focus

Statkraft Annual Report 2003

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Statkraft

Statkraft is Norway's largest producer of electrical power, the Nordic region's third largest electricity producer and Europe's second largest producer of electricity based on renewable energy sources

In the course of 24 hours Statkraft produces 100 million kilowatt hours (kWh). This corresponds to the average power consumption of almost two million households. Statkraft's vision is to be Europe's leading producer of environmentally friendly energy. Our core values are based on ADDING LASTING VALUE.

Reference is also made to Statkraft's Sustainability Report 2003.

Finance

Environment

Society

Competence and corporate culture

Focus
on increased competitiveness

President and CEO

As Statkraft entered 2003, we had just laid behind us seven years of major expansion. During this period, the company made significant acquisitions in Norway and also acquired a major interest in the Swedish company Sydkraft. We had at the same time developed our expertise in trading and market operations, and established ourselves as an important player in Europe in this arena as well.

The year 2003 marked the transition to a period of consolidation and honing of focus for the company. These efforts will continue in 2004 in several areas. In Norway we will continue our efforts to dispose of assets in accordance with the order from the Competition Authority. We will also continue to invest at the same time.

Our programme in Norway consists of three main elements. Firstly, we will focus on increasing the production and efficiency of our own production plants. The upgrading and expansion of existing hydropower plants and the construction of new wind-driven power plants will be part of this strategy. Secondly, we will seek to increase the profitability of distribution and end-user sales together with our alliance partners. Thirdly, we will seek to promote commercial coordination with the companies in our group in order to generate greater added value. It may be desirable to increase our ownership interests in companies where we already have stakes as part of this strategy.

The operations in Norway will thus still represent the core of our operations in the future. Therefore it is important to develop our roles as an owner and industrial developer, since we envision opportunities for further advances throughout the entire value chain. Power production and distribution have of course local roots. Strengthening our regional companies will therefore be a prerequisite for a successful integration policy and realisation of coordination gains.

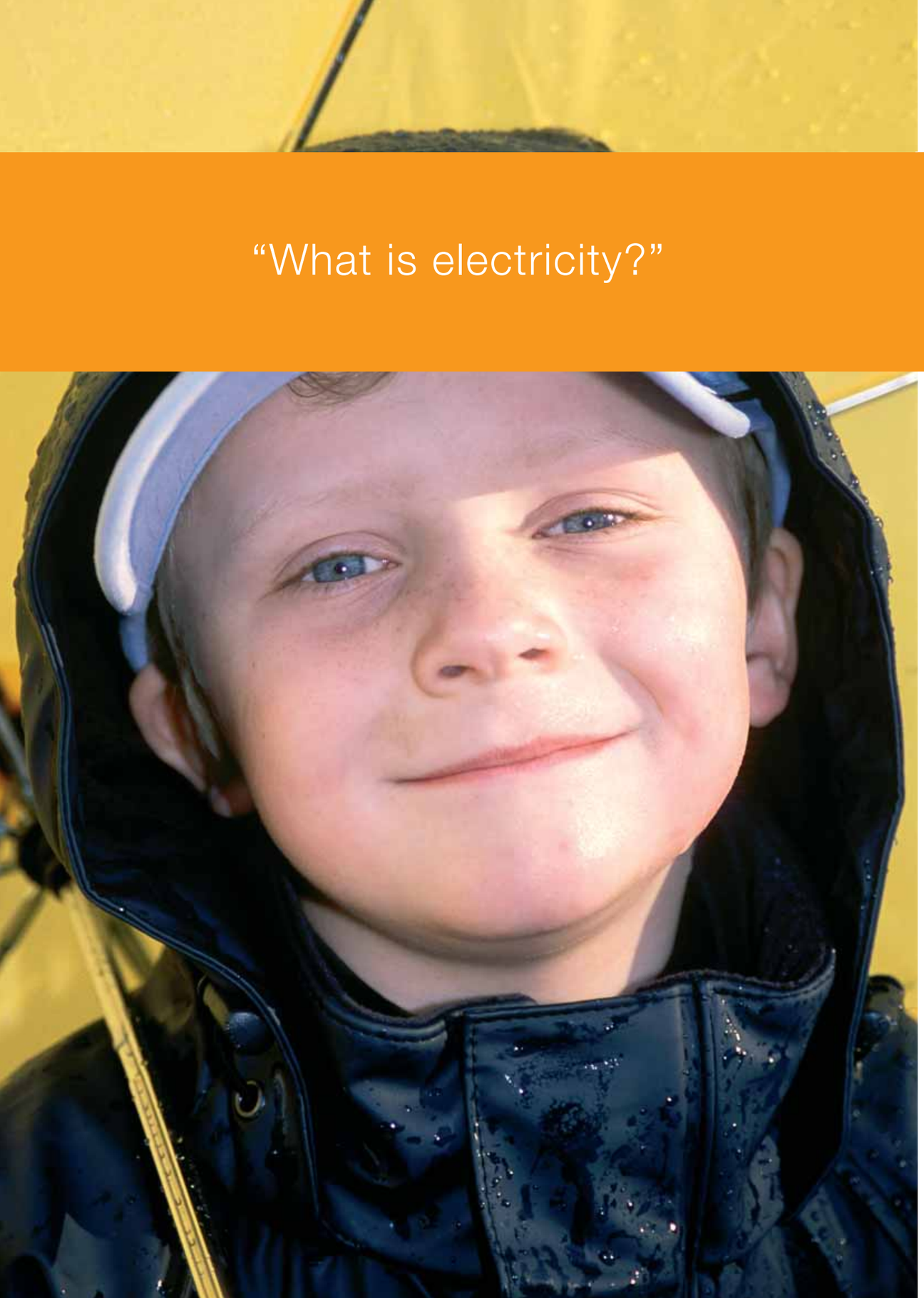
In the rest of Europe we will be looking for opportunities to develop production of power from renewable energy sources. We will also intensify our trading activities, and we will consider the acquisition of flexible power production that can support our market operations. This means that we will continuously evaluate possible positions with regard to gas power on the Continent. Statkraft is already the second largest provider of environmentally friendly energy in Europe, so it is natural for us to increase our European presence in terms of hydropower, wind power and gas power production, especially in light of the deregulation of the electricity markets in the EU. The demand for renewable energy is expected to increase.

Statkraft is a major contributor to Norwegian society through the payment of taxes and fees, and our mission is to obtain an adequate return for our owner. In a situation where we cannot grow on a large scale in Norway, it is necessary that we make the most of our opportunities in the Nordic region and on the Continent. Our goal is to become a major player in the European market for environmentally friendly energy, with a head office and most of the decision-making in Norway. Further expansion will be mainly beyond the borders of Norway in the years to come.

In 2004 the company expects clarification of whether or not it will be converted to a limited liability company, as proposed by the Government in Report no. 22 (2001–2002) to the Storting on government ownership. Statkraft's board of directors has given its approval to such a conversion. The board of directors' main reason for this is the fact that companies that operate in a competitive arena as Statkraft does are generally not well served by being organised as a state-owned enterprise. This form of business organisation is not known internationally, and there is a great risk that it will be regarded primarily as an enterprise with sectoral policy functions and financial goals that differ from other players. In order to operate efficiently, both operationally and strategically, we are dependent on the world around us perceiving Statkraft as an ordinary market player. Moreover, most of the power companies in Norway are also limited liability companies.

Regardless of the form of business organisation, the owner's dividend policy and the company's equity situation are of decisive importance to Statkraft's ability to reach the company's strategic goals in a very capital-intensive industry. Our strategy is based on the demand for an adequate return over time and a continuing contribution to society. Our goals are founded on the needs for ever more efficient creation of added value and ever more environmentally friendly power production.

Bård Mikkelsen
President and CEO



“What is electricity?”

We get asked a lot of good questions about electricity production.

GOOD QUESTIONS demand good answers.

Vision
and core values

Statkraft's vision is to become the leading European provider of environmentally friendly energy. Our vision will guide the development of Statkraft, and thus influence the company's future strategy. Today, Statkraft is Europe's second largest producer of electricity based on renewable energy sources. In the coming years, Statkraft is planning to make substantial investments in hydropower, wind power, gas power and new sources of renewable power both in Norway and abroad.

Business concept

Statkraft's business concept is to create value for our owner, customers and society at large by:

- Developing and producing environmentally friendly energy in Europe and other selected regions
- Trading in energy and associated products
- Further improving the profitability of distribution and end-user sales by meeting the demand for energy and associated services in close cooperation with our partners

Strategic resources

Statkraft's most important competitive advantage is the company's unique production facilities, access to information in the Nordic market, and long experience from market operations in the Nordic and, more recently, the European power market. Statkraft has a great development potential as a result of the group's significant customer portfolio, and its grid and production assets in Norway. In addition, Statkraft benefits from significant competence in areas such as the development and operation of hydropower and wind power in Norway, as well as the establishment of efficient ICT solutions and networks.

From strategy to action

Statkraft shall be developed according to the following guidelines. In the coming years we shall:

- Significantly strengthen the company's financial position
- Improve profitability in the Statkraft Alliance and establish the leading energy group in Norway together with our partners
- Ensure that we have a leading position in physical and financial power trading, and strengthen our position in the trading of energy-related products
- Develop environmental power production in Norway and abroad
- Work to strengthen our environmental profile among the public and key target groups through excellent management of our power plants, good development projects, and a good, open dialogue with the parties who are affected by our operations, both nationally and internationally

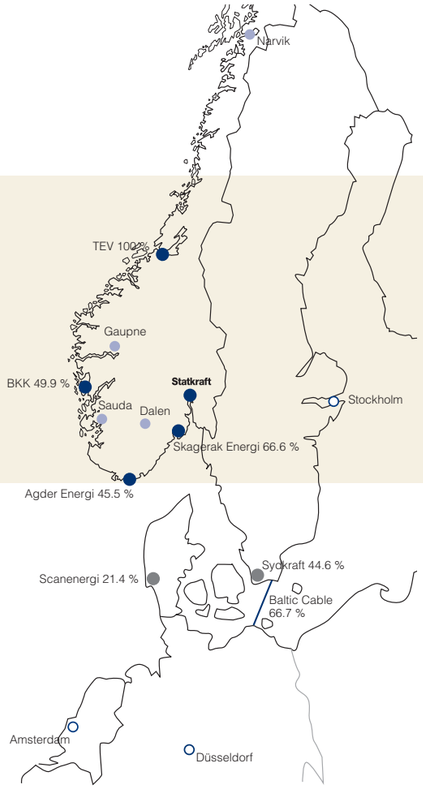
The basis for Statkraft's core values is: ***adding lasting value.*** *Our core values contribute to the creation of a common identity, binding together different cultures across national boundaries and professional interests. Our value creation model is based on achieving a balance between two pairs of core values:* ***responsible and bold*** *and* ***competent and committed.***

	Employees (Man-years)	Power production TWh	Electricity customers	Dictribution grid customers
Statkraft SF	820	34	50	0
Statkraft Group	1 970	42	75 000	260 000
Statkraft, TEV, Skagerak Energi, Baltic Cable				
Statkraft Alliance*	4 000	56	535 000	590 000
Statkraft,TEV, Skagerak Energi, BKK, Agder Energi, Fjordkraft, Baltic Cable				

Other stakes:

50.0 % SN Power — 44.6 % Sydkraft
33.3 % Naturkraft — 21.4 % Scanenergi
49.0 % HEAS** — 20.0 % E-CO Vannkraft**

* Figures for wholly owned companies
** Order to sell from the Competition Authority



Current operations

Statkraft is Norway's largest producer of electricity. The group has an average annual production capacity of approximately 42 TWh, which represents around one-third of Norway's production of hydropower. Statkraft is currently the third largest power producer in the Nordic region and Europe's second largest producer of electricity based on renewable energy sources.

The group employs around 1,970 fulltime equivalent people, including the regional companies, Trondheim Energiverk (TEV) and Skagerak Energi.

Among others Statkraft has ownership interests in the Norwegian power companies Bergenshalvøens Kommunale Kraftselskap (BKK) and Agder Energi, both of which are members of the Statkraft Alliance together with the subsidiaries TEV and Skagerak Energi. In addition, Statkraft has ownership interests in E-CO Vannkraft, Hedmark Energi (HEAS) and the Swedish company Sydkraft. Statkraft is one of Norway's largest land-based taxpayers.

Statkraft SF's core business operations consist essentially of hydropower production and power trading. The Statkraft Alliance also has significant distribution grid and end-user operations, in addition to activities in other business areas such as district heating and broadband services.

Statkraft has trading offices in Amsterdam, Düsseldorf and Stockholm, and it owns two-thirds of Baltic Cable, which is the power transmission cable between Sweden and Germany.

Statkraft owns power plants in Nepal and Laos. There are plans to transfer these operations to Statkraft Norfund Power Invest (SN Power), which Statkraft owns together with Norfund, the Norwegian Investment Fund for Developing Countries, through a joint venture company, pending the necessary approval of the authorities, lenders and co-owners.

Statkraft is wholly owned by the Ministry of Trade and Industry.

Major events for Statkraft in 2003

Strategic events

January

February

Sales
The Ministry of Labour and Government Administration announces that it agrees with the Norwegian Competition Authority's assessment with regard to the competition situation in Central and Northern Norway. One year later (4 February 2004), Statkraft sells its ownership interest in the Øvre Namsen power plants to Nord-Trøndelag Elektrisitetsverk.

March

Acquisition
The former ABB Financial Energy is acquired and the subsidiary Statkraft Financial Energy is established with a head office in Stockholm.

Certificates
The Norwegian Storting (Parliament) votes unanimously to introduce compulsory green certificates, most likely from 2006.

May

June

July

Statkraft Grøner
Statkraft SF sells its ownership interests in Statkraft Grøner to the Swedish consulting firm SWECO.

August

September

Wind UK
Statkraft buys 37.5 per cent of Barrow Offshore Wind Ltd, which has a licence to develop an offshore wind farm in the Irish Sea. Co-owners are the Danish company DONG and the UK company Centrica.

