to group companies	-39	-	-
-2 637	-1 805	-1 555	Other interest costs	-2 115	-1 704	-1 515
-146	-55	-13	Other financial costs	-67	-57	-8
-2 783	-1 860	-1 568	Total	-2 221	-1 761	-1 523

NOTE 11 TAXES

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
580	478	460	Natural resource tax	470	455	454
334	279	342	Property tax ¹⁾	270	266	338
-1	-1	-4	Refunded/reversed from previous years	-1	-1	-4
913	756	798	Income-independent taxes	739	720	788
602	1 503	242	Income tax	901	1 552	333
-510	-1 385	-194	Income tax offset ²⁾	-570	-1 507	-333
-70	924	-265	Brought forward/reversed ³⁾	100	1 052	-121
386	229	175	Resource rent tax	339	222	175
-40	82	3	Changes for previous years/restatements	-37	14	3
368	1 353	-39	Income-dependent taxes	733	1 333	57
1 281	2 109	759	Taxes payable	1 472	2 053	845
339	118	159	Change in deferred tax	85	57	-49
1 620	2 227	918	Taxes	1 557	2 110	796

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.

The following shows how the tax base for calculating income tax on the basis of the accounts is arrived at:

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
4 098	6 569	1 765	Pre-tax income	3 687	5 994	1 510
-765	-452	-819	Permanent differences	-269	-268	-452
-456	0	0	Permanent difference recorded against equity	0	0	0
-597	-455	38	Changes in temporary differences	-184	-178	148
2 279	5 663	984	Tax basis for the year	3 234	5 547	1 206
28/35 %	28/35 %	28 %	Tax rate	28 %	28 %	28 %
668	1 601	275	Estimated income tax	906	1 553	337
-66	-98	-33	Tax credit for deduction	-4	-1	-4
602	1 503	242	Income tax before offset	902	1 552	333
-510	-1 385	-194	Natural resource tax offset	-570	-1 507	-333
92	118	48	Income tax after offset	332	45	-
40 %	34 %	52 %	Effective tax rate ¹⁾	42 %	35 %	53 %

1) Taxes/pre-tax income

The following is a specification of the temporary differences, carryforward deficit and carryforward losses, as well as calculating deferred tax assets cf. Note 14. Deferred tax is recorded in the balance sheet to the extent that it is probable that it will be exploited. Deferred tax assets relating to fixed assets include temporary differences in both income tax and resource rent tax. Net deferred tax assets presented as an intangible asset apply to companies that are dealt with as one taxable entity pursuant to the tax rules. The change in the Group's deferred tax/deferred tax assets from 2001 to 2002 does not reconcile with the changes in temporary difference because of deferred tax in companies acquired.

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
-530	-265	-280	Current assets/current liabilities	-413	-202	-396
-1 377	-2 398	-1 975	Fixed assets	-1 444	-1 838	-1 821
-76	-433	-60	Carryforward loss/credit	-	-	-
			Total temporary differences and			
-1 983	-3 096	-2 315	Loss brought forward	-1 856	-2 040	-2 217
-564	-867	-648	Deferred tax assets	-519	-571	-621
386	20	-61	Temporary differences, resource rent taxation	72	20	-60
35	4	-12	Deferred tax temp. diff. resource rent taxation	14	4	-12
-184	-207	-198	Resource rent tax brought forward	-184	-207	-198
-149	-203	-211	Deferred tax assets, resource rent taxation	-170	-203	-210
-713	-1 070	-859	Total deferred tax assets	-689	-774	-831
40/28/20 %	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 22. For the Group, deferred tax assets and deferred tax related to different tax subjects/regimes are presented separately. 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			
2002	2001	2000	Amounts in NOK million
1 024	1 129	579	Share of results
6 755	3 882	-	Excess values acquired companies
7 779	5 011	579	Total temporary differences
2 178	1 403	162	Deferred tax
637	461	-	Temporary differences, resource rent taxation
127	75	-	Deferred tax on temp diff. resource rent tax
-62	-33	-	Resource rent tax brought forward
65	42	-	Deferred tax resource rent taxation
2 243	1 445	162	Total deferred tax
28/20 %	28/16 %	28 %	Tax rate

NOTE 12 TREATMENT OF REVENUES AND COSTS IN POWER PLANTS OPERATED BY OTHERS

In companies where Statkraft SF has an ownership interest without operating responsibility, cf. Note 15, the enterprise takes out for its 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		
	2002	2001	2000
Calculated revenues	759	673	544
Other operating revenues	10	10	10
Transmission costs	-52	-52	-52
Net operating revenues	717	631	502
Compensation and licence fees	23	22	23
Other operating costs	83	83	82
Ordinary depreciation	80	80	80
Operating costs	186	185	185
Net financial items	2	1	2
Calculated pre-tax income	530	445	315

NOTE 13 PRO FORMA FIGURES FOR THE GROUP

Amounts in NOK million	The Group	
	2002	2001
Operating revenues	10 889	12 066
Operating income	5 476	7 217
Pre-tax income	4 098	6 270
Net income for the year	2 478	3 962
Hereof minority interests	171	106

The pro forma figures for the Group show Group items as though the acquisitions of the subsidiaries Skagerak Energi and Trondheim Energiverk took place on 1 January 2001.

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 %) relating to financing the acquisition.

NOTE 14 INTANGIBLE ASSETS

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
2 039	2 063	1 409	Licences, fall rights etc.	1 419	1418	1 404
713	1 070	859	Deferred tax assets	689	774	831
245	253	3	Goodwill	-	-	-
2 997	3 386	2 271	Total	2 108	2 192	2 235

Amounts in NOK million	Rights	Goodwill	Sum
Statkraft SF			
Acquisition cost 1 January 2002	1 455	-	1 455
Additions 2002	20	-	20
Disposals 2002	-	-	-
Accumulated depreciation 31 December 2002	57	-	38
Book value 31 December 2002	1 419	-	1 419
Current year's ordinary depreciation	19	-	19
The Group			
Acquisition cost 1 January 2002	2 068	330	2 398
Additions 2002	29	6	35
Disposals 2002	-	-	-
Accumulated depreciation 31 December 2002	58	92	150
Book value 31 December 2002	2 039	245	2 283
Current year's ordinary depreciation	20	14	34
Estimated useful economic life	7 years to perpetuity	5 years	-

Deferred tax assets are referred to in more detail in Note 11.

NOTE 15 FIXED ASSETS

Amounts in NOK million	Regulation plant	Turbines, generators etc.	Grid facilities	Share in power plants operated by others	Buildings, roads, bridges and quays	Plants under construction	Other	Total
Statkraft SF								
Acquisition cost 1 January 2002	15 885	6 456	-	2 733	4 663	346	984	31 066
Additions 2002	15	3	-	6	-	285	315	625
Additions 2002	-	247	-	-	2	12	228	489
Capitalised building interest	-	-	-	-	-	28	-	28
Accumulated depreciation and write-downs 31 December 2002	3 144	2 804	-	669	669	-	691	8 322
Book value 31 December 2002	12 757	3 408	-	2 070	1 014	647	380	22 908
Current year's ordinary depreciation	309	217	-	61	92	-	80	759
The Group								
Acquisition cost 1 January 2002	20 011	12 802	5 010	2 733	6 471	445	1 358	48 830
Additions 2002	2 576	3 556	1 463	801	20	431	1 048	9 867
Disposals 2002	-	255	13	-	16	101	284	669
Capitalised building interest	-	-	-	-	-	28	-	28
Currency differences	-	-	-	-	-277	-	-	-277
Accumulated depreciation and write-downs 31 December 2002	3 402	5 143	2 081	699	1 314	-	1 063	13 702
Book value 31 December 2002	19 185	10 960	4 379	2 835	4 884	775	1 059	44 077
Current year's ordinary depreciation	338	460	242	91	160	-	165	1 456
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 operated by Statkraft SF:

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

Amounts in NOK million	Ownership	Share of fixed assets
Aurlandsverkene	7.00 %	382
Kraftverkene i Øvre Namsen	50.00 %	262
Mørkfoss-Solbergfoss	33.33 %	69
Røldal-Suldal Kraft AS ¹⁾	8.74 %	-
I/S Sira-Kvina kraftselskap	32.10 %	1 356
Tyssefaldene	20.29 %	95
TOTAL		2 164

1) Statkraft SF owns 8.74 % of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79 % of the power plant IS Røldal-Suldal Kraft. Statkraft's indirect ownership in the partnership is therefore 4.79 %.

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Amounts in NOK 1000s	Registered office	Ownership	Share of votes	Book value
<i>Shares in subsidiaries owned by the parent company</i>				
Statkraft Holding AS	Oslo	100 %	100 %	6 038 128
Statkraft Energy Enterprise AS	Oslo	100 %	100 %	3 531 126
Statkraft Energy Europe AS	Oslo	100 %	100 %	490 837
Finnmark Energiverk AS	Alta	100 %	100 %	343 256
Nordic Hydropower AB	Stockholm	100 %	100 %	165 518
Himal Power Limited	Kathmandu	51 %	51 %	119 179
Statkraft Forsikring AS	Oslo	100 %	100 %	30 000
Statkraft Grøner AS	Oslo	92 %	92 %	18 500
Statkraft Peru AS ¹⁾	Oslo	99 %	99 %	99
Total (A)				10 736 643

1) Statkraft Holding owns the remaining 1 % of the shares.

Shares in associated companies and unconsolidated subsidiaries owned by the parent company

Statkraft Norfund Power Invest AS	Bærum	50 %	50 %	100 000
Peru Hydro SA	Peru	100 %	100 %	20 046
Hitra Vind AS	Bærum	100 %	100 %	20 000
Other				1318
Total (B)				141 364
Total (A+B) shows Statkraft SF's shares in subsidiaries and associated companies				10 878 007

Shares in consolidated subsidiaries owned by other Group companies

Name	Registered office	Parent company	Ownership	Share of votes
Statkraft Invest AB	Malmö	Statkraft Energy Enterprise AS	100 %	100 %
Statkraft Markets AB	Stockholm	Statkraft Energy Europe AS	100 %	100 %
Statkraft Markets GmbH	Dusseldorf	Statkraft Energy Europe AS	100 %	100 %
Skagerak Energi AS	Porsgrunn	Statkraft Holding AS	66.62 %	66.62 %
Smøla Vind AS	Oslo	Statkraft Holding AS	100 %	100 %
Trondheim Energiverk AS	Trondheim	Statkraft Holding AS	100 %	100 %
Statkraft Markets Austria GmbH	Wien	Statkraft Markets GmbH	100 %	100 %
Statkraft Markets BV	Amsterdam	Statkraft Markets GmbH	100 %	100 %
Enita AS	Trondheim	Trondheim Energiverk AS	66 %	66 %
Trondheim Energiverk Fjernvarme AS	Trondheim	Trondheim Energiverk AS	100 %	100 %
Trondheim Energiverk Kraft AS	Trondheim	Trondheim Energiverk AS	100 %	100 %
Trondheim Energiverk Kraftsalg AS	Trondheim	Trondheim Energiverk AS	100 %	100 %
Trondheim Energiverk Nett AS	Trondheim	Trondheim Energiverk AS	100 %	100 %
Skagerak Kraft AS	Porsgrunn	Skagerak Energi AS	100 %	100 %
Skagerak Nett AS	Sandefjord	Skagerak Energi AS	100 %	100 %
Telekraft AS	Porsgrunn	Skagerak Energi AS	100 %	100 %
Numedalsverkene AS	Porsgrunn	Skagerak Energi AS	100 %	100 %
Grøner Veritech AB	Stockholm	Statkraft Grøner AS	100 %	100 %
Mias AS	Bærum	Statkraft Grøner AS	100 %	100 %
Enco AS	Bærum	Statkraft Grøner AS	100 %	100 %
Småkraft AS	Oslo	¹⁾		

1) Statkraft Holding, Skagerak Energi and Trondheim Energiverk each own Småkraft 16.67 %. It is considered that a controlling interest exists.