October

Dividends
In the budget proposal for 2004 the Government proposes that the dividends be fixed at 95 per cent of the expected annual net income. The equity injection of NOK 10 billion adopted by the Storting before the summer is postponed, while the divestiture orders for E-CO Vannkraft, HEAS and TEV remain in force.

Hydrogen
Statkraft signs an agreement with the Canadian company Stuart Energy and the Spanish company EHN for the production of hydrogen from environmentally friendly energy sources.

Smøla 2
A decision is made to expand the Smøla wind farm in the county of Møre and Romsdal with a maximum of 55 new windmills. The wind farm will be one of the largest in Europe, with up to 75 windmills and a total installed capacity of around 150 MW. This corresponds to an annual production of around 450 GWh, enough to meet the electricity requirements for more than 20,000 households. The wind farm is scheduled for completion in 2005.

December

Equity injection
In December the Storting adopts the following resolution: "To enable the company to follow the strategy drawn up earlier by the Storting, the majority is appropriating NOK 4 billion now." The majority consists of the Labour Party, Socialist Left Party, Centre Party and Progress Party.

Operational events

January

High prices
An extremely dry autumn in 2002 and a subsequent cold winter lead to record high electricity prices.

February

Stegaros
The Stegaros Power Plant opens in Telemark. The plant has an installed effect of 2.4 MW, which gives an annual production of around 12 GWh.

Inclusive Workplace
An agreement is signed with the National Insurance Scheme's Working Life Centre to become an Inclusive Workplace company as of 1 February 2003.

75th anniversary
The Nore Power Plant in Buskerud celebrates its 75th anniversary.

May

New plants
Construction of the Øvre and Nedre Bersåvatn Power Plants at Tyssedal in Hordaland starts. Construction will be completed in late 2004 or early 2005. The estimated annual production is 43 GWh. No river courses will experience any change in the rate of water flow and no new dams will be needed.

More wild salmon
Both biological studies and catch statistics show that the number of wild salmon in the Alta river has increased in the last couple of years. In other words, it looks like the measures implemented by Statkraft have given good results.

June

Salinity power
The world's first salinity power laboratory is opened at Sunndalsøra. The lab will be operated in cooperation with the Norwegian University of Science and Technology (NTNU), with the support of the Foundation for Scientific and Industrial Research (SINTEF) and the Research Council of Norway.

July

More wind power
A decision is made to build a wind farm on the island of Hitra in Sør-Trøndelag.
The wind farm will produce around 150 GWh annually from the autumn of 2004.

August

Power school
Part 1 of the Power School is launched at the start of the school year. The Power School comprises eight educational videos and a website, www.kraftskolen.no

New licence
The Norwegian Water Resources and Energy Directorate (NVE) grants a licence for the Kjøllefjord Wind Farm in Lebesby Municipality in Finnmark. The case is currently under appeal at the Ministry of Petroleum and Energy.

September

5th anniversary
Statkraft's first Continental office, Statkraft Markets Continental (SMC), celebrates its 5th anniversary in Amsterdam.

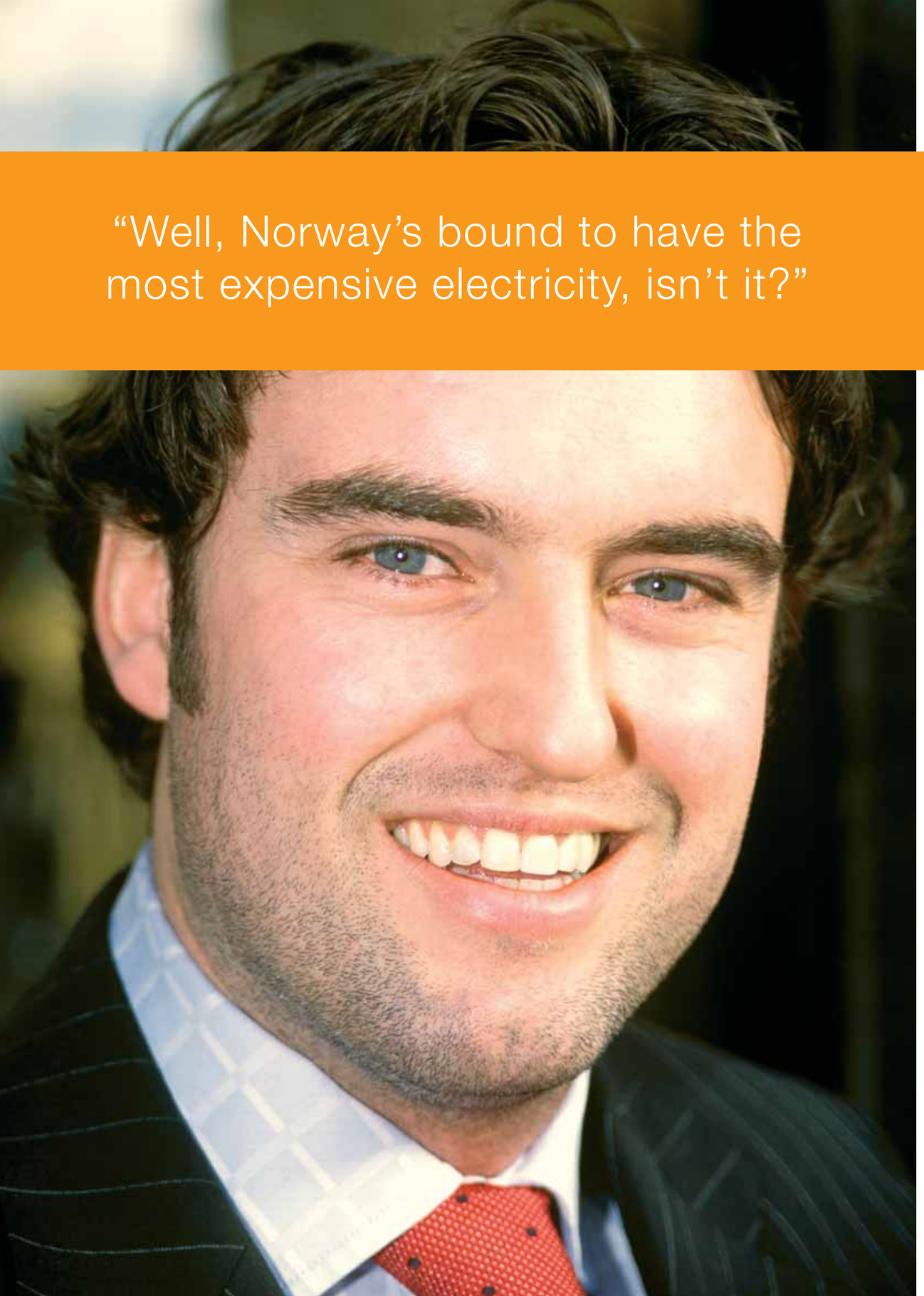
October

New Bjølvo
The new Bjølvo Power Plant in Hardanger goes into production. The trial period for the main 90 MW turbine is due for completion in February 2004. Then Statkraft's newest power plant will go into commercial service and will supply 387 GWh annually, 65 GWh more than its previous output.

50th anniversary
The Aura Power Plant at Sunndalsøra celebrates its 50th anniversary.

December

Småkraft
The year 2003 is a good one for Småkraft AS. Contracts are signed with landowners that give entitlement for the construction of small power plants with an estimated total production of 425 GWh.



“Well, Norway’s bound to have the most expensive electricity, isn’t it?”

Electricity actually is cheaper in Norway than in many other European countries.

IN DENMARK the average cost of 1 kWh in 2001 was NOK 1.754, while in Germany it cost NOK 1.115. In Norway we paid just NOK 0.639 for each kWh. In 2003, when the price of electricity was extremely high in Norway, we paid on average NOK 0.782.

Source: International Energy Agency (IEA): Energy Prices & Taxes, 4th Quarter 2003, and the Norwegian Energy Industry Association (EBL)

Developments in the European market

Statkraft expects that the European power market will undergo major changes in the coming 10–15 years. The consumers will have greater freedom to choose their power supplier, a greater share of the power production will be traded on the power exchanges in Europe, and we will see an increasing degree of market opening in most of the European electricity and gas markets. We are also expecting strong growth in the production and demand for environmentally friendly and renewable power.

Key development trends

- Continued deregulation of the markets and further development of well-functioning exchanges
- Industry convergence between power and gas

Deregulation and supply reliability

The total annual production of power in Europe is over 3,000 TWh, of which 2,500 TWh is within the EU. The total production in the Nordic region is around 400 TWh. The production technologies used in the European countries vary greatly. Power generated from burning fossil fuels (oil, coal and gas) accounts for most of the production in countries such as Germany, the UK, Italy and Spain. Nuclear power production dominates in France. Hydropower plants are located primarily in the Nordic region and in the Alps. While the market in Central Europe is distinguished by a slowly diminishing overcapacity, there is a great need for new production capacity in the Nordic region and in Southern Europe. This is exacerbated by an expected growth in the demand for electricity of 1 per cent annually in Northern Europe and the UK, 2 per cent annually in Eastern Europe and 3 per cent annually in Southern Europe.

The implementation of the EU directives for the deregulation of the electricity market and gas market gives an ever-increasing degree of market opening in most European electricity and gas markets. The demand for separation of monopoly activities from competitive activities creates more openness on pricing and tariffs, and makes cross-subsidisation between the various activities more difficult. The introduction of a regulatory authority to monitor the monopoly activities in distribution grid operations will help to break down trade and entry barriers. The consumers' freedom to choose a supplier and the increasing transparency in the market with a growing number of transactions and players participating will create liquidity. The trend towards increasing market deregulation is reinforced by the privatisation, internationalisation and consolidation of the energy companies in both the Nordic market and the rest of Europe.

Greater integration of the energy markets across national borders is expected, and an increasing share of the power production will be traded on the power exchanges in Europe. In the Nordic market, physical exchange trading accounts for just over 30 per cent of the total demand. In other European countries this volume is significantly lower. Physical exchange trading in the UK, for example, accounts only for 5 to 10 per cent of the total demand. The German power exchange Phelix has established itself as a relatively strong marketplace. The price that is set on this exchange is being increasingly accepted by the industry as a reference price. The liquidity of the German spot market is improving. Some 10 per cent of the underlying physical demand is traded on the exchange.

Financial trading products have also been introduced on the Continent, and they are being used more and more. Several advanced trading products will be developed and introduced on these exchanges. The total trading volume in the power market can be many times greater than the consumption in Northern Europe. There is still significant growth potential in European power trading.

The deregulation process has progressed at different rates in the various countries on the Continent, and the development of the gas market in the direction of a deregulated market is slower than that of the power market. The regionalisation of the European markets will continue, and a development in the direction of a pan-European internal market will take place over a longer period of time than originally planned. Bottlenecks in the transmission grid between the various countries and regions and the lack of incentives to invest in new transmission capacity are among the most important reasons for a continued regionalisation.

Power crises and brief power supply losses, a higher demand for electricity in the summer of 2003 due to a long-lasting heat wave at the same time as a reduction in production due to low water levels in rivers, and the lack of cooling water have clearly identified the vulnerability of the power system and society. On this background, the EU is working on a possible directive on measures for supply reliability in the electricity sector and infrastructure investments. An increased focus on supply reliability may entail a greater national energy policy focus and greater opposition to the creation of a pan-European energy market. Such a development will support regional markets.

Industry convergence between power and gas

In the long term, increased use of gas for power production in the future will mean that the gas and power prices will influence each other, and that the gas price will be linked to the oil price to a lesser extent. Both in Scandinavia and on the Continent some of the future power capacity requirements will be met by new gas power. Depending on the gas power share of the overall power production, the market integration between gas and power will vary in the various national and regional energy markets.

Industry convergence between gas and power is expected to have the greatest effect on the downstream side. In end-user sales, a greater volume through the provision of additional products, such as electricity and gas, will result in economies of scale in marketing and customer service. There will also be economies of scale in the distribution segment. They are linked to the competence necessary for the coordination and optimisation of investments in the maintenance and expansion of the transmission system, as well as for the management of customer systems. A continued trend towards the separation of the power and gas grid from other activities will open up the possibility of increased integration in this part of the value chain.

Economies of scale and competence advantages are also expected in trading. They are linked to the development and maintenance of ICT systems and the competence associated with information management, market analysis and risk management. Liberalisation of the gas market will mean that the current long-term bilateral gas contracts can be replaced to a greater extent by more short-term contracts with a greater number of suppliers and some exchange trading. The gas companies will be exposed to new price and volume risks, and they will require tools for the management of these risks just like the power producers do. The market players will trade both gas and power and will exploit the market opportunities that arise as a result of price differences between them.

An understanding of the price determination and developments in both the power and gas markets will be a decisive factor for success for the players in the future.

Europe –
a leader in environmentally friendly energy

Renewable and environmentally friendly energy is expected to become increasingly more attractive in Europe's future energy market. This growth will provide interesting opportunities for Statkraft. There will be an increased focus on upgrading and expanding the existing hydropower resources, at the same time as wind resources are expected to be exploited to an increasing extent.

Key development trends
- Consolidation across national borders
- Increased focus on environmental policies

Integration and consolidation in the power market

The development of the Nordic and Continental power markets in recent years has been marked by restructuring. This restructuring is expected to continue, driven by the need for the development of competence, financial strength, and economies of scale, as well as by a continued desire on the part of the public owners to reduce their investments in the energy sector.

In several of the Continental European countries the power industry is dominated by a few large companies. Most of these companies have activities in all segments of the value chain, ie in power production, distribution grids and the end-user area. The merger between the German companies E.ON and Ruhrgas is a sign of a trend in the direction of integration between companies in the gas and power sectors. Both E.ON and the German company RWE have acquired majority interests in companies in other countries, and they are now among the largest market players in several European countries.

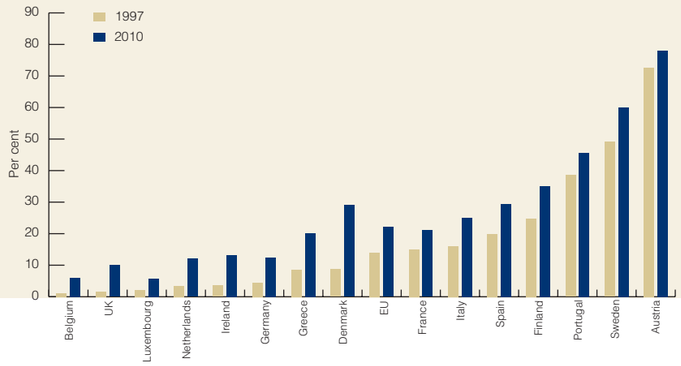
During a period at the end of the 1990s, several US companies were active in establishing themselves in Europe. Due to financial problems, however, most of the US companies are now reducing their activities in Europe. This has resulted in reduced liquidity in several marketplaces and lower prices for power assets on the Continent.

In spite of the ongoing consolidation, there are still many small, and to some extent publicly owned, players in most markets. Due to the owners' capital requirements and the requirements for professional ownership, interests in power companies will be sold and there will be a further consolidation of the market.

Renewable energy

In 2001 the EU adopted a directive to promote electricity based on renewable sources of energy, the so-called RES-E directive. This directive set a target to increase the production of power from renewable sources from 13.9 per cent in 1997 to 22.1 per cent in 2010 in the EU countries as a whole. The directive classifies wind power, solar energy, geothermal energy, wave and tidal energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases as renewable sources of energy. Of these, hydropower contributes the greatest share to the production of power, while wind power is being increasingly utilised in a number of countries, so that it now makes a significant contribution. The main provision of the directive states that each member country shall implement measures to ensure greater consumption of electricity from renewable sources of energy in accordance with national indicative targets.

Share of renewable energy in the EU towards 2010



Many of the European countries had a very low share of renewable power production in 1997, and this share is expected to grow significantly in the coming years. This growth will contribute to interesting new business opportunities, especially for Statkraft, since our core competence is the production of environmentally friendly energy from renewable sources.

Measures

The primary measures used by the EU countries to achieve their targets for renewable energy fall into three categories: the so-called guaranteed feed-in tariffs, green certificates and tradable emission quotas.

Several countries, including Germany, France and Spain, have introduced various feed-in tariff systems, ie long-term guaranteed purchase prices for power delivered to the distribution grid.

Other countries, including the UK, Sweden and the Netherlands, are implementing various systems for green certificates. In such a system the producers of renewable power will issue green certificates corresponding to the volume of power they feed into the distribution grid. The energy consumers are obligated then to buy a certain quantity of green certificates. This will create a demand for such certificates and additional revenue for the producers, which will, in turn, stimulate the development of new production capacity based on renewable sources.

Currently these systems have a national focus, and there is no international trading in certificates. However, a certain harmonisation of the systems is expected over time. Seeing as Sweden established a compulsory green certificate market in 2003, Norway is seeking to establish a common Norwegian/Swedish certificate market.

Through the Kyoto Protocol, the industrialised countries of the world have negotiated and ratified agreements to reduce their overall emission of greenhouse gases by 2010 by around 5 per cent in relation to the 1990 level. Power production based on fossil fuels is one of the largest sources of greenhouse gas emissions in Europe. The measures for achieving the Kyoto obligations include incentives to reduce the production of power from fossil fuels through the pricing of CO_2 emissions on the one hand, and incentives to develop new production capacity based on renewable sources of energy on the other hand. By increasing the production costs for power based on fossil fuels through CO_2 prices and by reducing the production costs for power based on renewable sources of energy through various forms of subsidy, power based on fossil fuels will become less competitive.

Some countries have already introduced CO_2 quota systems on the basis of the EU directive on greenhouse gas emissions trading. The EU has adopted a quota system for the entire union, which will enter into force in 2005. The system will encompass the energy sector as well as energy-intensive industries, but not the transport sector. The quotas will in principle be awarded. Quota trading will be possible between both industries and countries. The Norwegian authorities are working on a quota system for Norway. It is expected that the Norwegian system will be coordinated with the EU system so the Norwegian quotas can be traded internationally.

The Nordic region –
our home market

Statkraft will seek to promote even closer cooperation between the Nordic countries. We believe that closer integration between the Nordic central grid operators can solve problems related to day-to-day system operation. We will continue to work for the harmonisation of the regulatory framework in the various countries to avoid unfair competition and the inefficient utilisation and development of energy resources.

Key development trends

- Continued deregulation of the markets and further development of well-functioning exchanges
- Consolidation across national borders
- Industry convergence between power and gas
- Increased focus on environmental policies

Nordic region

The restructuring of the energy markets has led to a greater number of transactions, also in the Nordic region. The Swedish companies Vattenfall and Sydkraft, the Finnish company Fortum, and Statkraft have been the most active and have completed the greatest number of transactions. These four companies are also the largest power producers in the Nordic region. The major players on the Continent also find the Nordic market interesting with a view to restructuring and transactions. There is a great degree of covariation between the prices in the Nordic region and on the Continent, and thus it is important for the major companies to have insight into the price picture in these markets.

In addition to the major Nordic companies, the German company E.ON Energie, a subsidiary of E.ON, is a particularly active player in the Nordic market. E.ON Energie is the majority owner of Sydkraft and the owner of a majority interest in the Finnish company Espoon Sähkö, and it has also acquired the French company EdF's shares in the Swedish company Graninge through Sydkraft, which means that E.ON and Sydkraft collectively own almost all the shares in the company.

Fortum has acquired significant production capacity, as well as distribution grid and end-user operations. The acquisition of several Swedish companies has made Fortum the second largest power and heat producer and end-user sales company, and the largest distribution grid player in the Nordic region.

In Norway, Fortum has acquired the entire downstream portion of Østfold Energi and interests in Fredrikstad Energi, and it owns 34 per cent of Hafslund.

Statkraft has interests in several Norwegian power companies, in addition to its ownership interest in Sydkraft; see the discussion of the Statkraft Alliance on Page 30. The Norwegian Competition Authority has, however, imposed remedial measures on Statkraft for approval of some of the company's acquisitions. Further consolidation in Norway appears to be dependent on changes in the reversion and licence regulations, and, consequently, the opportunity for private and publicly owned entities to acquire greater ownership interests in the power sector.

Vattenfall has acquired a number of assets in Sweden and Finland and is – through its investments in the German energy market – one of the four major players in Germany and the leading player in the Nordic region.

Several of these companies have displayed an interest for holdings in Danish power companies, were they for sale on the market.

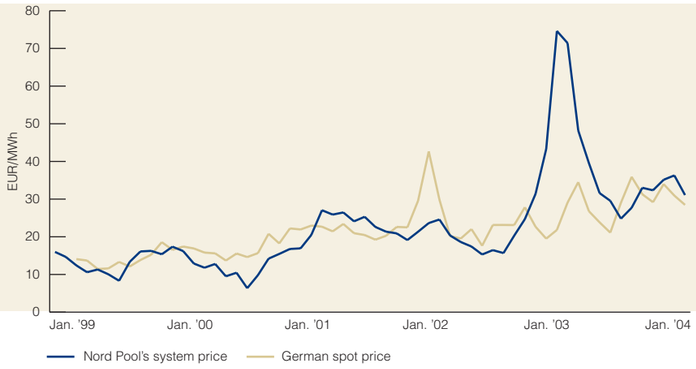
Integration in the Nordic market

An important prerequisite for the Norwegian Energy Act of 1991 was the development of a common Nordic market and greater international cooperation. This underlines the fact that the Nordic countries have a long tradition of cooperation in the energy sector. There is, for example, extensive cooperation between the central grid operators in these countries.

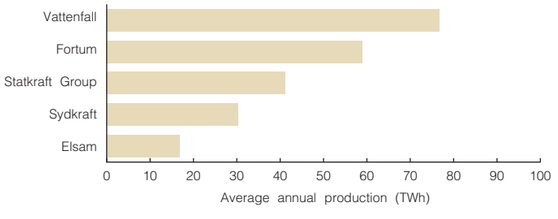
Statkraft believes that cooperation between the Nordic countries will become even closer in the future. This can be promoted, for example, through closer integration between the Nordic central grid operators to solve problems concerning the day-to-day system operation. In addition, new investments may be able to contribute to a reduction of bottlenecks in the Nordic grid, between Norway and Sweden, and between Denmark and Norway/Sweden, in particular. This is of great importance to Norway due to its vulnerability to fluctuations in the inflow to the hydropower system. A stronger Nordic grid will give greater supply reliability through increased import opportunities, in addition to facilitating effective competition. A stronger grid will thus also contribute to lower and more stable prices for consumers.

Statkraft also seeks to promote the harmonisation of the regulatory framework across the Nordic countries. The licence policies, competition policies, taxes, and fees are all important in this connection. A lack of harmonisation has an unfortunate effect on competition in the short and long term, which leads to an inefficient utilisation and development of the energy resources in Norway and the Nordic region as a whole, in addition to the establishment of new production plants at locations that are not economically favourable for the region as a whole.

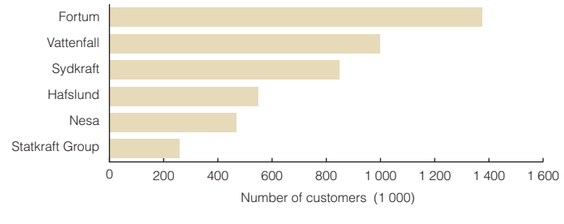
Nord Pool's system price



Nordic power producers



Nordic distribution-grid customers



Norway –
enhancing the efficiency of the value chain

Statkraft is working to further develop its position as the leading energy company in Norway with significant operations in all parts of the value chain. We want to develop our ownership in the companies in the Statkraft Alliance and develop all parts of the value chain from power production to consumer services in cooperation with our partners.

Key development trends

Statkraft is in a phase of consolidation

- Further developing our ownership in the companies in the Statkraft Alliance
- Complying with an order to divest a certain amount of ownership interest
- Acquiring new ownership interests in the Statkraft Alliance

There is a demand for new power production

- Becoming a leading provider of environmentally friendly energy
- Focusing on developing hydropower, wind power and gas power

Restructuring in Norway

Statkraft has acquired ownership interests in a number of Norwegian power companies since 1996, namely Trondheim Energiverk (TEV), Skagerak Energi, BKK and Agder Energi. TEV and Skagerak Energi are part of the Statkraft Group, and an effort is being made now to develop these companies and the cooperation between them, in order to improve profitability based on their existing competitive advantages in the production, distribution and sale of environmentally friendly energy, as well as related areas. Statkraft works actively throught representation on the companies' boards of directors to develop the alliance companies Agder Energi and BKK. Statkraft desires to acquire a majority interest in these companies should the municipal owners agree to sell further shares. The goal has been to build a Statkraft Alliance that has opportunities to generate synergies through the joint implementation of good structural solutions – without any loss of focus or competence. A fundamental prerequisite for the acquisitions made has been to achieve a satisfactory return on the investments.

Statkraft will continue to contribute to the restructuring of the power industry in Norway within a given framework. We will accomplish this by developing our ownership in the companies and by contributing, together with the other owners, to increased profitability in the companies, as well as by offering support for the companies' continued regional focus.

In accordance with an order from the Competition Authority, Statkraft must divest its interests in HEAS, E-CO Vannkraft and TEV, or sell production capacity corresponding to the capacity of TEV. We are working on various alternatives for complying with the terms stipulated by the Competition Authority for the acquisition of TEV. As partial fulfilment of these terms, Statkraft entered into an agreement to sell its interests in Øvre Namsen (KØN) and Linvasselv to Nord-Trøndelag Elektrisitetsverk in February 2004. A profitable restructuring of Statkraft's portfolio of Norwegian companies will be a key task in the years to come.

Statkraft will focus in the short term on improving the operating income of the alliance companies, and will work to realise efficiency gains. Moreover, one of our goals is to establish good commercial solutions through constructive cooperation between the companies. This will increase our revenues and reduce our costs.

In power production, we envision closer cooperation between Statkraft and our alliance partners over time. We desire to focus on production and power optimisation, while the operation and maintenance of the power plants will be based on the utilisation of common competence and systems, and a continued strong regional focus.

In distribution grid operations, the regional distribution grid companies will have an opportunity to grow through expansion in their local regions. The distribution grid operations will still have strong regional roots, but the goal is to coordinate certain segments of these operations.

We will work to develop the end-user operations of the alliance companies in a commercial manner so that economies of scale can be realised.

Statkraft's alliance partners have established various initiatives for business development. These may entail significant investments in infrastructure such as broadband, gas or district heating. These activities lie essentially outside Statkraft's core competence areas. Therefore it is of decisive importance that the initiatives are coordinated, founded on the partners' competitive advantages and provide a satisfactory return.

New profitable and environmentally friendly power

There has been very little production growth in Norway during the last 15 years. The consumption has at the same time shown steady growth throughout most of this period, with the exception of 2002 and 2003, when high power prices influenced consumption.

The growth in the demand for power in Norway gives Statkraft interesting business opportunities for the development of new production capacity. Statkraft has traditionally focused on hydropower. This is still expected to provide a significant portion of new power production in Norway, together with wind and gas power. In the long term, other new sources of renewable energy may become commercially interesting.

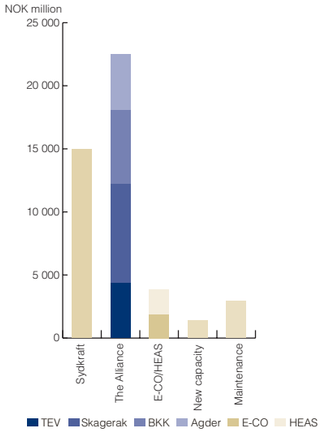
The goal is to realise profitable, environmentally friendly energy products. For most new products the challenge is related to the long period of time required from project initiation until completion. Therefore it is important to have a well-developed project portfolio and a professional organisation that can realise the projects in an efficient manner.

Another goal for Statkraft is to nurture business opportunities as a basis for future new developments. Key activities we envision here include the monitoring and development of technology, the securing of rights through licences and patents, and the development of future business concepts that provide competitive advantages.