Shares in subsidiaries and associated companies that are considered to be of insignificant size for the Group are dealt with in accordance with the cost method in the consolidated accounts as well. This applies to all of the parent company's shares cf. Total (B), and the shares in the table below, Total (D) owned by other group companies.

Shares in associated companies

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

Name	Registered office	Ownership	Share of votes
BKK ¹⁾	Bergen	49.9 %	49.9 %
Agder Energi AS ²⁾	Kristiansand	45.5 %	45.5 %
Fjordkraft AS ³⁾	Bergen	3.2 %	3.2 %
Theun Hinboun Power Company Ltd	Laos	20.0 %	20.0 %
Sydkraft AB ⁴⁾	Malmö	44.6 %	43.4 %
Baltic Cable AB	Malmö	33.3 %	33.3 %
Istad AS	Molde	49.0 %	49.0 %
HEAS ⁵⁾	Hamar	49.0 %	49.0 %
E-CO ⁵⁾	Oslo	20.0 %	20.0 %

1) In 2002, Statkraft increased its stake in BKK from 26 % to 49.9 %.

2) In December 2002, Statkraft acquired 45.5 % of Agder Energi AS.

3) Fjordkraft AS is jointly owned by Statkraft SF (3.15 %), BKK AS (48.85 %) and Skagerak Energi AS (48 %), and is classified as a joint venture for the Statkraft Group. The company is dealt with in accordance with the equity method in the consolidated accounts.

4) In 2002, Statkraft increased its interest in Sydkraft to 44.6 %. Statkraft has an option to sell its interest to the majority owner E.On before 2005.

5) The ownership stakes in HEAS and E-CO are dealt with in accordance with the cost method as a result of the order to sell them.

Amounts in NOK million	BKK	Agder	Fjordkraft	THPC	Sydkraft	Baltic Cable	Istad	HEAS	E-CO	TOTAL
Opening balance	2 602	-	379	392	11 472	-	-	1 956	2 160	18 960
Acquisitions	3 224	4 487	-	-	3 451	206	365	-	-	11 733
Decrease in capital	-	-	-	-63	-	-	-	-	-	-63
Share of result	113	4	-88	43	678	3	6	17	94	871
Dividend	-87	-	-	-32	-783	-	-	-34	-	-936
Conversion differences	-	-	-	-72	-934	-14	-	-	-	-1 020
Total (C) Closing balance	5 852	4 491	344	268	13 884	195	371	1 939	2 254	29 545

Depreciated excess

value 2002	18	3	19	10	175	-3	13	18	-	253
Excess value										
31 December 2002	469	2 785	260	243	5 603	-41	184	750	-	12 253
Depreciable excess										
value 31 December 2002	651	2 452	260	243	3 874	-41	184	514	-	8 137

Shares in subsidiaries and associated companies dealt with in accordance with the cost method of accounting.

Amounts in NOK million	Registered office	Owner-ship	Share of votes	Book value
ScanEnergi AS	Herning	24 %	24 %	15
Energy Future Invest AS	Hamar	50 %	50 %	13
Other (balance below NOK 10 million)				36
Total (D)				63
Total (B+C+D) shows the Group's shares in associated companies and unconsolidated subsidiaries				29 749

NOTE 17 OTHER FINANCIAL FIXED ASSETS

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
1 003	629	732	Loans to associated companies	999	629	729
-	-	-	Loans to Group companies	35 106	18 657	15 127
346	660	1 157	Bonds and other long-term receivables	173	561	1 156
166	110	63	Pension fund assets	41	44	30
17	12	7	Other shares and interests ¹⁾	7	7	7
1 532	1 411	1 959	Total	36 326	19 898	17 049

1) Includes equity in Statkraft Pension Fund in the amount of NOK 5 million.

NOTE 18 RECEIVABLES

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
2 960	1 012	578	Accounts receivable	1 890	427	501
889	405	345	Accrued revenues etc.	266	268	283
160	68	29	Prepaid costs	42	41	26
5 232	2 198	88	Other receivables	4 587	1 828	273
-	-	-	Current receivables from Group companies	1 024	535	16
9 241	3 683	1 040	Total	7 809	3 099	1 099

Accounts receivable are recorded after provision for bad and doubtful debts. For Statkraft SF the provision was NOK 4 million for 2002. The corresponding figures for 2001 and 2000 were NOK 1 million and NOK 18 million, respectively.

Other receivables include NOK 3 931 million paid into the margin account with NordPool and NOK 512 million that represents option premiums for financial power contracts.

NOTE 19 INVESTMENTS

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
20	-	-	Money market fund	-	-	-
40	50	38	Shares – financial placements	-	-	-
157	213	112	Bonds	-	-	-
217	263	150	Total	-	-	-

Bonds by debtor category

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
36	74	26	Commercial/savings banks	-	-	-
7	10	9	Mortgage companies	-	-	-
28	18	5	Industry	-	-	-
86	111	72	Public sector	-	-	-
157	213	112	Total	-	-	-

All bonds are in NOK.

NOTE 20 BANK DEPOSITS, CASH AND CASH EQUIVALENTS

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
300	1 562	650	Certificates and promissory notes	300	1 562	300
1 218	3 582	1 864	Cash and bank deposits	424	2 618	762
-	1 757	-	Foreign certificates	-	1 757	-
1 518	6 901	2 514	Total	724	5 937	1 062

Restricted bank accounts for withholding taxes at source totalled NOK 75.5 million for the Group and NOK 23.3 million for Statkraft SF. Collateral accounts linked to power trading on the Power Exchange totalled NOK 198.4 million. Statkraft Group has long-term committed credit lines of up to NOK 2 850 million of which NOK 1 016 million was drawn down, and an overdraft facility of NOK 491 million.

NOTE 21 EQUITY

Amounts in NOK million	The Group	Statkraft SF
Equity as at 31 December 2002	25 250	25 250
Equity as at 31 December 2002	25 250	25 250
Retained earnings as at 31 December 2002	3 378	2 722
Net income for the year	2 307	2 130
Extraordinary dividend for 2001	-950	-950
Allocated to dividend 2002	-2 192	-2 192
Changes in accounting principles	-44	-47
Changes in conversions differences	-343	-
Other changes in equity ¹⁾	-336	-
Retained earnings as at 31 December 2002	1 820	1 663
Minority interests as at 31 December 2002	3 698	-
Net income for the year	171	-
Dividend	-77	-
Change as result of acquisitions	20	-
Changes in conversions differences	-38	-
Minority interests as at 31 December 2002	3 774	-
Total equity as at 31 December 2002	30 844	26 913

1) Refers to the net effect of income, changes in equity and interest on the payment in the period between the agreement date and the acquisition date of the shares in Agder Energi AS.

NOTE 22 PROVISIONS

The Group				Statkraft SF		
2002	2001	2000	Amounts in NOK million	2002	2001	2000
258	123	30	Pension obligations	46	20	15
2 243	1 445	162	Deferred tax	-	-	-
230	346	364	Other provisions	235	271	216
2 731	1 914	556	Total	281	291	231

Pension obligations are dealt with in Note 7, while deferred tax is discussed in Note 11.

Other provisions are mainly made up of foreign exchange gain recorded in the balance sheet. This arises from rolling over forward contracts in SEK that are used to hedge the investment in Sydkraft AB.

NOTE 23 INTEREST-BEARING LONG-TERM LIABILITIES

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
42 353	21 557	23 706	Bond loans	41 297	21 902	23 706
2 331	4 101	1 618	Liabilities to credit institutions	295	4 210	1 972
3 130	5 475	5 233	Other long-term liabilities	4 409	4 873	4 804
47 814	31 133	30 557	Total	46 001	30 985	30 482

Detailed specification of the above table:

Amounts in NOK million	2002	2001	2000
Government loans	1 700	2 125	2 550
Other long-term loans in NOK	29 654	14 284	12 545
Loans in SEK	11 912	11 796	10 176
Loans in Euro	-	-	2 921
Share of loan in Sira-Kvina Kraftselskap	26	31	36
Prepayments/accrued power sales	1 717	1 743	1 741
Loans from subsidiaries	992	1 006	513
Total Statkraft SF	46 001	30 985	30 482

The foreign exchange distribution in the above table takes into account the underlying currency and interest rate swaps.

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 when the loans were disbursed. The weighted average SEK/NOK exchange rate is 92.33. 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 6.5 % and for SEK 4.6 % at the end of the year.

Instalment schedule

Amounts in NOK million	2003	2004	2005	2006	2007	Rest	Sum
Instalment schedule Statkraft SF	1 501	2 760	5 752	5 650	14 708	15 630	46 001
Instalment schedule other group companies	136	484	154	1 762	144	-867 ¹⁾	1 813
Total for the Group	1 637	3 244	5 906	7 412	14 852	17 414	47 814

1) Includes, inter alia, currency gain on hedging debt in SEK, which has been recorded against equity in the Group.

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. The Storting (Parliament) has placed an upper limit of NOK 52.5 billion on the company's total loans and guarantee obligations. As at 31 December 2002 Statkraft SF's total loans and guarantee obligations amounted to NOK 48.8 billion.

NOTE 24 INTEREST-BEARING CURRENT LIABILITIES

Interest-bearing liabilities totalling NOK 729 million in the Group are comprised of certificate loans. In Statkraft SF there is also a provision for a group contribution of NOK 1 803 million.

NOTE 25 OTHER NON-INTEREST-BEARING LIABILITIES

The Group			Amounts in NOK million	Statkraft SF		
2002	2001	2000		2002	2001	2000
879	599	168	Accounts payable	160	191	141
707	357	165	Public duties payable	504	220	149
1 246	760	964	Accrued costs	923	635	899
1 015	322	116	Other non-interest-bearing liabilities	460	42	36
2 243	2 767	631	Dividend payable	2 166	2 690	631
-	-	-	Short-term liabilities to group companies	-	29	5
6 090	4 805	2 044	Total	4 213	3 807	1 861

In Statkraft SF other non-interest-bearing liabilities are mainly comprised of option premiums received for financial contracts.

NOTE 26 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 2002, such mortgage debt amounted to an aggregate NOK 2 095 million, while the book value of the pledged assets amounted to NOK 6 653 million.

Obligations and guarantee liability

The Statkraft Group has off-balance-sheet obligations and guarantees for a total of NOK 3 802 million while the corresponding figure for Statkraft SF is NOK 3 583 million. For Statkraft SF, NOK 64 million refers to projects, NOK 1 807 million to power exchange agreements, NOK 374 million to guarantees issued by the parent company, and NOK 959 million to rental guarantees. Furthermore, Statkraft has agreed to increase its stake and assume liabilities in Baltic Cable for a total of NOK 379 million. The subsidiaries have issued guarantees, mainly in respect of projects and power trading, for a total of NOK 104 million.

Statkraft leases office premises in Lilleakerveien 6, Oslo from Mustad Eiendom AS. 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. A provision of NOK 20 million has been made for future losses related to sub-leasing the premises.

NOTE 27 OFF-BALANCE-SHEET ITEMS

Forward contracts, foreign exchange

Currency			Market value
Amounts in NOK million	Bought	Sold	in NOK
EUR	188	160	11.6
SEK	10	4 221	222.0
DKK	-	13	0.2
USD	1	463	162.9
Total			396.7

The forward contracts mature between 2002 and 2010. 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 2002, the market value of the contracts was NOK 396.7 million. Realised, unrecorded gains on hedging contracts in foreign currencies totalled NOK 222 million at 31 December 2002.

Interest rate swaps

Currency			Market value in NOK
Amounts in NOK million	Total gross principal in currency		
NOK	39 692		-33
SEK	150		90
EUR	300		-110
CHF	400		
Total			-53

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 2002, the market value of the agreements was negative in the amount of NOK 52.6 million.

Interest and foreign exchange swaps

Currency			Market value in NOK
Amounts in NOK million	Total gross principal in currency		
From foreign currency to NOK	5 528		-792
From foreign currency to SEK	12 488		883
From foreign currency to USD	82		-22
Total			69

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 EUR, CHF, FRF, DKK, NOK and JPY. The market value of the agreements as per 31 December 2002 was NOK 69 million.

Options on loans and interest swaps:

At year-end, Statkraft had loans with options for repayment prior to maturity for a total underlying amount of NOK 3 382 million.

Interest rate exposure for Statkraft SF**Re-pricing (Amounts in NOK million)**

Re-pricing period					
Duration	0–3 mths	3–6 mths	6–12 mths	1–3 years	>3 years
Bank deposits	424	-	-	-	-
Funding, investments and derivatives	-10 745	-7 952	-1 155	-14 066	-9 695

(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.

Statkraft has an option to redeem a NOK 3 billion bond loan with floating yield in March or June 2003. If the option is exercised, the amount that is exposed to interest rate changes in the period 0-3 months or 3-6 months will be reduced accordingly.

Exposure by currency as at 31 December 2002

Currency	NOK	SEK
Modified duration ¹⁾	2.3	0.3
Modified duration ²⁾	2.6	

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

2) A possible redemption of the NOK 3 billion bond issue with floating yield in March or June 2003 will result in a rise in the duration for the rest of the portfolio.

NOTE 28 MARKET AND FINANCIAL RISK

In its business, Statkraft is exposed to various types of risk. The most important naturally enough relates 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. In this way, Statkraft endeavours to achieve long-term 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 revenue. Contract trading helps to stabilise Statkraft's revenues from year to year. This is desirable because of the great uncertainty that otherwise surrounds total revenues 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 considered good, in relation to existing power contracts, as well as to 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 revenue. 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 inflow are unknown. At the end of 2002, the company had sold in advance more than 40 % of mean production through to and including the year 2013. 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 %, it is estimated that net power revenue will be within +/- NOK 800 million in 2003, +/- NOK 1 300 million in 2004, and +/- NOK 1 200 million in 2005. 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. 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. The limit for maximum estimated annual change in the market value of foreign exchange positions is NOK 300 million. Estimates of changes in market value take into account how the exposures historically have varied against NOK.

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. The NOK portfolio shall have a modified duration between 1.5 and 3.5, while the SEK portfolio shall have a modified duration of between 0 and 1 year. For the most part, interest rate swaps are used to achieve risk-related goals.

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 creditworthiness is high, which is confirmed by the long-term credit ratings BBB+ and Baa2 from the rating agencies Standard & Poor's and Moody's Investor Service, respectively. As a result, Statkraft has good possibilities of borrowing in the Norwegian money market and in the bank market. Statkraft's policy is to have unrestricted liquidity of at least NOK 1 billion. Furthermore, drawing rights are used to secure access to short-term financing. The policy is to limit short-term borrowing to the sum of cash and cash equivalents and committed lines. Short-term financing is primarily used as bridge financing and not to cover long-term funding needs.

Credit risk

Statkraft assumes a credit risk by placing excess liquidity with issuers of securities and by using 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 possible 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 his obligations. The exposure was for the most part divided between foreign financial institutions with A ratings or better, and the major Nordic 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's insurance coverage is primarily channelled through its captive insurance company Statkraft Forsikring AS. Statkraft Forsikring AS assumes risks up to NOK 20 million per individual claim. The cost of damages above and beyond this are for the most part reinsured in the international reinsurance market. Tunnels and dams make the exception, where after a total evaluation of the risk the maximum damage per claim is set at NOK 400 million for dams and NOK 50 million for tunnels. Otherwise, Statkraft SF is covered against bankruptcies/corporate failures and insolvency on the part of Norwegian insurance companies through the government guarantee schemes for this type of company.

NOTE 29 OTHER ISSUES

Disputes

The Norwegian Water Resources and Energy Directorate (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 of the other work. Ryfylke County Court handed down a judgement in favour of Saudefaldene. Statkraft has appealed the ruling to the appeals court.

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

Translation from Norwegian

Auditor's Report for 2002

To the Corporate Meeting of Statkraft SF

We have audited the annual financial statements of Statkraft SF as of 31 December 2002, showing a profit of NOK 2 130 million for the Enterprise and a profit of NOK 2 478 million for the Group. We have also audited the information in the report of the Board of Directors concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit. The financial statements comprise the balance sheet, the 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 laws and regulations; they present the financial position of the Enterprise and of the Group as of 31 December 2002, 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 report of the Board of Directors 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 2003

Ernst & Young AS

Olve Gravråk

State Authorised Public Accountant (Norway)







Statkraft is a commercial company that neither expects nor wants preferential treatment. We would like to be considered on the basis of our success in terms of generating long-term added value for our owners. So far, as a state owned enterprise, Statkraft has had the advantage of a government guarantee when it has raised loans, as defined in the Act governing state owned enterprises. This has given the enterprise lower funding costs than similar companies. This preferential treatment ceased when the Storting (Parliament) amended the Act governing state owned enterprises in December 2002. Statkraft's scope of manoeuvre from a financial point of view is thus reduced inasmuch as its creditworthiness is impaired. Up to now government guarantees have compensated for Statkraft's relatively low equity ratio compared to our competitors in the European market.

Creditworthiness as a competitive factor

Creditworthiness is a competitive factor. Assessments of Statkraft's creditworthiness have a direct impact on the company's funding costs and in addition send strong signals to those around it. The Act governing state owned enterprises has now been amended so that loans issued by a state owned enterprise on or after 1 January 2003 are no longer guaranteed by the state. The Government will stand by its commitments for loans issued before that date, but for loans with an implicit government guarantee Statkraft will have to pay a guarantee premium to the state that reflects the benefits achieved when taking up such loans. The interest margin for new loans taken up by Statkraft will be higher than for old loans with a government guarantee.

Statkraft is working on a number of solutions that might increase the company's creditworthiness and thus strengthen its competitiveness. These efforts are taking place in close dialogue with the owner.



Possible solutions

There are a number of measures that can improve Statkraft's financial position and that will help the company's rating and funding costs. In the time to come, Statkraft must run its operations

more stringently. The activities that get the lowest priority can be scaled down. If Statkraft is to pursue its ambitions and goals, however, there is a limit to how much can be scaled down or divested. Any major sale of assets will therefore imply an adjustment of corporate goals. Statkraft can also postpone investments. But this could be disadvantageous to Statkraft vis-à-vis the competition in a situation where the market is undergoing massive change and the ownership structure in the sector is also changing.

A lower dividend ratio will improve the financial position because earnings will be retained and this will strengthen liquidity and equity. In this connection, it would be positive if the state were to follow the adopted dividend policy for Statkraft, namely 50 %. In addition, an injection of fresh capital must be considered.



Increased focus on debt servicing capacity and debt-equity ratio (gearing)

When lenders consider the risk inherent in granting a loan, they look very much at the company's liquidity, its debt servicing capacity and its capital adequacy. Companies build up capital adequacy and liquidity in part by retaining some of the profit they generate instead of distributing this as

dividends. The payment of dividends impairs a company's liquidity and reduces its equity. As sole owner of Statkraft, the Norwegian Government has decided how much Statkraft should pay in dividend. So long as the Government has implicitly guaranteed for loans issued by Statkraft, this has not been of decisive importance to Statkraft's scope of manoeuvre. Subsequent to the amendments to the legislation, the size of the dividend will have a significant impact on Statkraft's debt servicing capacity.

Another important element in assessing a company's creditworthiness is its capital adequacy or equity ratio. Statkraft's equity ratio at the beginning of 2003 stood at 34,5 %. A good rating from the rating agencies often requires an equity ratio

of about 60 %. The equity ratio of several of our competitors is at that level.



Credit rating

Creditworthiness is documented by way of formal ratings from acknowledged rating agencies. A credit rating also acts as a quality stamp as regards a company's attractiveness as a party to a contract and as a partner. The rating agencies Standard & Poor's and Moody's have assessed Statkraft's creditworthiness for loans with and without implicit government guarantees. Statkraft's long-term borrowings with an implicit government guarantee have been rated by Standard & Poor's as AA+ and by Moody's as Aaa. New loans raised by Statkraft without a guarantee will be rated BBB+ by Standard & Poor's and Baa2 by Moody's.

The table below shows Standard & Poor's and Moody's rating categories.

	Credit rating Standard & Poor's	Description	Credit rating Moody's
Acceptable risk	AAA	Lowest risk.	Aaa
	AA+	Very strong capacity for financial settlement on time.	Aa1
	AA		Aa2
	AA -		Aa3
	A+	Somewhat more susceptible to negative events and negative financial conditions than is the case in the classes above.	A1
	A		A2
	A-		A3
	BBB+	The financing of interest payments and securing of principal is currently adequate but some elements of security may be lacking.	Baa1
	BBB		Baa2
	BBB-		Baa3
High risk	BB+	Has somewhat more speculative characteristics.	Ba1
	BB		Ba2
	BB-		Ba3
	B+	The issuer is currently able to pay interest and instalments, but is vulnerable to negative changes.	B1
	B		B2
	B-		B3
	CCC+	Highest risk: Default is a clear alternative.	Caa1

Statkraft's efforts to become the European leader in environmentally friendly energy make co-operation with other companies necessary. These companies expect that Statkraft's creditworthiness is high, so that the inherent risk of entering into contracts with Statkraft is limited. Therefore,

obviously, the ability to demonstrate this through good ratings from the rating agencies is an advantage. Statkraft's ratings without a government guarantee are weaker than the ratings of many other European energy companies with whom it is natural for us to compare ourselves.