Statkraft has, for example, set the following goals for the realisation of profitable and environmentally friendly power development projects by 2010:

- Develop 3.2 TWh of hydropower in Norway
- Develop 2 TWh of wind power in Norway
- Develop 1.5 TWh of power based on other renewable energy sources in Norway
- Develop 2 TWh of gas power in Norway
- Develop 1.5 TWh of hydropower in Norway through Småkraft AS

Statkraft's investments 1996-2003



Statkraft's value chain

Through its ownership interests in other companies, the Statkraft Group is represented in the entire value chain of the power sector.

The Group

Statkraft's operations in the Nordic power market are managed by the group's parent company, Statkraft SF, and the subsidiaries, Trondheim Energiverk and Skagerak Energi. Statkraft SF also engages in market operations in Europe through its wholly owned subsidiary, Statkraft Energy Europe AS, which has offices in Germany, the Netherlands and Sweden. Each of the subsidiaries is managed as a separate unit, and their operations are not formally integrated across the group. Statkraft SF controls the companies through its ownership and representation on the companies' governing bodies. The operations of the subsidiaries are included in the group's financial figures in their entirety.

Statkraft is represented indirectly on the market through minority interests in the Norwegian power companies BKK and Agder Energi, as well as the end-user company Fjordkraft. In addition, Statkraft has ownership interests in the Swedish company Sydkraft and the end-user company Scanenergi in Denmark. These associated companies are included in the group's financial figures as a share of the results attributable to the ownership interests.

Production and trade encompasses the production of electric power at power plants and the first-hand sale of power on the Nordic wholesale market and to major industrial consumers. First-hand sales also encompass physical and financial contracts for hedging purposes. Statkraft SF's core business operations are in this business area, which is by far the largest area, generally providing between 80 and 90 per cent of the group's net income. In 2003 this percentage was 85 per cent.

Trading refers to purely financial operations, which are distinct from the physical production. This business area accounted for approximately 2 per cent of the group's net income in 2003.

Distribution grid operations encompass the monopoly-regulated transmission of power and represent the second largest business area, accounting for 10 per cent of the group's net income.

End-user sales refer to the sale of power to corporate and private customers and accounted for 3 per cent of the group's net income in 2003.

Other activities in the table include, for example, activities such as district heating and broadband services. Ownership and head office costs that are not allocated to the business areas are also included here.

Regardless of the size of its ownership interests, Statkraft has formed an alliance with the regional Norwegian energy companies TEV, Skagerak Energi, BKK, Agder Energi and Fjordkraft (for further details see Page 30).

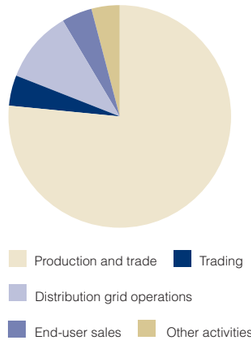
Value chain and business areas

Financial results of the business areas

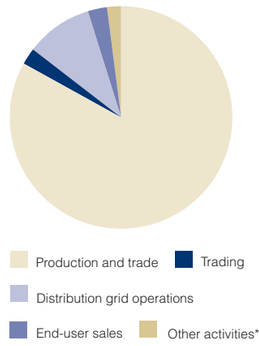
The value chain represents the business areas by which the group's results are broken down:

(Amounts in NOK million)	Group	Production and trade	Trading	Distribution grid operations	End-user sales	Other activities
2003 results						
Gross operating revenues	**12 120**	9 944	575	1 364	574	-337
Operating income	**6 264**	5 964	101	167	37	-5
Income from associated companies	**1 114**	636	30	489	80	-122
Net financial items	**-2 625**	-2 161	-11	-329	-16	-108
Pre-tax income	**4 754**	4 439	120	327	102	-235
Net income for 2003	**2 867**	2 610	76	305	88	-211
Net income for 2002	**2 478**	2 133	253	414	-89	-233

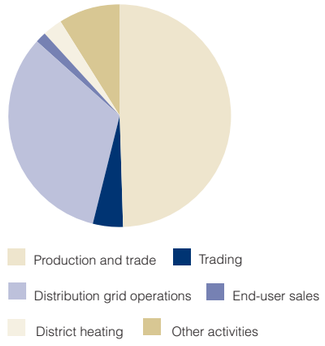
Gross operating revenues



Net income



Man-years



* Encompasses activities related to broadband, district heating and consultancy services. Does not encompass non-distributed costs.

Production and trade

Production and trade encompasses the production of electricity at power plants and the first-hand sale of power on the Nordic wholesale market and to major industrial consumers. First-hand sales also encompass physical and financial contracts for hedging purposes. The goal of the operations is to maximise the production value of the available water in relation to the actual and expected market prices.

Focus areas for Statkraft SF in 2004

Statkraft SF seeks to develop its position in the Nordic power production and power trading by:

- Implementing a new operating centre system with integrated tools for production management and generator optimisation
- Focusing more closely on the business of maintenance, and health, safety and environment (HSE) matters
- Further developing power derivatives trading and offering custom products to more customers
- Maximising revenues from the company's hedging portfolio
- Seeking to increase internal integration
- Focusing more closely on the development of human capital

Statkraft SF in 2003

The Production Division of Statkraft SF is responsible for the operation of 59 wholly and jointly owned power plants with a total capacity of approximately 9,000 MW. The division also controls power from 30 partly owned power plants operated by others. The Markets Division of Statkraft is responsible for all power trading operations.

The Production Division has a broad geographic presence with plants in most sections of the country. The company has power plants, reservoirs and property in around 100 municipalities and counties. The plants are spread across 35 river systems with a broad geographic distribution and are divided into four regions.

The Region Northern Norway management is located in Narvik, Region Central Norway management is located in Gaupne, Region Western Norway management is located in Sauda, and Region Eastern Norway management is located in Dalen. Each region has an operating centre and technical and administrative support staffs for the power plants. The central management and support staffs for technology, finance and production matters are located at the head office in Oslo. The Production Division had 544 employees at the end of the year.

		Statkraft	Statkraft Alliance					
KEY FIGURES	Unit	SF	TEV	Skagerak	BKK	Agder	Fjordkraft	Total
Average production	TWh	33.6	3.2	5.0	6.5	7.3	-	55.6
2003 production	TWh	32.5	2.6	4.1	5.1	6.2	-	50.5

Statkraft's ownership interest > 50 % (subsidiaries)
Statkraft's ownership interest 20–50 % (associated companies)

Statkraft's vision is to be the leading provider of environmentally friendly energy in Europe. One of the consequences of our vision is the fact that the company takes important environmental considerations into account beyond the manoeuvring regulations stipulated in licences. This may, for example, be in the form of special manoeuvring to avoid unsafe ice in the winter, production and water flow adjustments for the running of fish up salmon rivers, water level restrictions in connection with species-rich areas for birds, and endeavours to maintain special water level conditions due to reasons of an aesthetic, transport-related or other nature. Several of Statkraft's power plants are located in national salmon-river systems, where there is a great deal of focus on the wild Atlantic salmon stocks. We have noted that the catches in several of these river systems are at the same levels that they were prior to the development of the various plants.

Statkraft has a number of opportunities for environmentally friendly enhancement and expansion of its existing plants. However, a number of these opportunities are not profitable in themselves, but they can possibly be realised within a system of green certificates for renewable sources of energy in line with what already exists in Sweden and is under planning in Norway.

In 2003 the Production Division carried out 20,000 maintenance assignments and completed over 80 projects at a budgeted cost of around NOK 470 million. The Osbu dam associated with the Aura plants and the Akersvann dam near the Rana plants have undergone major rehabilitation. Statkraft also studies opportunities for expansion and enhancement of plant efficiency in connection with rehabilitation. In 2003 a major effort was made to replace vane wheels and optimise the efficiency of several power plants, which increased production by around 85 GWh a year.

The establishment of an optimal level of maintenance is an important goal for Statkraft. In 2003 a thorough review of the maintenance plans for the power plants was conducted, and we expect that we will be able to reduce the cost level at the same time as we maintain the level of flexibility and availability of the production plants. All the power plant groups will establish new maintenance plans by the end of 2004 in light of this review.

In order to exploit the opportunities inherent to sharp price fluctuations in the power market, it is essential to have flexible and reliable production facilities. The maintenance of the production facilities will be adapted to the prevailing market conditions, and significant resources will be employed to ensure that the unavailability of the production facilities minimises the overall costs and revenue losses over time.

Statkraft is dependent on efficient management and monitoring of the power plants from four regional operating centres. A decision was made in connection with the modernisation of several operating centres to implement an operating centre solution that will encompass the entire company. This system has a high level of integrated safety and flexibility in relation to management and monitoring, and the concept is expected to establish a standard for future operating centre systems.

The Markets Division is located at Statkraft's head office. This is the centre for the company's Nordic power trading operations.

Statkraft sells its power production on the Nordic power exchange, Nord Pool, where the supply and demand is reported hourly every day of the year. When the volume of the sales is known, mathematical models of the river systems are used in combination with good local knowledge to establish efficient production plans for power plants and generators. The actual production planning is carried out jointly by the Production Division and Markets Division, while the associated physical and financial trading on the power market is performed by the Markets Division.

Statkraft has been an active participant in the deregulated power market since the Norwegian Energy Act came into effect in 1991. Statkraft has extensive operations and is one of the largest players in the spot market, the regulating power market,

Trading

and Nord Pool's futures, forwards and options markets, in addition to the physical and financial bilateral markets.

The Markets Division is responsible for the management of risk linked to revenues from its own power production and the company's considerable portfolio of physical and financial management contracts. The management trading is performed by the Markets Division, but it is closely linked to Statkraft's production operations. What new trades Statkraft decides to make in this portfolio are determined on the basis of the company's price forecasts, existing contract portfolio, risk assessment and evaluation of the future production opportunities.

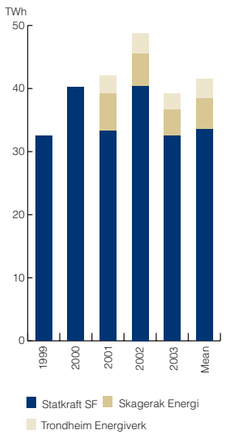
The analysis section of the Markets Division is responsible for analysing the most important issues that affect price determination in the power market. Weather data, snow forecasts, rainfall, power consumption, price data and power plant information is fed into comprehensive models that are used to prepare Statkraft's own forecasts for future power prices. These price forecasts set limits for how much power Statkraft decides to produce and what contracts it decides to enter into.

Power optimisation activities are carried out to ensure optimal exploitation of Statkraft's power plants and reservoirs, power price forecasts, and existing physical contractual obligations. Statkraft trades actively on Nord Pool's spot market and Statnett's regulating power market to achieve the highest possible production revenue. In these markets, the portion of the planned production that exceeds the obligations is sold, or power is purchased if the planned production is less than the volume the company has contracted to sell.

The market activities are governed by the ceilings and risk exposure limits set by Statkraft's management. Separate units in the Markets Division are responsible for ensuring that the trading is within the ceilings and risk exposure limits stipulated by the management.

Statkraft is considering the acquisition and development of production assets in other countries. Subsidy schemes for power based on renewable energy sources combined with the deregulation of the gas market in Europe will open up new business opportunities for Statkraft. It may be relevant to acquire assets to support Statkraft's existing trading activities. The acquisition of such assets will focus on companies or plants where Statkraft can benefit from synergies in relation to other companies. Examples of such synergies include the reinforcement of Statkraft's existing trading operations on the Continent, better information access for Statkraft's Nordic market operations, and a greater transfer of competence between Statkraft's business operations in Norway and on the Continent. All of these elements can contribute to improved earnings from trading activities.

Production Statkraft Group



Trading in this context refers to purely financial operations that are not linked to power production like hedging activities are. Trading seeks to achieve gains through the exploitation of fluctuations in the market prices, identification of any incorrect pricing, and exploitation of any trading opportunities presented by the various products before the competitors take advantage of these opportunities.

Focus areas for Statkraft SF in 2004

Statkraft's goal is to be among the best companies in trading and origination on the Nordic market. In 2004 we will seek to:

- Strengthen our position as the leading trading company and achieve a satisfactory risk-adjusted return on the capital employed in the operations
- Increase our focus on improving the profitability of origination in the Nordic region
- Consolidate our market activities on the Continent to ensure profitable operations

Statkraft SF in 2003

The Markets Division is responsible for the company's trading operations. Separate trading offices that buy and sell power on the Continental market have also been established in Germany and the Netherlands.

Statkraft utilises all the financial contract and option types that are traded in the market. New contracts are entered into, while various portfolios are consolidated, and their current value and risk is monitored continuously. The traders must also keep an eye on developments in the weather, production and consumption, and not to mention what the other players are doing in the market.

Statkraft's market operations in Europe are organised through Statkraft Energy Europe, which has offices in Düsseldorf, Amsterdam and Stockholm. These offices are active in trading and origination in the Continental power and gas markets and the UK's gas market. Origination entails the provision of custom products and solutions to customers. So far, most of the activity has been in green electricity and cross-border trading between various countries. In addition, the Continental operations manage Statkraft's interest in Baltic Cable. The European trading offices have their own back office, middle office, personnel, analysis and IT staffs. These staffs work closely together with the corresponding staffs at the head office.

		Statkraft	Statkraft Alliance					
KEY FIGURES	Unit	SF*	TEV	Skagerak	BKK	Agder	Fjordkraft	Total
Man-years	Number	75	2	-	-	4	-	81

Statkraft's ownership interest > 50 % (subsidiaries)
Statkraft's ownership interest 20–50 % (associated companies)
*) Incl. Statkraft Energy Europe

Distribution grid operations

The distribution grid operations encompass the monopoly-regulated transmission of power. Statkraft currently has ownership interests in distribution grid operations through its TEV and Skagerak subsidiaries (100 per cent interest in TEV Nett AS and 66.62 per cent interest in Skagerak Nett AS). Collectively, these two companies have more than 260,000 distribution grid customers. There are also distribution grid operations in BKK and Agder Energi. The parent company Statkraft SF does not own any distribution grid installations.