**Statkraft SF's values, culture,
competence and management**

*In 2002, Statkraft SF established
common core values for the
company that read as follows:*

"Adding Lasting Value"

*Our added-value model builds on
balanced pairs of values:*

- **consciousness and courage**
- **competence and commitment**

A value-driven business

Statkraft SF's four core values have been arrived at through an analysis of the company's distinctive historical characteristics, our distinctive characteristics today, and values suitable for the future. The values apply in commercial situations, in inter-human relations and in leadership. The process of creating core values that was implemented in 2002 involved a large part of the company's staff.

Statkraft is working systematically to securely root these core values in all employees, and to clearly illustrate their consequences, by, in part, engaging in discussions on practical dilemmas in each department. The basic values are a natural part of such processes as recruitment, introduction, leadership training, and skill development. The rooting of our core values in the different departments is measured through annual organisation and leadership surveys. In addition the managers' ability to be a role model for our core values is evaluated.

In this way, the values become a major management tool for strengthening our corporate culture by binding together sub-cultures into a single Statkraft identity.



Competence and culture

In addition to natural resources, competence is Statkraft's most important competitive factor. Statkraft has world-class expertise in trading and producing environmentally friendly energy. To maintain and further develop this competence, Statkraft is committed to a strong common culture that attracts and develops knowledgeable people. Cutting-edge competence alone is insufficient. In addition, all must pull toward a common vision and goals based on a strong core value platform.

Statkraft is developing leadership competence in four primary areas. The objective is that the areas in question can be quantified in Competence Accounts from the year 2004. This leadership programme illustrates accurately Statkraft's systematic approach to competence:

Training and process

- The ability to develop a company that is characterised by job satisfaction and development (social capital).
- A complete overview of our knowledge capital, both formal and real competence as a basis for knowledge distribution (knowledge capital).

Leadership

- The ability to apply our core values in practice through new appointments, introductions and development measures (organisational capital).
- Arranging incentive schemes that enable us to attract and keep employees and at the same time increase Statkraft's overall fulfilment of our goals (motivation capital).

Development

- The ability to implement processes of value-adding organisational change while at the same time maintaining core values and motivation (organisational capital).
- The further development of leadership competence at all levels in the organisation and the development of co-operation through networks, alliances, partnerships, and projects – both internal or external – and across divisional and corporate boundaries (relationship capital).

Performance Management

- The ability to link strategy processes, strategic goals and performance follow-up and to create enthusiasm and commitment (strategy capital/organisational capital).
- The ability to create correlation between the departments' plans of action and the individuals' goals and desires (strategy capital/collegial capital).

With 850 employees, Statkraft SF has a stable workforce that is well suited to the tasks to be carried out. The average age at Statkraft is 44 years, while the average age on the marketing side and the production side is 39 years and 46 years, respectively. Many of the older employees on the production side have been offered severance packages over the last few years. This is the main reason for the low percentage of workers who are over 60 years old.

The average seniority in Statkraft SF as a whole is 11.7 years but it varies a great deal from division to division. Turnover in Statkraft SF in 2002 was 2.1 %, which is somewhat lower than desirable. In future we will focus more on internal mobility between divisions and between skilled and management positions.

The percentage of female employees at Statkraft

is unsatisfactory. Women account for 21 % and with a stable workforce, increasing this percentage will take time. Statkraft SF is working especially to increase the number of women in leading positions, in part by giving qualified women priority to our management programmes.

As regards Board representation, Statkraft SF is satisfied with the current situation. Four of the eight Board members are women. (One seat on the board is vacant and will be filled in 2003.)

29 % of Statkraft SF's employees have higher academic education, 21 % are engineers or have some other college education, 35 % are certified in their craft or have completed technical school and 15 % have a general education. This composition of expertise is well suited for the assignments we have today.



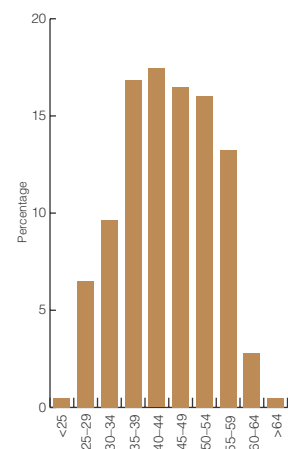
Management by objectives

Statkraft has a certified management system that ensures that our defined targets give results. A corporate scorecard is introduced at the Group level, which gathers information from the management systems in a Balanced Scorecard Model. The corporate scorecard is constantly being improved and fed with new aggregated information from underlying variables in ever better versions. Similar scorecards have been developed at divisional level.

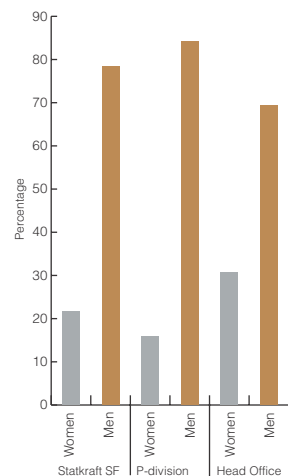
The basic scorecard information comes from all parts of the Statkraft Group and refers to central target figures. The corporate scorecard has as its starting point the main value-drivers that Statkraft has identified as the basis for the Group's aggregate added value. Only a balanced management of these value-drivers will enable Statkraft to realise its goals and visions. Statkraft is purposefully working on identifying good target figures. The above-mentioned competence accounting is one example of the development work that is constantly going on in this field.

The World Business Council for Sustainable Development (WBCSD) deals with the relationships between sustainability and the economic, environmental and social dimensions of activities. Statkraft wants to map the most important positive relationships between economic, environmental and social dimensions in order to realise the company's opportunities. This can be done, for example, by following the guidelines from the Global

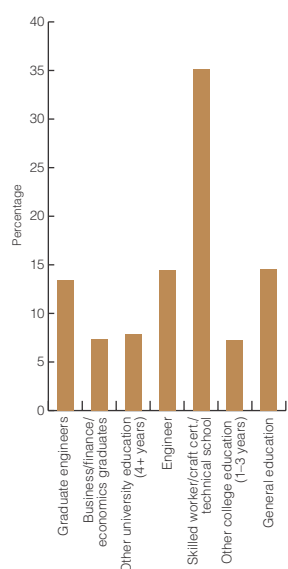
Age mix



Gender distribution



Composition of competence



Reporting Initiative (GRI) with a view to preparing triple bottom line accounts. Examples of how Statkraft's environmental and social activities contribute to economic values for the company are:

- The application of management parameters such as ethics, values and principles is assumed to have a strong impact on brand value and reputation. By running Statkraft according to ethical guidelines and with good core values – consciousness and courage, competence and commitment – we believe that our reputation is improved in the minds of the general public. It is believed that the brand name Statkraft, and especially certified renewable energy, will have a higher market value when we show our social responsibility by supplying clean energy.
- Placing a focus on accountability and transparency in Statkraft's reporting and management systems is expected to contribute to greater access to capital. When Statkraft reports on its activities in this way, our lenders' risks are reduced because there are no undisclosed circumstances relating to an assessment of the value of the company. Systematic openness creates trust and credibility, and Statkraft is perceived as a dependable, reputable company with an ability to create values in the future.
- Maintaining good workplace conditions is expected to give Statkraft benefits in the form of operational efficiency. When the employees thrive, they also do a good job. When the organisation is continually being developed, routines become more effective and processes better.



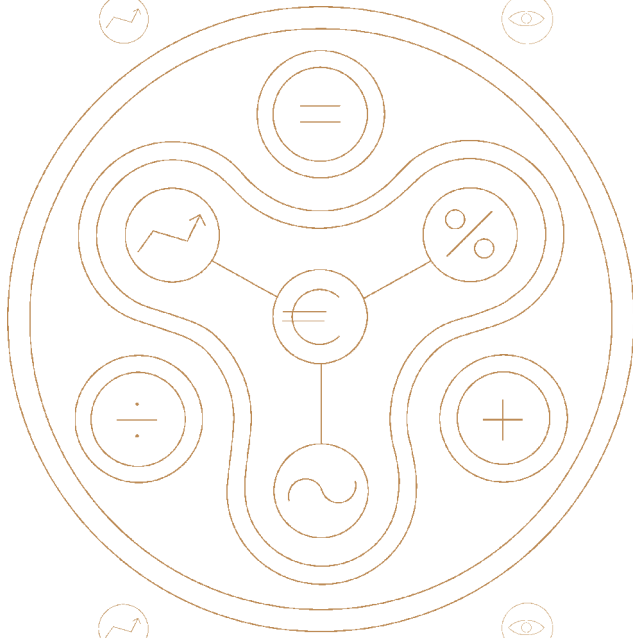
Organisation of Statkraft's Environmental Management

Statkraft's vision calls for a heightened consciousness about the environment in all parts of the organisation. Responsibility for environment-related issues is therefore closely integrated with the rest of the activities. The operative divisions, Production and Technology, have their own Environmental Advisers who take an active part in the ongoing work and contribute to integrating environmental issues into the company's existing and planned energy production. Each region has an Environmental Co-ordinator who ensures that environmental matters are taken care of in the day-to-day operations at the individual power station. In addition, the Production Division has a central unit that deals with environmental issues and co-ordinates Statkraft's considerable R&D efforts in environment-related topics. The Market Division is responsible for trading in environmentally friendly energy and for market analyses of related markets. Statkraft has a separate corporate staff with responsibility for the environmental management system and reporting. This Corporate Staff is also responsible for identifying and helping to realise improvement potential and is thus a co-ordinating support function for the operative units.

The following systematic review of Statkraft's added value seen from an economic, environmental and social perspective paints a picture of Statkraft's balanced approach to the creation of value and also gives a good impression of the value-drivers that are fundamental for the way in which the company is run.









Statkraft in a financial perspective

Statkraft shall create lasting value for our owners and shall be assessed on the basis of our performance and development. Lasting value is created in ways that are not always visible when analysing the company's ordinary financial statement. Statkraft intends to become a leading commercial player that exploits the market advantages inherent in our environmentally friendly portfolio. We give the market a choice by supplying environmentally friendly energy – today in the form of hydropower and wind power. Statkraft has a great deal of experience in the liberalised power markets, and we are working to further our leading position in energy optimisation and energy trading.

Despite great variations in power prices throughout 2002, Statkraft ended up with a result for 2002 that we consider satisfactory, and which was on a par with 2001 when adjusted for special revenues. The official accounts for 2001 were affected by significant one-time items so that comparison with those financial statements has limited relevance. We have therefore prepared accounts that are adjusted for one-time items in 2001. It is these adjusted accounts that we use in comparison. For Statkraft, what is most important after the acquisitions we have made over the last few years, is that we have more power production than ever and the company is a significant player in the Nordic market. In addition, Statkraft is to a greater extent involved in distribution grid and end-user operations. The real operating revenues rose by more than 37 %. Operating costs rose by 48 %, while net operating income rose by 28 % to more than NOK 5.4 billion.

The increase in revenues reflects Statkraft's growth and its ambitions in the Nordic market, and, in the long run, in the European market as well.



Capital adequacy and liquidity

Statkraft finances a large part of its operations by issuing loans in the financial markets. The possibilities of raising loans and the interest rates that must be paid are directly dependent on the lenders' evaluation of the risk inherent in the loans. Until the end of 2002, the Norwegian State guaranteed our long-term liabilities, for the most part bond loans. Because this guarantee does not apply to loans raised after 1 January 2003, Statkraft will be viewed in light of its own financial performance. First and foremost, the financial markets look at a company's liquidity, its debt servicing capacity and its debt-equity ratio.

Funds from Operations (FFO) interest coverage measures the capacity to service debt and shows the relationship between estimated cash flow from operating activities and interest costs. This figure has varied over the last few years from 2.0 to 2.6. It was 2.6 in 2002, and that is a level we are relatively satisfied with, taking into consideration the starting point for our financing. The company's long-term target is a figure of 4.5, which is essential if we are to achieve an A-level rating from the international rating agencies. This is a level that most of the large energy companies have.

In the course of the year the equity ratio fell to 34.5 % as a result of debt financing our large acquisitions. In addition, substantial withdrawals by the owner in the form of dividend reduced equity from NOK 32.3 billion at the beginning of the year to NOK 30.8 billion at the end of the year. An equity ratio below 40 % is unsatisfactory. Other energy companies have equity ratios up to 60 %, and that is necessary if one is to achieve an A rating. Limiting annual dividends to 50 % of net income for the year, as the board has recommended, would have a positive impact on equity. The investment level was high in 2002, in particular in acquisitions, where we invested almost NOK 16 billion. The high investment level reflects Statkraft's ambitions and calls for a strong equity position. Investments in own plants and operating assets in 2002 totalled approximately NOK 1 150 million. When Statkraft in the future commits to new environmentally friendly energy sources, such as wind power, a larger part of the company's investments will target these areas.

Unutilised credit facilities indicate Statkraft's ability to obtain capital in the short term. However,

unutilised credit facilities of NOK 1.8 billion was lower than the level over the last few years because some matured facilities are being re-negotiated.

Another important aspect of capital adequacy is risk management. The company's various risks – operational, economic and financial – are dealt with in Note 26 to the accounts.



Revenues and costs

Revenues rose from 2001 to 2002 because Statkraft acquired new capacity by buying Trondheim Energiverk (TEV) in 2002 and Skagerak Energi toward the end of 2001. Revenues vary from year to year depending on price movements and production levels. Much of Statkraft's production is tied to contracts at prices under market prices. These are contracts imposed by the Storting (Parliament) covering 17.9 TWh to power-intensive industry at an average 2002 price of NOK 0.107/kWh. In addition, licence power must be sold to municipal and county authorities at a price of NOK 0.089/kWh. Normally, licence power accounts for about 10 % of a power plant's production capacity. The industrial contracts run through to 2005–2010 and when they expire this power can be sold on the open market.

By far the majority of Statkraft's revenues come from the sale of hydropower. Our gross operating revenues vary depending on the inflow to the power plants, and power prices. Only 0.5 TWh of Statkraft's power production in 2002 was sold as specified renewable energy. However, Statkraft has certified about 10 % of its production capacity as renewable energy. Efforts to establish markets for green certificates are underway internationally, where renewable energy is expected to be sold at a premium in the future, compared to ordinary power. Statkraft has the potential to certify a large part of its production capacity if market conditions call for this.

Even though Statkraft has entered new business areas over the last few years by way of its acquisitions, the power production and power sales account for much of our revenue. In 2002, production and sales accounted for 80 % of gross revenues, while distribution grid operations accounted for 12 %, end-user operations 3 %, consultancy services 3 % and other activities 2 %.

Measured in terms of net operating income, power production and sales accounted for 93 %.

In 2002, cash flow from operations totalled more than NOK 2.7 billion. This is approximately the same as in 2001 and considerably better than in preceding years. Major bond issues supplied further net liquidity of some NOK 10.7 billion. In addition, at the beginning of the year the company's holding of cash and cash equivalents was NOK 6.9 billion. These substantial capital inflows provided the financial basis for the major acquisitions and investments totalling NOK 17 billion. Other short-term capital binding that had an impact on liquidity at the end of the year, including capital binding in favour of Nord Pool as a result of the high electricity prices, tied up NOK 2.7 billion.



Financial results and returns

Statkraft is managed in accordance with a number of ratios that reflect the return. They all show a rise over the last few years and in 2001 were at a level that we consider satisfactory, also after adjusting for the special revenues that were recorded. 2002 was just about as good as 2001. In 2001 and 2002, pre-tax return on equity was 12–13 %. This is satisfactory compared to the average of the European energy companies, where the return is in the 10–15 % range. Return on Average Capital Employed (ROACE) measures the return from operating activities and shows net operating income (EBIT) in relation to capital employed. The pre-tax ROACE was a satisfactory 12.3 %. We consider 10 % to be the lower limit for a satisfactory level.

For several years, Statkraft's operating margin has been about 40 %, but in the last two years it rose to about 50 %. This is the level that must be reached if the return is to be satisfactory. Statkraft's operations are extremely capital intensive and much of the costs are fixed. The operating margin will therefore first and foremost be influenced by the revenue side and is therefore very sensitive to power price movements.

The levels of returns show that Statkraft has a potential of building up a stronger equity base from its own operations, assuming a reasonable payout ratio.

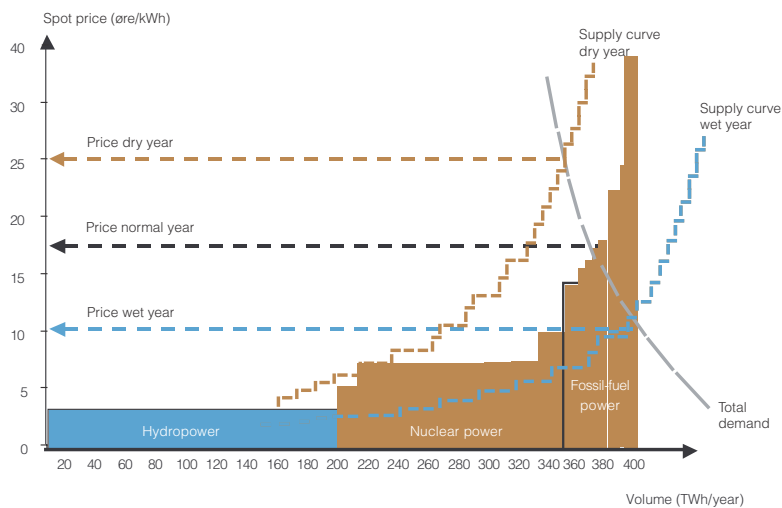


The market

Statkraft's business concept, strategy and plans have an international perspective and are directed beyond the borders of the Nordic area. Our primary market today is the Nordic area with sales over the Nordic Power Exchange (Nord Pool). In 2001, Statkraft's share of the Nordic market was about 9 % of power production, a share that has risen somewhat over the last few years. Nordic power production and power consumption varies a great deal from year to year. Consumption normally varies because of fluctuations in temperatures, but we saw in the last few months of 2002 and the beginning of 2003 that consumption also can vary with the price level. Power consumption was 2.3 % lower in 2002 than in 2001. Even so, consumption was 4.7 TWh higher than production. Norway's and Sweden's estimated power deficit is 9 and 5 TWh, respectively (cf. Statnett), even in a year with normal production. By and large this must be imported from the Continent.

Since environmentally friendly energy, for the most part hydropower, accounts for a large part of the power produced in the Nordic region, precipitation in the year will have an impact on total production. Total production in the Nordic region in 2002 was 379.1 TWh, down 7.9 TWh or 2.0 % compared to 2001.

Price determination in the Nordic region – volume sold and average prices on annual basis



The chart above shows supply and demand for energy. At market equilibrium, where supply and demand are the same, the prices are determined. With capacity restrictions on environmentally friendly Norwegian hydropower, for example in a very dry year, we see that prices rise and open for a larger share of non-renewable and polluting energy production. For example, we see that when the spot price exceeds NOK 0.10/kWh, an element of fossil-fuel-fired energy comes in.



Statkraft's power production and power sales

In 2002, Statkraft produced 48.8 TWh in the Group or about 7.3 TWh more than mean production and 13.7 TWh more than in 2001. About 6.6 TWh of the production was from acquired companies. Seasonally, our production was high at the beginning of the year. Nevertheless, because of the high inflow of water in the first half of the year, Statkraft's water reservoir levels at the beginning of the dry autumn were normal for that time of the year. We could therefore maintain a relatively high production level during the period when demand was heavy. Naturally, this resulted in lower water levels in the reservoirs. However, we received a good price for the power we sold at the end of the year.



Taxes

In 2002, Statkraft's tax burden totalled NOK 1 620 million. The tax rate was 39.5 % and varies a great deal from year to year. Statkraft is subject to special rules that apply to power company taxation. The rules came into effect from 1997. We must therefore deal with four different types of tax: property tax, natural resource tax, resource rent tax and income tax. The two first are paid to the host municipalities, while the other two are national taxes. In addition, power companies pay licence fees and supply discounted licence power to local and county authorities.