Focus areas for the Statkraft Alliance in 2004

- Preparing for a new regulation regime to be implemented from 2007
- Continuing efforts to enhance the efficiency of the companies
- Exploiting the cooperation potential between the distribution grid companies in new business areas
- Implementing a common operation management project and strengthening the cooperation in the ICT field and other common system solutions
- Strengthening the coordination of funding for distribution-grid-related R&D

Statkraft Alliance in 2003

The distribution grid operations in Norway represent a natural monopoly that is publicly regulated by the Norwegian Water Resources and Energy Directorate (NVE). The NVE sets a maximum annual income ceiling based on historical costs for each individual distribution grid company.

It has been difficult to communicate to the customers in 2003 that a reduction in consumption can entail an increase in the grid user fees. This is due to the industry's high fixed costs and the NVE's regulation, in which the tariffs are derived as a result of the income ceiling divided by the annual consumption. The year 2003 saw reduced consumption in Norway, and this has increased the grid user fees for many distribution grid customers.

The NVE is working on the new regulation regime which is to be implemented from 2007. Making a contribution to ensure that the regulation model rewards efficient distribution grid companies will be of great importance to the companies in the alliance in the years to come.

Statkraft will make an effort to ensure that the distribution grid companies in the Statkraft Alliance maximise the value of their existing ownership interests through greater ownership competence, development of efficient structures, focus on customer satisfaction and exploitation of the opportunities inherent to the existing regulatory framework. In an extensive benchmarking process among the Norwegian distribution grid companies under the direction of the Norwegian Electricity Industry Association (EBL), TEV Nett AS won the Norwegian Grid Championship in December 2003 in the urban grid class. Statkraft will seek to ensure that the alliance continues to benefit from the experience gained from such surveys.

		Statkraft	Statkraft Alliance					
KEY FIGURES	Unit	SF	TEV	Skagerak	BKK	Agder	Fjordkraft	Total
Distribution grid	Km	-	5 000	17 500	18 000	18 000	-	58 500
Distribution grid customers	Number	-	88 000	175 000	171 000	155 000	-	589 000

Statkraft's ownership interest > 50 % (subsidiaries)
Statkraft's ownership interest 20–50 % (associated companies)

End-user sales

The end-user market encompasses the sale of electric power to corporate and household customers. Statkraft is currently involved in the Norwegian end-user market through ownership interests in the alliance companies. Collectively, these companies have around 535,000 end-users, which means that together they would be the second largest player in the Norwegian consumer market.

Focus areas for the Statkraft Alliance in 2004

- Strengthening the companies' profitability and return through a reduction of costs, competitive pricing and better reputation
- Strengthening ownership competence and contributing to the development of efficient structures that can help to generate economies of scale

Statkraft Alliance in 2003

Statkraft is involved in the end-user market in Norway through ownership interests in the end-user company Fjordkraft. Fjordkraft, which is owned by BKK, Skagerak and Statkraft, has around 320,000 customers and is one of Norway's largest end-user companies. TEV and Agder Energi also have end-user operations, and both these companies have their own end-user companies.

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 weak over the last few years. The restructuring of the end-user market has helped to reduce the number of players in this market, but the industry still has a large number of suppliers and the competition is fierce. The most important competitive factors are price and customer service.

The winter of 2002–03 presented significant challenges to the end-user companies. Rapidly rising prices on the wholesale market and an unpredictable market resulted in financial difficulties for several of the companies in the end-user market, since they were not able to change the prices to their customers fast enough in accordance with the changes in the rest of the market. This also presented challenges to the companies in the Statkraft Alliance, but the companies reported satisfactory results overall.

		Statkraft	Statkraft Alliance					
KEY FIGURES	Unit	SF	TEV	Skagerak	BKK	Agder	Fjordkraft	Total
End-user customers	Number	-	75 000	-	-	137 000	323 000	535 000

Statkraft's ownership interest > 50 % (subsidiaries)
Statkraft's ownership interest 20–50 % (associated companies)

Statkraft Alliance

Over a period of time Statkraft has acquired ownership interests in the Norwegian energy companies TEV, Skagerak Energi, BKK and Agder Energi. TEV and Skagerak Energi are part of the Statkraft Group, and an effort is being made now to further develop these companies and the cooperation between them. This will improve profitability by exploiting their existing competitive advantages in the production, distribution and sale of environmentally friendly energy, as well as related areas. The development of the alliance companies Agder Energi and BKK is supported through active board work. Statkraft desires to have a controlling interest in these companies should the municipal owners be willing to sell additional shares.

The companies in the group and the alliance represent more than 100 years of Norwegian hydropower expertise, an overall annual production capacity of 56 TWh and some 550,000 end-user customers. The Statkraft Alliance is a leading producer of hydropower and the second largest producer of power based on renewable energy sources in Europe. Based on its environmentally friendly hydropower production, the alliance has credibility and an opportunity to develop new and environmentally friendly solutions for the future as well.

Statkraft will continue to contribute to the restructuring of the power industry in Norway within a given framework. Statkraft will accomplish this through the development of its ownership in the companies and contributing, together with the other owners, to increased profitability in the companies, as well as supporting the regional focus of the companies. Statkraft desires to focus on production and power optimisation, while the operation and maintenance of the power plants will be based on common competence and systems with strong regional roots. In its distribution grid operations, Statkraft will seek to improve profitability in cooperation with the alliance companies. In end-user sales, Statkraft will give priority to the commercial development of these operations, so that economies of scale can be realised. Statkraft will also seek to coordinate initiatives within the alliance in the area of new business development.

Skagerak Energi AS was established in 2001 by 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 has 16 wholly owned power plants and ownership interests in an additional 23 plants. Most of these power plants are located in the counties of Buskerud and Telemark, with the exception of partly owned plants in the counties of Oppland, Aust-Agder and Vest-Agder. Skagerak Energi is also a part-owner of the Sira-Kvina power plants and the power plants in Otra, among others.

Skagerak Energi is owned by Statkraft (66.6 per cent), Skien Municipality (15.2 per cent), Porsgrunn Municipality (14.8 per cent) and Bamble Municipality (3.4 per cent).

Trondheim Energiverk AS (TEV) was established in 1901 and is organised as a group with a parent company and subsidiaries for production, distribution grid operations, district heating and power sales. The group has 14 wholly owned power plants in the Nea and Nidelv river systems and is also a part-owner of five plants in Orkla/Grana. TEV is Norway's fourth largest distribution grid company. TEV's district heating operations produce and distribute water-borne energy to customers in Trondheim, based primarily on the combustion of waste and surplus heat. The end-user company, TEV Kraftsalg, has some 75,000 customers in the Trondheim area.

Statkraft entered into an agreement to acquire 100 per cent of TEV from Trondheim Municipality in 2002. The Norwegian Competition Authority has ordered Statkraft to dispose of all of the shares in TEV or to sell all of TEV's production capacity, or other production operations in Central Norway or Northern Norway, corresponding to a reservoir capacity reduction of 1–1.5 TWh. Statkraft SF sold its interest in the Øvre Namsen power plants to Nord-Trøndelag Elektrisitetsverk in February 2004 as part of its compliance with the order from the Competition authority.

Agder Energi AS was established in the summer of 2000 after a merger between former power companies in the region. The company is organised as a group with subsidiaries for production, distribution grid operations, end-user sales, wind power and district heating. It has 29 wholly owned power plants and ownership interests in an additional 16 plants. Agder Energi is also a part-owner of the Ulla-Førre and Sira-Kvina plants.

The largest owners of Agder Energi are Statkraft (45.5 per cent), Arendal Municipality (6.4 per cent) and Kristiansand Municipality (5.3 per cent).

Bergenshalvøens Kommunale Kraftselskap AS (BKK) was established in 1920. The company produces power at its one jointly owned and 27 wholly owned power plants and has one of Norway's largest distribution grids. BKK is organised as a group with subsidiaries for production, distribution, district heating and broadband services. BKK has ambitions to be the leading power company in Western Norway. Over the last few years the company has acquired a number of other power companies in the counties of Hordaland, Sogn and Fjordane, and Møre and Romsdal, and BKK's goal is to create a pan-Western-Norwegian company stretching from the Romsdal Fjord in the north to the Bokna Fjord in the south.

The largest owners of BKK are Statkraft (49.9 per cent), Bergen Municipality (37.8 per cent) and Askøy Municipality (2.5 per cent).

Other activities

Statkraft Norfund Power Invest AS (SN Power) was established in June 2002 by Statkraft and Norfund, the Norwegian Investment Fund for Developing Countries.

SN Power's vision is to become a leading power company in new growth markets and contribute to economic growth and sustainable development in these regions. The company will accomplish this by acquiring, developing, owning and operating hydropower plants and other renewable power production.

There is a great need for power in developing countries. The International Energy Agency estimates that 1.6 billion people do not have access to power. This means that there is a significant market potential for power projects.

In its first full year of operations, the company made two acquisitions, a small power plant in Sri Lanka and two hydropower companies in Peru. This has given the company over 100 employees and a foundation for further expansion in these countries. The company – whose head office is located in Oslo – is currently studying new investment opportunities in certain countries in Asia, Latin America and Africa.

Statkraft has provided the company with NOK 500 million in equity capital, NOK 400 million of which was provided in 2003. Competence has been provided by the transfer of personnel from Statkraft's International Division to the company. Norfund has funded the company with a corresponding amount and contributes experience from investments in developing countries.

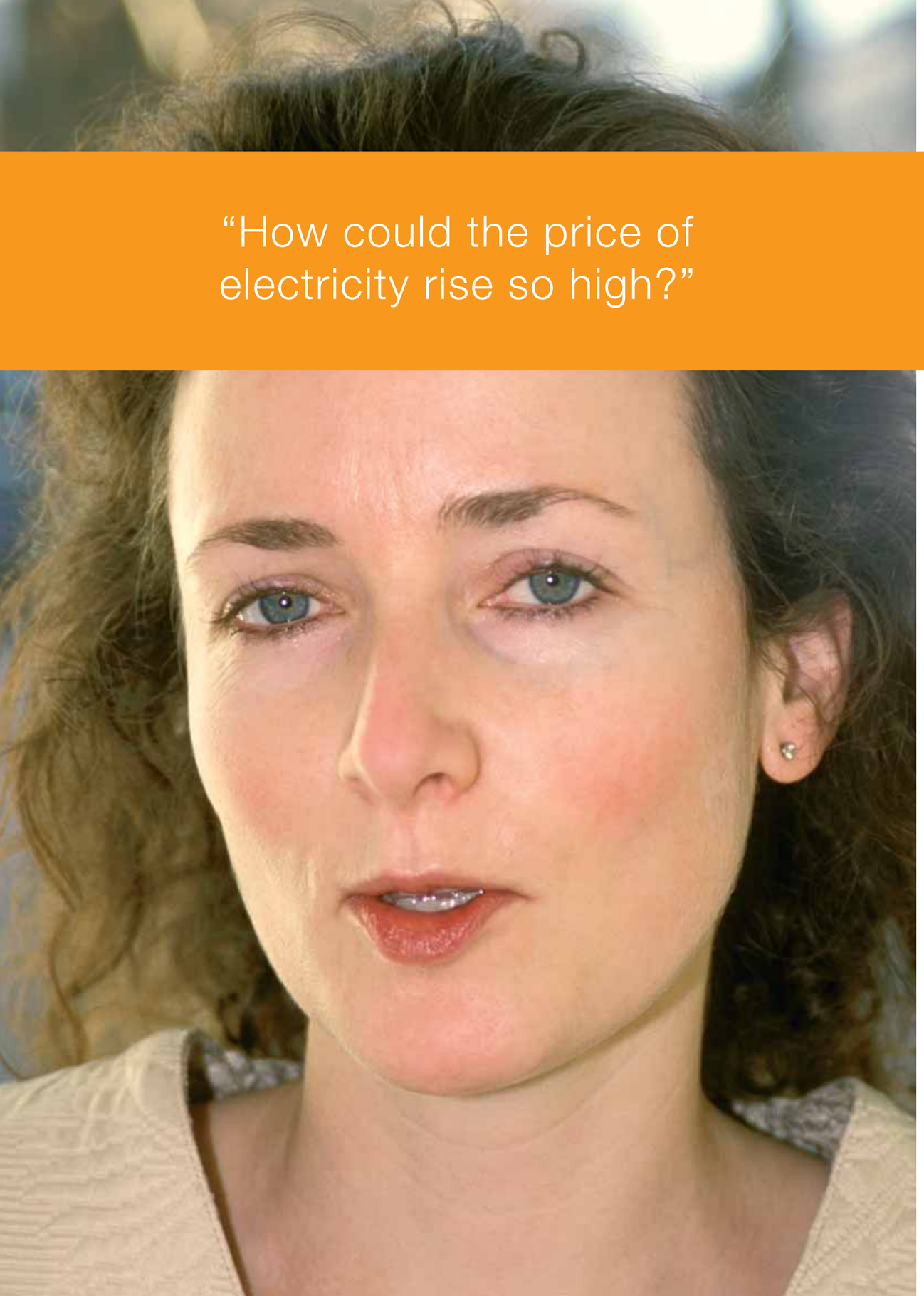
Statkraft plans to transfer its ownership interests in two power plants in Nepal and Laos, respectively, to SN Power. There is an ongoing process to find a solution for the transfer, and it is dependent on the necessary approval of the authorities, lenders and co-owners. SN Power is continuing its operations as planned, regardless of this process.

Naturkraft AS was established in 1994 and is owned equally by Statkraft, Statoil and Norsk Hydro. The company's business concept is to process Norwegian gas as a source of power 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 Municipality and one at Kollsnes in Øygarden Municipality. The profitability of these projects is not yet deemed as adequate for realisation.

Statkraft Grøner AS was sold to the Swedish company SWECO in September 2003. Statkraft had a 92 per cent ownership interest in the consulting firm.

Financial investments

Statkraft's ownership interests in HEAS, E-CO Vannkraft and Sydkraft are classified as financial investments, and these companies are not part of the Statkraft Alliance. However, Statkraft initially took a stake in HEAS with the intention of establishing an industrial partnership. As a consequence of the Competition Authority's demands in connection with the approval of Statkraft's acquisition in Agder Energi, Statkraft's ownership interests in HEAS and E-CO Vannkraft must be divested.