The following issues are dealt with in Note 28: foreign exchange risk, general risk management, dealing in derivatives for hedging and trading, interest rate risk, liquidity risk, credit risk and insurance risk.

key figures

The Group	Unit	2001						
		2002	adjusted*	2001	2000	1999	1998	1997
Income statement								
Gross operating revenues	NOK mill.	10 889	7 942	10 394	5 285	5 601	5 314	5 353
Operating income/EBIT	NOK mill.	5 476	4 273	6 725	2 178	2 174	2 198	1 998
Result from associated companies	NOK mill.	871	1 054	1 054	729	442	315	225
Net financial costs	NOK mill.	2 249	1 210	1 210	1 142	925	882	976
Pre-tax income	NOK mill.	4 098	4 117	6 569	1 765	1 691	1 631	1 277
Net income for the year	NOK mill.	2 478	2 577	4 342	847	947	890	1 238
Result	NOK mill.	2 192	3 640	3 640	631	600	309	-
Balance sheet								
Cash and cash equivalents	NOK mill.	1 518	6 901	6 901	2 514	1 299	1 796	751
Equity	NOK mill.	30 844	30 561	32 326	21 742	21 503	17 322	16 669
Total assets	NOK mill.	89 375	69 529	71 294	55 778	47 067	42 430	40 075
Key ratios - Income statement								
Operating margin ¹⁾	%	50	54	65	41	39	41	37
FFO interest coverage ²⁾	%	2.6	2.6	3.5	1.9	2.4	2.6	2.1
Tax rate	%	39.5	37.4	33.9	52.0	44.0	45.4	3.1
Key ratios - Balance sheet								
ROACE before tax (possible new under evaluation) ³⁾	%	12.3	12.9	19.8	7.6	7.3	7.3	7.1
ROACE after tax (possible new under evaluation) ⁴⁾	%	7.3	7.2	12.2	3.3	3.9	4.0	6.0
Return on total assets after tax ⁵⁾	%	6.5	6.3	9.8	4.7	4.7	4.7	6.1
Return on equity before tax ⁶⁾	%	13.0	13.1	24.3	8.2	8.7	9.6	8.2
Return on equity after tax ⁷⁾	%	7.8	8.2	16.1	3.9	4.9	5.2	7.9
Equity ratio ⁸⁾	%	34.5	44.0	45.3	39.0	45.7	40.8	41.6
Unutilised drawing rights	NOK mill.	1 834	2 700	2 700	2 700	2 100	2 000	1 800
Long-term rating - Standard & Poor's		BBB+	AA+	AA+	AA+	AA+	AA+	AA+
Long-term rating - Moody's		Baa2	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
Cash flow								
Cash flow from the year's operations	NOK mill.	2 744	2 611	4 376	1 043	1 407	943	1 182
EBITDA	NOK mill.	6 966	5 230	7 682	3 027	2 973	3 028	2 822
Investments								
Investments in ownership interests	NOK mill.	15 850	4 767	4 767	9 145	6 861	723	726
Investments in fixed assets	NOK mill.	1 150	370	370	266	165	221	359
Personnel								
Man-years	Number	2 370	2 035	2 035	1 276	1 430	1 535	1 400
Figures from production and sales**								
Production, annual mean***	TWh	41.5	37.9	37.9	33.2	33.2	32.9	32.9
Production, actual***	TWh	48.8	35.1	35.1	40.2	32.5	32.4	27.5
- Hereof industrial contracts and licence power at fixed prices	TWh	21.5	20.8	20.8	19.8	18.6	20.1	17.9
- Hereof power with green certificates	TWh	0.5	-	-	-	-	-	-
Installed generator capacity	MW	12 168	10 160	10 160	8 815	8 800	8 700	8 700
Reservoir capacity	TWh	39.5	37.5	37.5	33.9	33.1	33.1	33.1
Wholly and partly owned plants	Number	152	132	132	93	91	91	86
Figures from other segments (Statkraft Alliance)								
No. of end-user customers	1 000	567	460	460	-	-	-	-
Number of network customers	1 000	575	445	445	-	-	-	-
Distribution grid	Km	59 100	52 200	52 200	-	-	-	-
Market figures								
Share of production in the Nordic market	%	12.9	9.1	9.1	10.4	8.6	8.6	7.5
Macroeconomic figures of importance to Statkraft								
Power consumption in the Nordic market	TWh	383.8	393.0	393.0	384.0	376.0	376.0	366.0
Power production in the Nordic market, actual	TWh	379.1	387.0	387.0	386.0	377.0	378.0	365.0

* Adjusted for one-time compensations for termination of power exchange agreement and imposed stop on hydropower projects.

** Norwegian part of the Group. Shows volume available for own sale. Statkraft owns a total of 42.1 TWh.

*** After pumping and losses.

$$1) \frac{\text{Operating income} \times 100}{\text{Gross operating revenues}} \quad 2) \frac{\text{Operating income} + \text{financial revenues} + \text{depreciation} + \text{dividends from associated companies} \div \text{taxes payable}}{\text{Financial costs}}$$

$$3) \frac{\text{Operating income}}{\text{Average (equity} \div \text{investments in associated companies} \div \text{cash and cash equivalents} + \text{interest-bearing liabilities)}}$$

$$4) \frac{\text{Net income for the year} + (\text{net financial items} \times 0.72) \div \text{result from associated companies}}{\text{Average (equity} \div \text{investments in associated companies} \div \text{cash and cash equivalents} + \text{interest-bearing liabilities)}}$$

$$5) \frac{(\text{Net income for the year} + \text{financial costs}) \times 100}{\text{Average total assets}}$$

$$6) \frac{\text{Pre-tax income} \times 100}{\text{Average equity}}$$

$$7) \frac{\text{Net income for the year} \times 100}{\text{Average equity}}$$

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

Green certificates

Why?

- A green certificate market in Norway will promote investments in new renewable energy.
- Statkraft stands ready to develop more production from renewable energy sources.
- Statkraft is committed to developing new renewable energy technologies such as salt power, tidal power and hydrogen.
- Today's framework conditions, support schemes and electricity prices do not make the sale of green certificates profitable.

How?

- In a certificate market producers of renewable energy issue green certificates that are equivalent to the volume they supply to the grid.
- Energy consumers are obliged to purchase a certain amount of green certificate as part of their consumption.
- The electricity is sold in the ordinary power market, the certificates are traded financially.
- Green certificates are currently being traded in the RECS scheme (Renewable Energy Certification System).

Statkraft recommends that:

- Norway introduces a technology-neutral obligatory green certificate market that can be linked to a future international certificate market.
- Norway and Sweden establish a common Norwegian-Swedish market for green certificates that can later be extended.
- Norway negotiates an association agreement to the EU's directive on electricity production from renewable energy sources as soon as possible.



Markets for green electricity

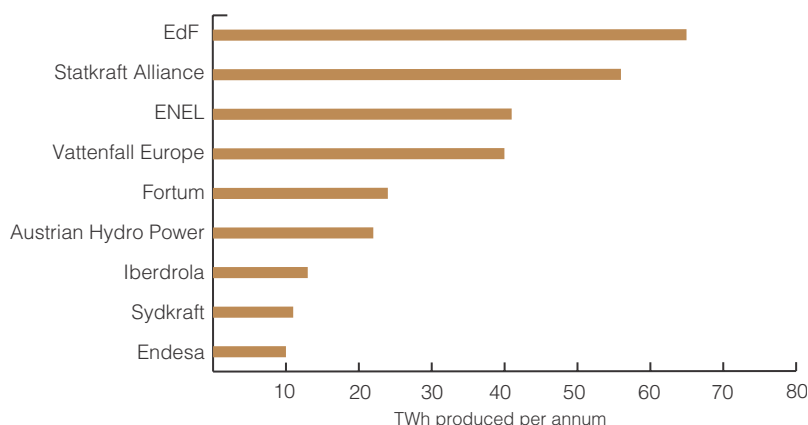
Green certificates are entering the arena and countries such as Sweden, the U.K., the Netherlands, Belgium, Italy and Austria have already decided to introduce green certificates. Should Norway follow Europe and negotiate a participation agreement in the EU's directive on energy production from renewable energy sources (RES Directive), the increased demand for green certificates would stimulate the development of more renewable energy. The effect of this on the environment would be of importance to society, not only nationally but also internationally.

The Storting (Parliament) debated the introduction of green certificates in March 2003 as part of Report to the Storting no. 9 (2002–2003) – On domestic use of gas. The Storting (Parliament) unanimously voted in favour of introducing obligatory green certificates. The Government will

report on the green certificate scheme by the spring of 2004. The scheme will probably come into effect 1 January 2005.

Statkraft is working systematically to have the production environmentally certified in accordance with international standards. Such certification will increase the value of our products in an international market for documented environmentally friendly energy.

Production of renewable power in 2000 (Statkraft Alliance 2002)



Target: eco-labeled electricity

- Statkraft will offer eco-labelled electricity and contribute to such electricity being appreciated more than electricity from other energy sources.

Statkraft SF's sales of renewable power with green certificates are primarily in the hands of Statkraft Markets Continental, SMC, in the Netherlands, which has come farthest in green certificate trading. In 2002, about 184 GWh of Statkraft's potential green certificate production was sold as green certificates, somewhat less than the produced volume. The difference is due, in part, to Baltic Cable, the main transmission cable from Scandinavia to the Continent being damaged by a vessel, putting it out of operation for a period of one and a half months. In all, SMC sold about 2 TWh in 2002.

In 2002 Statkraft produced a total of 0,5 TWh specified renewable energy with green certificates. The production was divided between Statkraft SF and Skagerak Energi with approximately half on each company.

Within the Renewable Energy Certification System (RECS) a total of about 14 TWh was sold in 2001–2002, 13 TWh more than the target figure. 15 countries participated in this trial period, 10 more than the target.

Statkraft estimates that its own potential production increase through upgrading and expansion of hydropower plants with low levels of environmental conflict is some 2.5–3 TWh. Many projects could be realised with contributions from the sale of green certificates at NOK 0.05–0.10/kWh.

Statkraft's goal is to realise 2 TWh wind power in Norway by the year 2010. The first stage of Smøla

Wind Farm (40 MW) was put into production in September 2002, and Statkraft is planning to start stage II at Smøla (110 MW) and Hitra (56 MW) in 2003. Total production at Smøla is estimated at 0.45 TWh, while at Hitra production is estimated at 0.15 TWh. Statkraft is working on nine other wind power projects in Norway that together represent a total installation of about 700 MW and an aggregate production of about 2 TWh.

Society's goal of reducing emissions of greenhouse gases means that the authorities in an increasing number of countries will stimulate an increase in the use of environmentally friendly energy. Fossil fuels in particular will be subjected to the measures decided in the Kyoto Protocol. Climate quotas and CO₂ duties are examples of the means that increase the competitive advantages of pure, renewable energy. Statkraft is Europe's second largest company in renewable energy and with its long experience in the liberalised power markets, the company is well positioned to be a major player in this growing market.







Statkraft in an environmental perspective

Statkraft's vision is to become a European leader in environmentally friendly energy. This vision gives the guidelines for the Statkraft Group's total operations and forms the very foundation that supports our environmental efforts. Statkraft, together with its partners, is Europe's second largest producer of renewable energy. Our portfolio is made up of 100 % clean and renewable energy.

Nevertheless, in terms of total energy production Statkraft is a small company compared to our European competitors. This is because the competition produces a large amount of thermal power. However, the trend is very clear: polluting power must give way to more environmentally friendly solutions.

Statkraft's energy production represents one of Europe's most environmentally friendly alternatives. Hydropower and wind power, alone or in combination, provide better environmental conditions for nature and the urban environments than do the alternatives. Hydropower and wind power's environmental performance is very good, especially with regard to the creation of negative cross-border effects such as air pollution and climatic impact. As regards the local impact, such as the effect on the individual watercourse or the visual impact of wind farms, these technologies perform more poorly in some ways. When the impact is viewed in total, hydropower and wind power score far better than coal, oil and nuclear power. Minor local encroachments can often be remedied and Statkraft is continually working on improving the individual power plant's environmental performance.

Key figures – the environment

	2002	2001
Hydropower	48.6	35.1
Wind power	0.2	0
Total production	48.8	35.1

All figures in TWh.



Environmental goals in Statkraft SF

1. Statkraft shall supply eco-labelled electricity

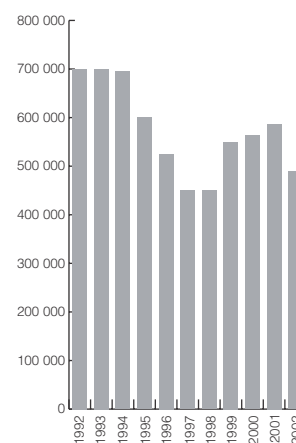
- Statkraft sold green electricity through the green certificate scheme (RECS) in 2002. In this way, Statkraft participated in the realisation of a European market for environmentally friendly energy
- In November 2002, Statkraft and the Dutch company Nuon signed a co-operation agreement that may secure further wind power development at Smøla and Hitra. Over the next 15 years, Nuon will purchase green certificates that will be issued in respect to the two planned wind farms. Statkraft holds a licence to further develop Smøla (stage II) and to build a wind farm at Hitra.
- In 2002, a separate Environmental Product Declaration (EPD) was prepared for Trollheim Power Plant. This gives the customers verifiable and comparable information of the environmental impact of power purchased from Trollheim Power Plant. Emissions and discharges to the environment from Trollheim Power Plant can be added to emissions and discharges from other industrial processes when these are calculated in the same way. The declaration that has been prepared complies with ISO 14040-43 and ISO 14025. Similar product declarations will be prepared for other power plants if the market so requests.
- Statkraft is on the executive committee of the Foundation for Norwegian Environmental Product Declarations, organised by the Confederation of Norwegian Business and Industry (NHO). The goal is to implement standardisation in accordance with ISO 14025 and to initiate a spread of environmental declarations.

2. Statkraft shall take the lead in developing and applying environmentally proper energy production solutions

- A major project was initiated in 2002 for optimising hydropower production in relation to the market, technology and the environment. The project shall develop decision bases and decision models for environmentally adapted hydropower production.

- Statkraft carried out biotope-adjusting measures in the following rivers: Sima, Jondalselvi and Austerpollelvi. The enhancement measures were carried out in association with local authorities and included efforts to improve sports angling and encourage walking/hiking. The requirement to release fish fry and smolt into the River Sima has been waived, temporarily, as a result of this work. A proposal has been made to waive requirements to release fry and smolt at five other locations.
- As a biotope regulating measure, spawning gravel was laid in Bjornesfjord and Bjoreio in 2002.
- Statkraft is working with the Norwegian Foundation for Scientific and Industrial Research (SINTEF) on advanced watercourse simulation where different habitat models are analysed for large-scale river systems. The purpose is to predict effects and ensure that the biotope adjustment measures work as they are intended to, ecologically as well as from an economic viewpoint.
- Today, releasing smolt and fry is one of the most common ways of remedying the lack of natural recruitment of fish in regulated watercourses. In 2002, Statkraft released 490 000 fish at just less than 100 locations. This is somewhat less than in the three preceding years and is mostly a result of better natural recruitment.
- In 2002, separate environment plans were also prepared for all development projects and all major rehabilitations that are planned. Statkraft opened the wind farm at Smøla. This plant has been constructed in an area where nature is vulnerable. A special environment plan was made for this project so that the negative environmental impact of the construction was reduced to a minimum. The environment plan covers the natural environment, agriculture, the cultural heritage, noise pollution, and outdoor recreation. Furthermore, systematic post-construction surveys are planned that will map the plant's impact on the local environment and fauna at Smøla.
- Statkraft is heavily committed to salinity power, tidal power and hydrogen.

Releasing smolt and fry



3. Central and local government administration, political decision-making powers and the market shall perceive Statkraft as a competitive and reliable environmental company

- Statkraft has established a communication plan with clear communication goals and will regularly take steps to introduce improvement measures.
- In 2002, when working on new projects, Statkraft involved important interested parties in the planning at an early stage. This helps to ensure that important environmental aspects are identified and taken care of in an acceptable manner when the projects are under planning.
- Statkraft has registered its own facilities in a geographic information system (GIS). These registrations are an aid that can assist host municipalities in their planning processes. Statkraft has provided assistance in the preparation of a local energy plan for Vinje Municipality.
- To encourage outdoor recreation, access and construction roads are maintained to a high standard and snow is cleared to provide the general public access to important touring country.

4. Statkraft is very conscious of and open about the environmental consequences of its operations

- Environmental breaches as a separate indicator are included in the corporate scorecard in 2002. This has ensured that undesired environmental incidents and breaches of manoeuvring regulations are registered and followed up. Attitude-building efforts create openness with regard to negative incidents, while at the same time establishing the fact that breaches of manoeuvring regulations are serious and undesired. These efforts have generated good results.
- In 2001, all power plant groups assessed the environmental aspects of their own operations. Local action plans were developed for 2002. This work has been evaluated and local training of all employees is being planned based on the experience gleaned from this work so far. Statkraft has included information on biological diversity in its environmental training programmes for the power plant groups.
- Routines for handling waste in the day-to-day operations were implemented in 2002.
- A common electronic substance index was estab-

lished in 2002 covering all of Statkraft's operations. This provides us with an indication of all the hazardous substances that are stored and used in our business. This overview then forms the basis for ongoing clearing out and replacement of substances that are hazardous to health or the environment.

- To ensure an adequate follow-up of important cultural values linked to its own power plants, Statkraft has participated in the steering group for "Protection plan for power plants" under the auspices of the Norwegian Water Resources and Energy Directorate (NVE), and it has prepared a report entitled "Technical cultural heritage at Statkraft".



Breaches of manoeuvring regulations

Statkraft practices full openness with regard to its compliance with current manoeuvring regulations. Our goal is clear – licence terms shall be complied with. However, in 2002, Statkraft experienced seven minor deviations in manoeuvring regulations. None of them had any long-term environmental impact. The incidents have been reviewed and analysed and they have brought to light potential weaknesses in routines and measuring equipment. These matters have been dealt with. At the same time, the internal follow-up of such incidents illustrates an absolute need for accountability in relation to external framework conditions. The incidents have therefore helped to reduce the risk of future breaches.



Other environmentally related measures

In 2002, Statkraft recorded four other environmental deviations comprising minor spillages of petroleum products where damage was limited. These four are included in the Statkraft Group's scorecard, together with the seven breaches of manoeuvring regulations. Scheduled risk analyses of oil spills at all plants were not carried out in 2002. The fish gene bank at Bjerka suffered an outbreak of *Gyrodactylus salaris* on 15 January 2002. Reference is made to Statkraft's Sustainability Report for a complete list of environment-related breaches and deviations.



Accounting of environmentally harmful substances

For several years, Statkraft SF has prepared accounts of environmentally harmful substances in order to have control of consumption, stocks and shrinkage of various products. These accounts also document the amount of special waste that is delivered to approved sites. The accounts include all power plant groups, and cover oil products, fuel, chemicals and gases.

In 2002, shrinkage of oil products and gases were 1 700 litres and 60 kg respectively. These figures include both leaks and de-gassing. Statkraft SF considers its shrinkage to be too high and is actively seeking to minimise this shrinkage as much as possible.

Reporting routines for the environmentally harmful substance accounts are still being established and will be further improved to achieve better data quality.

Key figures – environmentally harmful substances

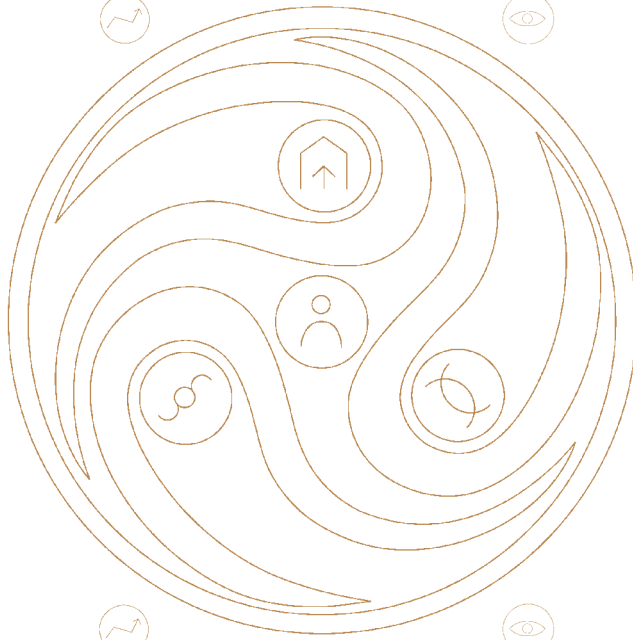
	2002	2001	2000
Shrinkage of oil products	1 700 litres	1 900 litres	4 100 litres
Fuel consumption	160 000 litres	270 000 litres	280 000 litres
Consumption of chemicals	13 100 litres	*	1 400 litres
Shrinkage of gases	60 kg	90 kg	240 kg
Special waste	126 tonnes	*	*

* No figures available

Reported use of chemicals was significantly higher in 2002 than in 2000. This is mainly due to improved reporting routines as a result of the establishment of the electronic substance index.









Statkraft in a social perspective

Statkraft's business involves managing society's common resources. Accountability, efficiency and a long-term perspective are key words in our approach to this management role. Our overriding goal is to generate lasting added value for the future, for Statkraft and for society in general. We are also very conscious of our responsibility as a social player in local, national and international arenas.

Based on hydropower and wind power, Statkraft builds and maintains facilities for the production of environmentally friendly energy.

The plants are a major part of Norway's infrastructure and are decisive for our country's power supply. Statkraft also has unique competence in environmentally friendly energy, and every year we allocate substantial sums for research and development relating to core competence. We believe that this is an investment in our common future.

We are very aware of the fact that our activities have an impact on the surroundings, and we actively and responsibly comply with the framework conditions set by society. At the same time, we help to solve a number of social tasks through the dividend that the Government withdraws and the substantial taxes we pay to the Government and to our host municipalities. As one of Norway's largest companies, Statkraft has a large number of employees, and we do our utmost to be a secure and attractive employer. Statkraft has a social role to play in Europe as well. We contribute to more environmentally friendly energy consumption that will have a positive impact on people's health, especially in and around the big cities.

Statkraft emphasises the need for a good dialogue with the local communities that are affected by our business. Our experience is that a close dialogue with local interested parties in the planning stage of new projects results in better solutions for the environment and the local community alike. We also work closely with the local authorities and organisations in the operational stage so that we can take care of outdoor recreation and other social interests.

Statkraft wants to contribute to the breadth of cultural and social life. That is why we have chosen to sponsor both local and national institutions, groups, individuals, and arrangements.