“How could the price of electricity rise so high?”

The autumn of 2002 was the driest for 70 years, and the following winter was the coldest for 15 years. It was a situation no one could have foreseen.

STATKRAFT had been conserving water in its reservoirs throughout the wet season in the early part of 2002, and maintained a high level of production during that autumn and winter. At the start of the autumn in 2002 Statkraft had a great deal of water in its reservoirs. This enabled us to maintain an extraordinarily high level of production. In so doing, Statkraft helped to cut prices in the electricity market, for the benefit of Norwegian consumers.

Focus on finance

In a financial perspective, Statkraft is measured by its ability to create added value for its owner. This applies primarily to the long-term creation of added value represented by the dividend withdrawn by the owner, and the appreciation of the company's value. In addition, there is an increasing focus on short-term earnings. We measure financial performance in part by ordinary accounting figures, but other financial and operational quantities are also important in a management context. This article reviews the measurement of financial performance that Statkraft itself focuses on. The relationship between short and long-term added value is discussed in greater detail in a separate article on Page 38.

Statkraft operationalises its strategies and goals through a system of balanced management by objectives. This system includes a balanced scored model with a group balanced scorecard for the group's management and board of directors, and individual scorecards for the operational units. The scorecards consist of measurable indicators that support the group's most important value drivers. We will summarise selected target indicators from the group's balanced scorecard in the discussion below. We will link our discussion to the summary of key financial figures presented in the beginning of this annual report (foldout page).

Revenues and cash flow

After the acquisitions made in recent years, Statkraft has more available power production than ever before, and we are one of the most important players in the Nordic market. The Statkraft Group's market share was 11 per cent in 2003. In addition, we have a greater degree of representation in distribution grid and end-user operations. In 2003, revenues increased by 11 per cent over 2002 and totalled NOK 12.1 billion.

Statkraft has unique competence in the management of power production and trading. This is measured by Statkraft's ability to manage its water resources optimally in the long term, so that it achieves a better average price than other companies in Norway.

Statkraft is also actively engaged in power trading in the market to hedge its power production. This is measured annually and over time by the added value of all hedging, both physical and financial, compared to selling all the production on the spot market. The added value for the year 2003 alone totalled NOK 1 billion. However, around 60 per cent of the production capacity of Statkraft SF, which corresponds to 18 TWh, is tied up in contracts with a price that is lower than the market price. These contracts represent deliveries to industry that are mandated by the Norwegian Storting (Parliament). In addition, we also have the mandated sale of licence power to the local and county authorities. Licence power normally accounts for around 10 per cent of a power plant's production capacity. In 2003, the average price was NOK 0.110/kWh for industrial power and NOK 0.070/kWh for licence power, which was NOK 0.181/kWh and NOK 0.221/kWh lower, respectively, than the average spot price. The overall loss on these deliveries in relation to the market price was thus NOK 4.2 billion for the group. The industrial contracts will gradually expire between 2005 and 2011, after which the power can be sold on the open market.

Power production and trading are still essential to our earnings, even though Statkraft has entered into new business areas through acquisitions in recent years. In 2003, production and trading accounted for 77 per cent of our revenues, while the distribution grid operations, which represent the second largest business area, accounted for 10 per cent. Measured by operating income, production and trading accounted for a total of 94 per cent in 2003. The business areas are discussed in greater detail on Page 22.

Our operating activities generated a substantial cash flow in 2003. The operations generated NOK 3.1 billion, and we received a dividend of over NOK 0.7 billion from our associated companies. In addition, the capital tied up in outstanding receivables was reduced by NOK 4.3 billion, due in part to the fact that the deposits required as security for power trading on the exchange have declined in step with the falling power prices. In addition, NOK 1.8 billion was provided through borrowing and other changes in long-term balance sheet items, and NOK 4 billion in new equity was injected. The total cash flow provided was thus around NOK 14 billion. Of this NOK 1.7 billion was used for investments, NOK 8.5 billion was used for the repayment of loans, NOK 2.2 billion was paid as a dividend to the owner, and the increase in our cash and cash equivalents was NOK 1.7 billion.

Production and costs

Statkraft's core competence is also linked to the technical operation of power plants. Statkraft seeks to strengthen its competitiveness in power production through improving its work processes. Our goal is to achieve the most cost-effective operations possible, without any reduction of value, while maintaining safety and ensuring that production capacity is available when an energy optimisation analysis indicates that we should produce power. We focus continuously on this balance, and the two target figures below reflect this. The actual direct costs of the production facilities are measured per KWh of normal production against a standard, and we also follow up whether we manage to maintain a high level of availability in the production facilities when the capacity is required. The results for 2003 are better than or very close to our target.

Financial results and returns

Statkraft's goal for the long-term creation of added value is to ensure a return on the value-adjusted equity that satisfies the owner's requirements.

The owner – the State – stipulated a nominal return of 11 per cent after tax on the value-adjusted equity in Proposition no. 1 (1999-2000) to the Storting. The owner is evaluating new return requirements. Until these requirements are in place, the accounting-based figures will be used.

In 2003 Statkraft reported pre-tax income of NOK 4,754 million and net income of NOK 2,867 million. This was a significant improvement in relation to 2002. If we disregard the large one-time compensation payments that were received in 2001, the financial results for 2003 were the best ever reported by Statkraft.

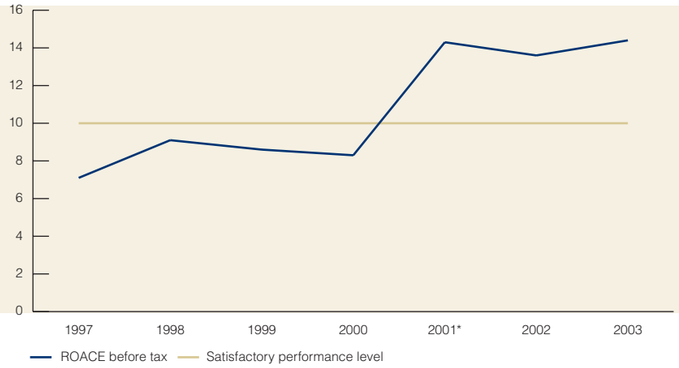
Statkraft's operating margin, ie the operating income in relation to revenues, was around 40 per cent for many years, but it has been around 50 per cent during the last three years. This is the level that is required to provide a satisfactory return. Statkraft's operations are very capital intensive, and a large portion of our costs are fixed. Thus the operating income is primarily influenced by the revenue side, and this side is very sensitive to the development of the power prices.

The ROACE (Return On Average Capital Employed) target figure measures the return on the operating activities, and it represents the operating income (EBIT) in relation to the capital employed in the operations. The ROACE before tax is 14.4 per cent, and we consider this to be satisfactory. We regard 10 per cent as the minimum satisfactory level.

The return on the company's book equity

Target figures	Unit	Target 2003	Actual 2003
Production cost per kWh	NOK/kWh	5.7	5.2
Utility-adjusted availability	%	98.3	98.6

Return on Average Capital Employed (ROACE)



* Before one-off compensation payments

was 14.4 per cent before tax. This is satisfactory in consideration of the fact that the average return of European energy companies in recent years has been in the 10 to 15 per cent range. The return on equity after tax was 8.7 per cent, which is just below the return of comparable companies. The return on total assets after tax was 6.7 per cent, and we also consider this to be satisfactory.

All the ratios that reflect returns show a slight increase over 2002. The return figures have stabilised at a higher level during the last three years than the period prior to this. When we consider the figures to be satisfactory, we also take into account Statkraft's large portfolio of industrial contracts at government-mandated prices and the high level of tax on power companies in Norway.

Financial strength and liquidity

Statkraft finances a large portion of its operations through borrowing on the financial markets. The opportunities for 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, our long-term loans, primarily bond issues, were guaranteed by the Norwegian State. Because this guarantee does not apply to loans raised after 1 January 2003, Statkraft is evaluated now on the basis of its own financial performance and standing. The financial markets focus primarily on a company's cash flow, capacity to service debt, liquidity and debt-equity ratio.

The FFO (Funds From Operations) interest coverage measures the capacity to service debt and shows the relationship between estimated cash flow from operating activities and interest costs. This figure was 2.4 in 2003 and is just below our short-term target of 2.5, which was set on the basis of our current financing. The company's goal is to achieve an A-level credit rating from the international rating agencies, and we acknowledge that this will require a target figure level of 4 with our business profile and ownership structure. This level cannot be achieved without a reduction of the company's debt-equity ratio or a significant improvement in the company's earnings.

Statkraft has a separate short-term liquidity capacity target figure, which indicates the company's ability to meet its obligations during the next six months. This target figure should be between 1.5 and 2.5, which means that the receipts for the next six months, unrestricted bank deposits, financial investments and unutilised credit facilities shall be sufficient to cover the payments for the period at least 1.5 times. This target figure was 1.7 at the end of 2003.

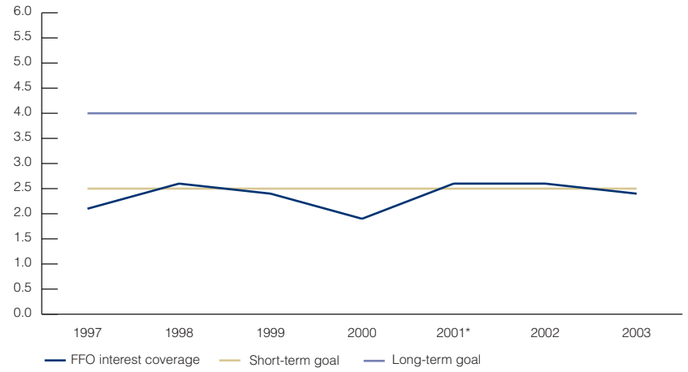
In 2003 our equity increased by NOK 4.2 billion to NOK 35.0 billion, and our equity ratio at the end of the year was 39.7 per cent. Almost all of this increase was attributed to the owner's injection of NOK 4 billion in new equity in December. Self-financing was very low in 2003, because it has been decided that 95 per cent of the net income for the year shall be paid out as a dividend. The equity situation is far from satisfactory to achieve an A-level rating. We assume that the ratio should be around 60 per cent. This will require a significant restructuring of the balance sheet through the sale of assets or injection of new equity. An improvement in our self-financing capacity by retaining a greater share of our net income would also make a positive contribution.

Risk management is also an important aspect of credit rating evaluation. The company's various risks, both operational and financial, are discussed in Note 28 to the accounts and a separate article on Page 52.

Target figures	Unit	Target 2003	Actual 2003
Financial strength (Funds From Operations Interest Coverage)	Ratio	2.5	2.4
Short-term liquidity capacity	Ratio	1.5	1.7

The level of investment in 2003 was low, amounting to NOK 1.7 billion, of which a good half was used to renovate existing production assets. Statkraft's focus on exploiting new environmentally friendly energy sources such as wind power means that a larger share of the company's investments will be made in these areas. Such a focus will also demand a greater financing capacity.

FFO Interest Coverage



* Before one-off compensation payments

What affects the valuation of power producers?

What importance should be attached to the current earnings and expected long-term creation of value for the valuation of a power producer? Statkraft believes that it is necessary to evaluate the financial performance over time. The earnings for an individual year can be misleading in relation to the company's real financial performance.

The power industry's distinctive features

A long-term perspective is essential to the power industry. The production of power in Norway is based almost exclusively on hydropower. Hydropower production plants last practically forever, because, for example, dams, tunnels and underground facilities, which are exposed to limited wear, typically represent a major portion of these production plants. The industry is very capital-intensive, which means that the fixed costs attributed to interest and depreciation are high. In addition, there are licence fees and resource rent taxes that are assessed partly independantly of the company's earnings.

At the same time, the variable operating costs for a hydropower plant are low. Due to the high share of fixed costs, new hydropower projects often make a negative contribution to earnings during the first years after they are commissioned, but the contribution is all the more positive when the plants are written down and the interest charges are reduced. This means that companies that have relatively new production plants, or have recently purchased production plants or interests in other production companies, will experience greater negative earnings pressure than companies that have old and written-down plants.

In a normal year, more than half of the electricity production in the Nordic region is generated by hydropower, while the rest is generated by nuclear power and thermal power. Hydropower production varies considerably from year to year – and even in the same year – depending on changes in the amount of rain and snowfall and inflow. At the same time, electricity consumption remains relatively stable, causing the electricity prices in the Nordic region to fluctuate greatly. This can be illustrated by the average spot price on the Nord Pool exchange, which has fluctuated from NOK 0.103/kWh in 2000, to NOK 0.187 in 2001, NOK 0.201 in 2002 and NOK 0.291 in 2003. The earnings of the power producers in the Nordic region vary greatly from year to year as a result of these major price fluctuations.

In addition, the earnings are influenced by how a company has managed its reservoir capacity. Because rain is free, the hydropower producers do not enter the content of their reservoirs as stock in their accounts. This means that changes in their "stocks" are not reflected in their accounts. If a company elects to maintain a high production level, and thus draw down their reservoirs to a low level, the company can report good earnings due to the high revenues. The cost of this, however, may come in the following year, because the company, unless there is a lot of rain, will have to reduce its production and take a revenue hit.

Statkraft is subject to so-called government mandated contracts with power-intensive industries, and the prices in these contracts are low compared to the current market price, which influences the company's current earnings. These contracts were established at various points in time during the period from 1950 to 1980, and they currently account for a volume of approximately 18 TWh per year. The average price for these contracts was NOK 0.11/kWh in 2003. The earnings reported by Statkraft are thus significantly lower than if the company had sold these contracts on commercial terms.

Valuation

Based on the distinctive features of the industry, it may appear obvious to use a long-term time horizon when evaluating the financial performance of power producers. The forecasted future cash flows are therefore often used for the valuation of companies. Estimating the expected revenues, costs, maintenance investments, and taxes, and then discounting these by a required rate of return, will give a good idea of the company's real value.