Social audit and value added statement

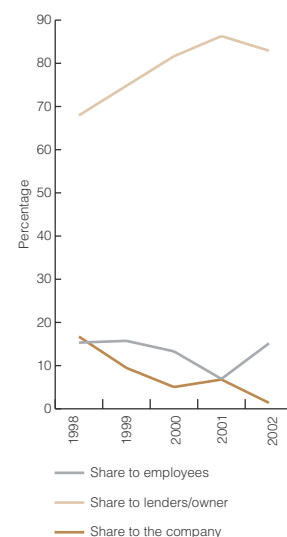
The social audit shows that the added value generated is returned to society, in part as salaries and social benefits to the employees, in part as taxes and levies, and, to an increasing extent, as dividend distributions to our owner and interest payments to our lenders. In addition, the difference between the market price and the contract price for electricity supplied to industry on terms set by the authorities is a social contribution.

The added value table shows a decline in figures from 2001 to 2002. This is because significant one-time compensations were taken to income in 2001. If we adjust for these items, added value

rose in 2002. The rise was a result of expansion through our acquisitions of interests in other companies. This applies first and foremost to the new subsidiaries Skagerak Energi and Trondheim Energiverk (TEV). The result from current operations in the rest of the Group was by and large at the same level in 2002 as it was in 2001.

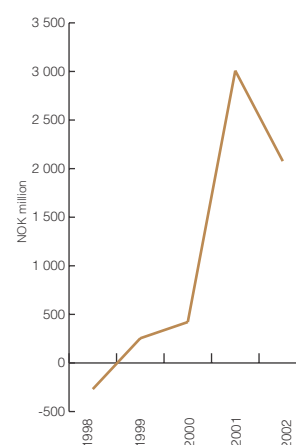
As much as 83 % of the value added in 2002 was distributed to lenders/owners or paid as taxes/duties. The distribution to lenders accounted for 33 %, reflecting the fact that the large acquisitions over the last few years were debt financed. 50 % of the value added, or more than NOK 4 billion, went to central and local authorities in the form of dividend and taxes/duties, about 50 % for each category. 15 % of the value added went to employees, illustrating that Statkraft is a capital-intensive company. Only 1.4 % was retained by the company as increased equity.

Distribution of value added



VALUE ADDED (NOK MILLION)	2002	2001	2000	1999	1998	1997
Gross operating revenues	10 889	10 394	5 285	5 601	5 314	5 353
-Consumption of goods and services purchased	2 309	1 750	1 419	1 798	1 495	1 458
Gross value added	8 580	8 644	3 866	3 803	3 819	3 895
-Ordinary depreciation	1 490	957	849	799	830	824
Net value added	7 090	7 687	3 017	3 004	2 989	3 071
+Financial income	535	650	426	210	156	217
+Result from associated companies	871	1 054	729	443	315	255
-Minority interests	171	70	6	1	3	10
Value added for distribution	8 325	9 321	4 166	3 655	3 457	3 533
Distribution of value added						
Employees						
1. Gross salaries and social benefits	1262	645	554	575	530	396
Lenders/owner						
1. Interest	2 783	1 860	1 568	1 135	1 038	1 193
2. Dividend	2 192	3 640	631	600	309	-
3. Taxes and levies	1 973	2 544	1 202	999	1 002	716
The company						
1. Change in equity	115	632	210	346	578	1 228
Total distributed	8 325	9 321	4 166	3 655	3 457	3 533

The difference between dividend and change in equity



As part of the framework conditions for its operations, Statkraft must supply power at a discounted price that is determined by the Storting (Parliament) to power-intensive industry and as licence power to local authorities. For Statkraft SF these supplies account for 60 % of normal pro-

duction capacity. The difference between the market price at which this power could have been sold and the lower contract price is a significant social contribution.

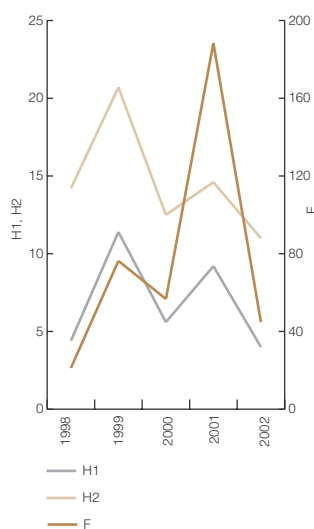
Industrial and licence power*	2002	2001	2000	1999	1998	1997
Market value	4 241	3 847	2 139	2 371	2 444	2 460
- Revenues	2 113	2 225	2 094	2 105	1 992	1 973
Social contribution	2 128	1 622	45	266	452	487

* All numbers are Statkraft SF only.

This table presents Statkraft SF's 10 largest municipal recipients of tax and our total tax contribution to Norwegian municipalities (amounts in NOK million).

Municipality	2002	2001	2000	1999	1998
Vinje	66.0	64.5	65.6	65.3	64.6
Hemnes	59.2	59.0	57.2	57.4	60.1
Rana	49.0	48.4	48.8	49.5	51.2
Suldal	47.0	48.5	60.2	59.1	60.1
Tokke	36.1	35.1	42.7	42.3	42.6
Eidfjord	33.4	33.5	36.6	36.7	37.7
Narvik	29.7	29.0	31.9	32.0	32.5
Nore og Uvdal	29.3	28.7	27.7	27.4	27.3
Luster	28.9	28.4	38.1	35.9	35.9
Meløy	27.6	26.2	32.8	33.7	41.7
Total, 10 largest municipal tax recipients	406.2	401.3	441.6	439.4	453.6
Total, all municipal tax recipients	812.1	807.9	868.2	856.8	880.5

Injury frequency, the Group



The figures show a good development for 2002 for injuries with and without lost time. Statkraft's H1 factor was 4.0 in 2002, compared to 9.2 in 2001.



Statkraft's internal social responsibilities: Health and safety

Over the last few years, Statkraft has done a great deal in the field of health and safety, and the company has had a very positive development in this respect. Several measures taken have made positive contributions, not least that leaders at all levels have clearly focused on attitudes. Other actions include continual improvement of routines, courses in work safety and an improvement in security routines.

Target: injury frequency

- Statkraft's long-term goal is zero injuries in the company's operations. The production division's target for H1 is 5.0 in 2003 while it was 10.0 in 2002.

Statkraft's target for the H1 factor is defined as the number of injuries with lost time per million hours worked.

The purpose of the figure is to illustrate the rate of injuries in the company. Statkraft's overriding principle is that injuries cannot be tolerated and the long-term vision is to avoid all injuries in Statkraft's operations. In 2002, the H1 target for Statkraft SF's production division was 10.0. The result was 6.8 compared to 11.7 in 2001. In all, the Statkraft Group's H1 factor in 2002 was 4.0 compared to 9.2 in 2001.

The chart also provides data on the H2 and F factors. The H2 factor is defined as the number of injuries with and without lost time per million hours worked, while the F factor is defined as the number of lost days per million hours worked.

Target: sick leave

- In terms of sick leave, Statkraft is to be among the 33 % best in the industry

Statkraft's target for sick leave is defined as the total leave due to sickness, in terms of the total number of working days. The target figure is a health indicator of the company's physical, psychological and social working environment, and it provides management with a chance to react to any unfortunate developments. The target figure is based on a goal of being among the best one-third in the industry. The target for 2002 was 3.5 % and the result was 4.2 %.



Recruitment

Competence is an important factor for Statkraft's creation of added value. If Statkraft is to maintain and further develop its cutting-edge competence, the company must be attractive enough to keep and attract the best employees.

Target: recruitment

- By 2005 Statkraft SF is to be one of the 25 most popular employers in Norway, measured among fresh graduates

In 2002, Statkraft established an ambitious recruitment strategy that will bring the company up among the 25 most attractive in the eyes of employees. The background for this commitment is a survey carried out by Universum Communications, which prepared a list of the 100 most attractive companies for newly qualified students. Statkraft has participated in this survey the last two years and the results have been depressing. Among graduates in economics and business, Statkraft was ranked number 84, down 7 places from 2001. In the Group in general, and our trading activities in particular, cutting-edge competence in the fields of finance and economics is important. We must be perceived as an attractive employer if we are to maintain and develop our position in this field. The situation was somewhat more positive among those studying engineering. We experienced a clear improvement from a 85th place in 2001 to a 50th place in 2002 as a result of deliberate efforts. In the course of 2002 a range of measures were introduced to reach our Top 25 target and Statkraft's goal is to be among the 50 most attractive employees also in the eyes of economics students in 2003.



Leadership

In 2002, Statkraft carried out an organisation and leadership evaluation (OLE). This measures the staff's opinion of the organisational efficiency, job satisfaction and involvement in targets and values. In addition, immediate superiors were evaluated on various areas of competence.

Target: organisation and leadership evaluation

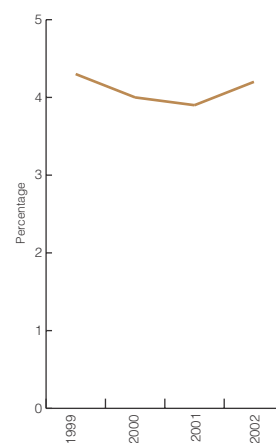
- Statkraft's goal in relation to the OLE survey is 3.67 for 2003.

The target figures for the OLE survey are the aggregate values for the various target areas and form a basis for organisational measures in the Group. The target for 2002 was 3.67 but the result was 3.61 on a scale from 1 to 5. In other words, the target for 2002 was almost reached, but there are still considerable variations between the various companies and units.

In 2001, the survey was only carried out in Statkraft SF, which improved its score from 3.61 that year to 3.70 in 2002. This is due, inter alia, to leadership and competence development, organisational changes and changes in information routines.

The weakest area in this year's OLE was information, and several new measures have been introduced locally and centrally.

Sick leave, the Group



Sick leave at Statkraft rose somewhat from 2001 to 2002, from 3.9 % to 4.2 %.



R&D

At Statkraft, R&D shall support our vision. The purpose of R&D at Statkraft is to give us competitive advantages.

Target: R&D

- Statkraft SF's R&D shall balance the need for improving existing production and the commitment to new energy technologies. We are working to establish long-term co-operation with leading research institutions and industrial partners.

We believe that it is important the R&D budget is relatively stable over time to ensure the necessary predictability for planning and implementing R&D. Regular evaluations of R&D activities are scheduled in order to assess the results compared to the resources used.

In 2002, Statkraft SF has committed more to future technologies than has previously been the case.

Among other things, the company has allocated funds for a hydrogen demonstration plant and a salinity power pilot plant. In addition, the project linked to tidal power has been continued. Several projects have used less than was expected in 2002. For example, the deferment of the investment in the hydrogen project resulted in about NOK 6 million not being utilised.

In 2002, Statkraft SF signed a five-year co-operation agreement with SINTEF Energiforskning. The agreement implies that Statkraft, in association with SINTEF Energiforskning, will carry out R&D assignments in various energy-related areas for up to NOK 50 million a year. The primary purpose is to find good solutions for environmentally friendly energy production and emphasis will be placed on co-operation within EU's framework programme for R&D.

New thinking and new knowledge will drive us forward in the future. It is developing people who will realise Statkraft's vision.

Development in R&D funds