Another approach is to use the pricing of comparable companies as an indicator for valuation. It is possible to estimate what a company is worth on the market by taking a group of comparable companies with an observable value, from an exchange, for example, and correlating the market values to individual key figures, such as the operating income or net income. The comparison is often based on the expected earnings for the coming years, or the assumed normal earnings calculated from the average earnings over a period of years.

These two approaches to valuation, the net present value method and the market-based method, may give very different results. The net present value method is very sensitive to the assumptions made with regard to the future electricity prices, reinvestment needs, other costs, and the discount rate. The market-based method, on the other hand, is very sensitive to the type of key figure used as a basis for the calculation, in addition to the fact that how a company should be priced in relation to another is always a matter of discussion. Most people will agree that a hydropower company should be priced higher than a company that bases its production on thermal power, especially because hydropower plants have a long life and low level of emissions. How much higher, however, is the subject of debate.

Relationship to lenders

A company's relationship to lenders is another important factor that must be taken into account in the management of a company. Creditworthiness, access to external financing and liquidity are of decisive importance to the proper development of a company. Lenders are concerned about to what extent a company is able to service its loans, and they focus thus on the short and medium-term earnings and cash flows. In addition, there are of course a number of other factors, such as liquidity, financial strength, underlying values and the quality of the management.

Balance between current earnings and long-term creation of value

It follows from the discussion above that it is necessary to balance the requirement for current earnings against the desire for the highest possible long-term creation of value. What weight should be given to the various considerations depends on what situation a company is in. A company in a distressed financial situation will normally have to give more priority to its relationship to lenders and focus therefore primarily on short-term profitability and cash flow. This will also apply to many listed companies to some extent, because today's shareholders often have a relatively short time horizon and are thus concerned about the current earnings and outlook for the near future.

Privately owned, unlisted and publicly owned companies can base their operations on a more long-term time horizon, unless the owner is in need of or places demands on the current earnings and associated dividends.

Financial management of Statkraft

Statkraft's articles of association stipulate that the company shall operate in accordance with commercial principles. When Statkraft studies new investments, the long-term creation of value is considered first. This means that the expected net present value of the project must be positive, so that the value of Statkraft is higher if the investment is made than if it is not. The required rate of return is market oriented and reflects the alternative rate of return an investor could expect from a project with equivalent risk. How the investment will influence the group's earnings, cash flow and the key ratios that are indicative of the group's creditworthiness is also evaluated. Given the company's creditworthiness targets, it is a prerequisite that the project has a cash flow profile and size that is compatible with these targets. We are working on placing a greater focus on the short-term influence on earnings, so that an optimal balance between the short and long-term creation of value is established.

The creation of value is followed up in a long and short-term perspective. The long-term creation of value is expressed by the return on the value-adjusted equity capital. This is followed up by an annual valuation of the group's equity capital, so that the value appreciation element of the return is identified, in addition to the current return in the form of dividends. For the short term, the current earnings performance and a target figure for the net contribution to earnings from acquired companies is followed up. This is expressed by the earnings from the company less the financing costs associated with the purchase price. In addition, current projections are made for the key figures that are indicative of the group's creditworthiness.

Focus on the environment

Statkraft's power production consists almost exclusively of hydropower, and we are making major investments in the development of new, environmentally friendly sources of energy. We are doing so because environmentally friendly energy will become even more valuable when the demand for green energy increases. Statkraft is aware of the fact that all production of energy impacts the environment to a varying degree. Therefore we would like to account for the environmental impact associated with our operations.

Power production

By 2015 Statkraft aims to have built new hydropower plants capable of producing 4 TWh of electricity per year, of which 3.2 TWh should be on stream by 2010. The new Bjølvo Power Plant in Hordaland went into production in 2003, and will increase production at Bjølvo by 65 GWh. Construction was also started on the Øvre and Nedre Bersåvatn Power Plants in Tyssedal, which will have a mean annual production of 43 GWh. In addition, a great expansion of the existing production facilities along the Røssåga river system in Nordland is under planning. A crucial requirement for this project, which is called "Opportunities in Helgeland", is that the Vefsna river system will not be included in an extension to Conservation Plan IV, which is due to be reviewed by the Norwegian Storting (Parliament) in the autumn of 2004.

Statkraft has an ownership interest in the company Småkraft AS, the object of which is to establish small, environmentally friendly power plants in cooperation with landowners. Statkraft aims to develop 1.5 TWh by 2012 through Småkraft. In 2003 Småkraft AS entered into agreements with private landowners to build 27 small-scale power plants. If all of these power plants are realised, they will have a total production capacity of arond 425 GWh.

Moreover, Statkraft aims to develop 3 TWh of wind power in Norway by 2015, of which 2 TWh is to be developed by 2010. Outside Norway, Statkraft's goal is to develop 2 TWh of wind power by 2015, of which 1 TWh is to be developed by 2010. Statkraft currently has one operational wind farm, Smøla 1, which produced around 0.1 TWh in 2003. The construction of Hitra and Smøla 2 Wind Farms also started in 2003. These projects will be completed in 2004 and 2005, respectively, with an overall annual production of 0.6 TWh. Statkraft is also studying several other wind power sites, and a licence – under appeal of the Ministry of Oil and Energy – has been granted for a wind farm in Lebesby Municipality in Finnmark County.

Gas power is another area of focus for Statkraft, and the goal is to develop 2 TWh by 2010. Naturkraft, a company in which Statkraft has an ownership interest, has been granted a licence to develop two gas-fired power plants (Kollsnes and Kårstø). These two power plants will generate a total of 6 TWh of energy. Whether an investment decision will be made is dependent on a gas contract, estimates of the future power prices, and a clarification with regard to the future CO_2 handling requirements.

Environmental transparency

In 2002 an Environmental Product Declaration (EPD) was prepared for the Trollheim Power Plant in Møre and Romsdal. The EPD provides consumers with comparable information about a power plant's environmental impact (eg greenhouse gas emissions, eutrophication, acidification etc). The EPD has revealed that hydropower is by far superior to most other sources of energy. The cost in monetary terms of its local environmental impact on nature, outdoor leisure activities and cultural monuments etc has been set at NOK 0.06–0.08/kWh.

Current R&D projects

By 2015 Statkraft aims to realise its vision of producing 1.5 TWh of electricity based on new sources of renewable energy in Norway, of which 0.5 TWh will be in production by 2010. With regard to the development of new technology, Statkraft is working on salinity power and the exploitation of tidal energy in particular.

Statkraft's research in salinity power really took off in 2001. This project has come so far that a field laboratory was opened at Sunndalsøra in June 2003. The key component of a salinity power plant, the membrane, will be tested under natural conditions in this laboratory. At present we are testing the performance of small units, but we will be testing larger modules and building a small demonstration plant in the future. We are planning to introduce this to the market in five to eight years.

Statkraft, through the company Hydra Tidal Energy Technology, is also working on a concept for exploiting energy from tides. This project has been in progress since 2001. The concept consists of the use of well-known technology from other areas, such as wind power and maritime operations. Statkraft is planning to build a pilot installation to test the technology in 2005. We expect that this technology will be commercialised in three to five years.

Keeping accounts of environmentally harmful substances

For a long time Statkraft has made an effort to keep precise track of the substances that are used in our operations. We have prepared accounts of environmentally harmful substances since 2000, and the data for these accounts is collected from all our power plants. These accounts allow us to continuously control whether the consumption is at the proper level and to identify any abnormal conditions at an early stage. We have also prepared a database that includes all the substances we use.

Recording environmental non-compliances and minor incidents

Statkraft has established a separate target figure for environmental non-compliances on the group's balanced scorecard. Environmental non-compliance consists by definition of any breach of licence regulations, manoeuvring regulations, laws and self-imposed requirements with measurable or noticeable environmental consequences. The company's overriding principle is that environmental non-compliance is unacceptable. Four environmental non-compliances were nevertheless recorded in 2003. The most serious non-compliance occurred when a contractor used polluted clinker in connection with repairs to the Akersvassdammen dam, whose drainage basin is designated as a reserve source of drinking water. Investigations show that the clinker will probably not reduce the quality of the water in the Akersvatn lake.

Minor incidents are also recorded. These are incidents that have no measurable or noticeable consequences for the environment. The registration of this data gives us an overview of what environmental risks we are exposed to and how we can take preventative measures to avoid potential non-compliance. The number of recorded minor incidents has increased significantly in recent years. We believe that this is a reflection of the fact that our registration routines have improved, and not that the number of incidents has increased. Openness is an important principle to ensure that environmental non-compliances and minor incidents are reported.

Emissions according to Trollheim's Environmental Product Declaration

Emissions to air

Parameter	Environmental impact	Unit	Total emissions over 60 years
CO_2	Greenhouse effect	g/kWh	0.71
SO_2	Acidification	g/kWh	0.0011
NO_x	Acidification and Creation of photo-oxidants	g/kWh	0.0074
VOC	Creation of photo-oxidants	g/kWh	0.000053

Emissions to water

Parameter		Unit	Total emissions over 60 years
Tot-N	Eutrophication	g/kWh	0.000017
Tot-P	Eutrophication	g/kWh	0.000000019
COD	Eutrophication	g/kWh	0.0000063

Focus on society

Statkraft manages very many river systems, which entails certain duties and obligations in relation to the ecology, fishery resources, municipalities, local communities and society at large. For us it is important to fulfil this "social contract" in a professional and reassuring manner. A good relationship with the host municipalities and administrative authorities is a prerequisite for success in this area.

Social accountability

The added value generated by Statkraft is returned to society, to some extent as salaries and social benefits to employees, taxes and levies, and to a great extent as dividends to our owner and interest to our lenders. Moreover, the difference between the market price and contract price for power supplied to industrial enterprises also represents a social contribution.

The added value table below shows an increase of 15 per cent from 2002 to 2003. This is due to the high power sale revenues in 2003. The results of the other ongoing activities in the company are at practically the same level as 2002.

Of the total added value in 2003, 84.3 per cent was distributed to lenders and the owner, as well as to taxes and levies. The contribution to lenders accounts for 32.6 per cent, which reflects the fact that the major acquisitions made in recent years have been financed by loans. 52 per cent of the added value, or close to NOK 5 billion, was distributed to the national and local authorities in the form of dividends, as well as taxes and levies.14.2 per cent of the value added was returned to the employees in the form of salaries, which reflects the fact that Statkraft is a very capital-intensive company. Only 1.4 per cent of the added value was retained by the group as increased equity capital.

Value added (NOK million)	2003	2002
Gross operating revenues	12 120	10 889
- Consumption of goods and services purchased	2 725	2 309
Gross value added	9 395	8 580
- Ordinary depreciation	1 347	1 490
Net value added	8 048	7 090
+ Financial income	474	535
+ Result from associated companies	1 114	871
- Minority interests	125	171
Value for distribution	9 511	8 325

Distribution of value added (NOK million)	2003	2002
Employees		
1. Gross salaries and social benefits	1 353	1 262
Lenders and owner		
1. Interest	3 098	2 783
2. Dividends	2 605	2 192
3. Taxes and levies	2 318	1 973
Company		
1. Change in equity	137	115
Distributed value	9 511	8 325

Industrial contracts (NOK million)	2003	2002	2001	2000	1999
Market value of power linked to industrial contracts	6 416*	4 241	3 847	2 139	2 371
- Revenues from industrial contracts	2 182*	2 113	2 225	2 094	2 105
= Social contribution from industrial contracts	4 234*	2 128	1 622	45	266

* The figures for 2003 apply to the Statkraft Group, while the figures from earlier years apply solely to Statkraft SF.

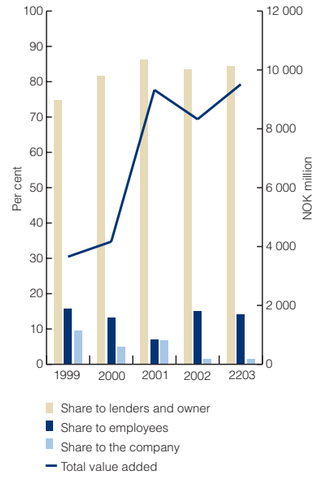
As part of the regulatory framework, Statkraft SF is required to supply power to power-intensive industries and licence power to the municipalities at a reduced price that is set by the Norwegian Storting (Parliament). In 2003 these prices were NOK 0.11/kWh and NOK 0.07/kWh, respectively. For Statkraft SF the supply of such power represents about 60 per cent of our normal production capacity. The difference between the market price that this power could have been sold at and the low contract price represents a significant social contribution.

Around 75 per cent of Statkraft SF's total tax contribution in 2003 went to Norwegian municipalities and county municipalities, while around 25 per cent went to the State. The table below lists Statkraft SF's 10 largest municipal tax recipients and our total tax contribution to Norwegian municipalities in NOK million. The table includes taxes and license fees paid directly to the municipalities, and shows that the 10 largest municipalities receive around half of our total tax contribution to Norwegian municipalities.

Reputation

Statkraft has introduced a target figure to the group's balanced scorecard for our external reputation. The profile survey that establishes the basis for our target figure was conducted systematically for the first time in 2003. The survey encompasses three target groups: the finance market, regulators, and public opinion. The survey results were positive in the finance market and among the policymakers, with regard

Distribution of value added



Tax contributions to Norwegian municipalities (NOK million)	2003	2002	2001	2000	1999
Vinje	67.2	66.0	64.5	65.6	65.3
Hemnes	60.1	59.2	59.0	57.2	57.4
Rana	52.5	49.0	48.4	48.8	49.5
Suldal	48.3	47.0	48.5	60.2	59.1
Tokke	36.8	36.1	35.1	42.7	42.3
Eidfjord	33.5	33.4	33.5	36.6	36.7
Luster	31.3	28.9	28.4	38.1	35.9
Nore and Uvdal	30.7	29.3	28.7	27.7	27.4
Meløy	30.6	27.6	26.2	32.8	33.7
Narvik	30.0	29.7	29.0	31.9	32.0
Total, 10 largest municipalities	421.0	406.2	401.3	441.6	439.4
Total, all municipalities	839.2	816.2	807.9	868.2	856.8

Focus on competence and corporate culture

to our brand and communication. However, we scored considerably lower in relation to public opinion. We assume that this result is due to last year's record-high power prices.

Statkraft has also established a recruitment strategy that is called Top 25. The object of this strategy is to improve our position as an attractive employer among students, and thus secure access to the best new graduates in the years to come. In 2003 we ranked as no. 37 among business management/economics students and no. 39 among engineering students in Universum's surveys. This is a major improvement in relation to 2002, when our corresponding ranking was no. 84 and no. 50 for business management/economics students and engineering students, respectively. Our significant progress is due to well-targeted marketing efforts and increased visibility among the students. Our goal is to be among the 30 most attractive companies in 2004, and among the 25 most attractive companies in 2005.

R&D

An important part of Statkraft's social contribution is the development of national competence in the form of research and development (R&D). Statkraft's R&D activities should balance the need for improving the existing production and investing in new energy technology. We desire long-term cooperation with leading research institutions and industrial partners.

In 2003 Statkraft SF had net expenditures of NOK 45 million on R&D, which corresponds to approximately 2 per cent of the company's operating costs. In addition, contributions of around NOK 8 million were received from the EU, the Research Council of Norway and others.

Statkraft's R&D is performed through alliances and cooperation with external partners. Our method is to work on projects together with universities, research institutions, industrial enterprises, other energy companies, founders, consulting firms and joint venture companies. In March 2002 Statkraft entered into an agreement with SINTEF Energy Research that has a budget of up to NOK 10 million per year over a period of five years. This framework agreement will ensure long-term research cooperation between SINTEF and Statkraft in a number of areas.

Statkraft is also a major contributor to the electricity industry's jointly financed R&D. This research programme has an annual budget of around NOK 50–60 million, and Statkraft contributes around NOK 5 million in direct contributions.

Sponsorship activities

The goal of Statkraft's sponsorship activities is to ensure that the group has a comprehensive policy which encompasses relationship building, positive visibility and internal pride. We desire to target our use of resources on sponsorship activities. We have decided to focus our primary efforts on cultural sponsoring and give priority to the host municipalities where we have a presence. Moreover, Statkraft currently has long-term sponsorship agreements with Det Norske Teatret (the Norwegian Theatre) and the Norwegian Nobel Institute (via the Nobel Peace Prize Concert).

Universum survey	Target 2005	Target 2004	Target 2003	Result 2003	Result 2002	Result 2001
Business management/ economics students	Top 25	Top 30	Top 50	37	84	77
Engineering students	Top 25	Top 30	Top 50	39	50	85

Statkraft's vision of being the leading European provider of environmentally friendly energy will be realised through making the right business decisions, building a competent and efficient organisation and having the necessary framework conditions for such a development. The company has focused precisely on building a competent organisation in 2003. We have worked systematically to define and survey the organisation's competence and competence requirements, and have organised this information in a system tool. Statkraft also has a goal of there being zero injuries in connection with our business activities. As a consequence of this, we have made an active effort in 2003 to follow up and record hazardous conditions.

Organisation and Leadership Evaluation (OLE)

Each year Statkraft carries out an evaluation of its organisation and leadership. This survey is called OLE (Organisation and Leadership Evaluation), and a target performance level is included on the group's balanced scorecard. The OLE provides the basis for an employee index, an organisational index, a leadership index, a target and value index, and an overall index. The results of the OLE 2003 show significant improvement in all areas and all companies in the group compared to 2002. The group's overall OLE score was 3.93 in 2003 compared to 3.61 in 2002 (on a scale of 1 to 5, where 5 is the highest score). The results indicate that over 80 per cent of our employees are satisfied with the sum of their working conditions, their own jobs, opportunities to develop their skills, management, organisational situation, promotion prospects, and level of contribution and influence

Human capital

Statkraft SF employs a total of 820 man-years, and we believe that our workforce is well-suited to the work we undertake. The average age of Statkraft SF's employees is 45, while the average age in the Production Division and Markets Division is 47 and 39, respectively. The average age of the female employees is less than that of the male employees at Statkraft SF.

Women make up 22 per cent of Statkraft's total workforce. We would like to see more women in managerial positions. Women currently fill 18 per cent of managerial positions in Statkraft SF. One of the measures we are implementing to increase this share is to give priority to qualified women in our management development programmes.

28 per cent of Statkraft SF's workforce are educated to degree level, 20 per cent have an engineering or other college diploma, 38 per cent are qualified master craftsmen or have another vocational qualification, while 12 per cent have completed lower and/or upper secondary school. We consider our competence mix to be well suited to Statkraft SF's business activities.

On average Statkraft SF's employees have been with the company for 13.2 years. The average length of service in the different divisions varies considerably. Employees in the Production Division have the longest average length of service with 16.8 years.

OLE score	Unit	Target 2004	Target 2003	Result 2003	Result 2002
Statkraft Group	Scale of 1 to 5	3.80	3.67	3.93	3.61

Staff turnover in Statkraft SF was 1.4 per cent in 2003. This is extremely low and is due to a combination of high employee satisfaction, a tight labour market and a geographic spread that makes turnover less natural. Statkraft's target is an annual staff turnover of 3–8 per cent.

Just over half, 54 per cent, of Statkraft SF's employees are members of a trades union, most of them belong to the union EL & IT.

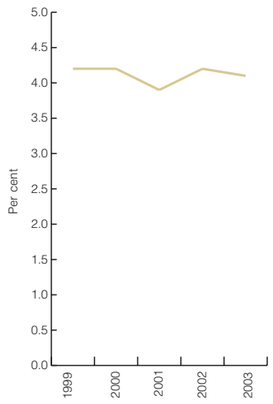
Injury frequency and sick leave rate

Statkraft's overriding principle is that injuries are unacceptable, and our long-term goal is zero injuries in connection with our operations. The H1 injury frequency is one of the target figures on the group's balanced scorecard. In 2003 the H1 value at the group level was 7.0, which is a significant increase in relation to 2002, when the H1 value was 4.0. The target for 2003 was 5.0. Statkraft also records the H2 value. The target for 2003 was 10.0, but the result was 18.0. There were in other words very many incidents in 2003, but none of them were serious. We take this negative trend very seriously. All injuries have been carefully investigated to identify their cause and uncover possible errors, either with the equipment, routines or definition of responsibilities. We have also focused more closely on follow-up of high-risk areas. None of the incidents this year took place during high-risk operations, which indicates that this work has been successful. Due to the large number of incidents in 2003, we will focus more on day-to-day risk situations in the future. There is a great deal of openness in the company with regard to reporting accidents and hazardous conditions. This openness is one of the cornerstones of our health and safety work, and is an element we will continue to foster.

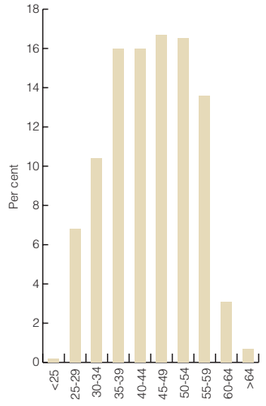
A performance target for sick leave is also in the group's balanced scorecard. This target figure is an indicator for the company's physical, psychological and social environment. Statkraft's goal is to be among the top third in the industry with regard to its sick leave rate. The target for 2003 was 3.5 per cent, but the result at the group level was 4.1 per cent. If we look at Statkraft SF in isolation, the sick leave rate shows a positive trend, and the result for 2003 was 3.2 per cent. This is a very good result in relation to the industry as a whole and the rest of society.

Indikator	Unit	Target 2004	Target 2003	Result 2003
H1	Number of injuries with lost time per million hours worked	5.0	5.0	7.0
H2	Number of injuries with and without lost time per million hours worked	10.0	10.0	18.0
Sick leave rate	Total amount of sick leave in relation to days worked (per cent)	3.5	3.5	4.1

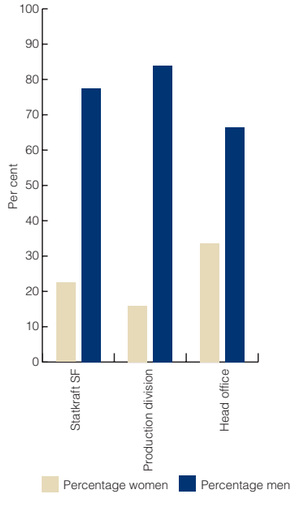
Sick leave rate



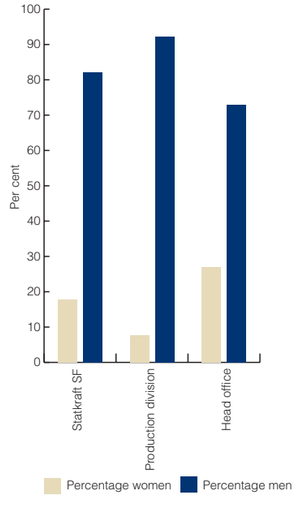
Age



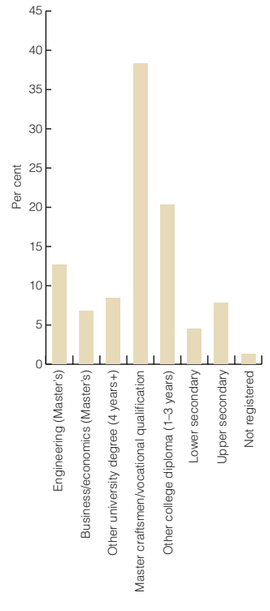
Gender



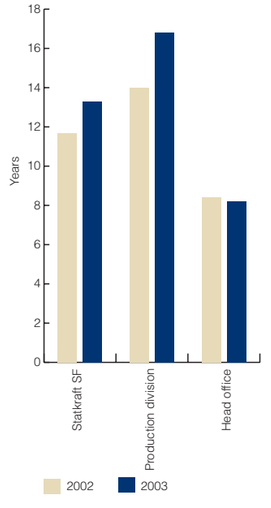
Gender, managerial positions



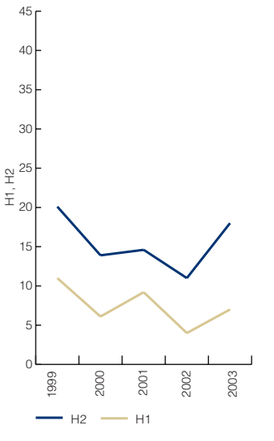
Education

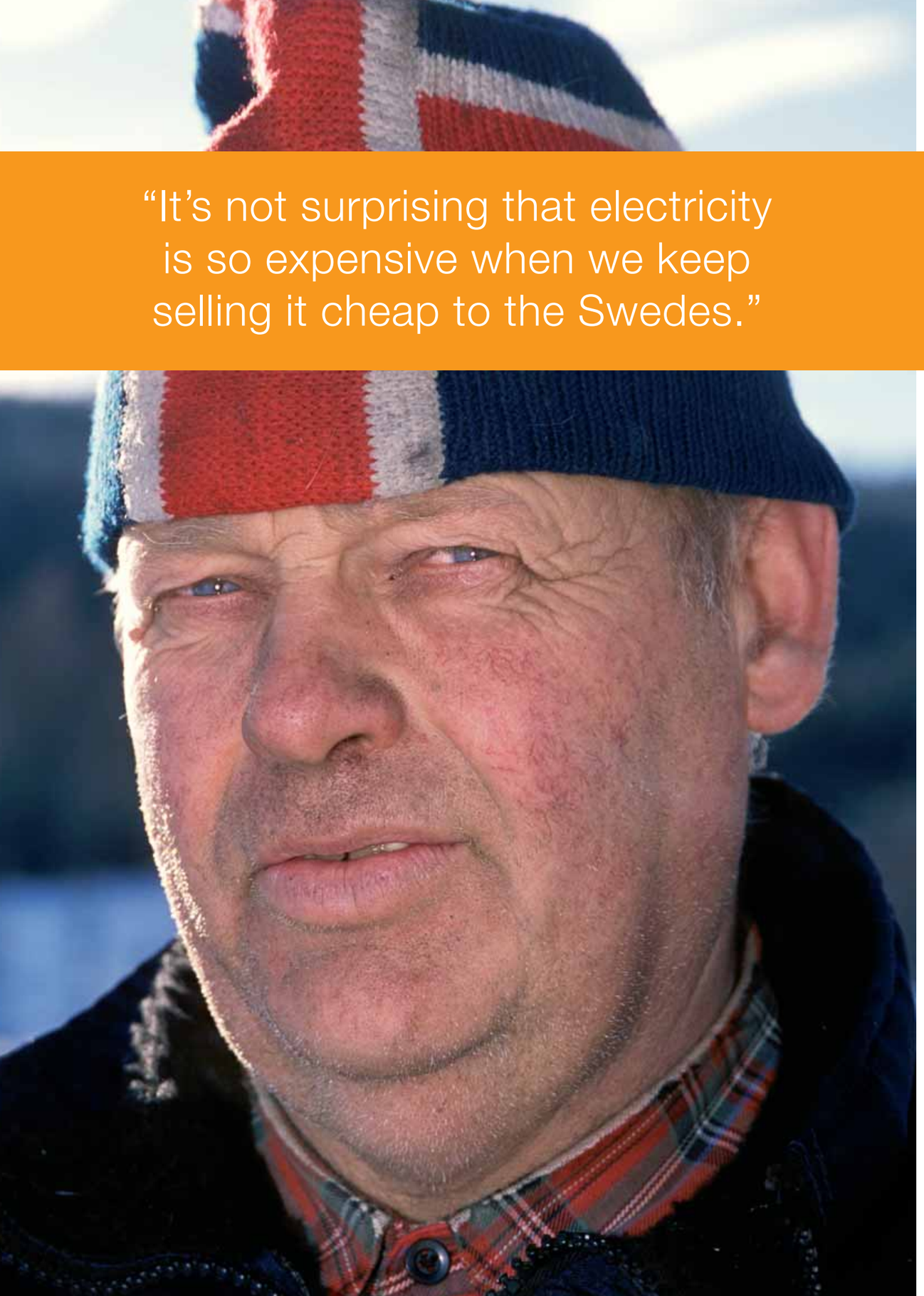


Length of service



Injury frequency



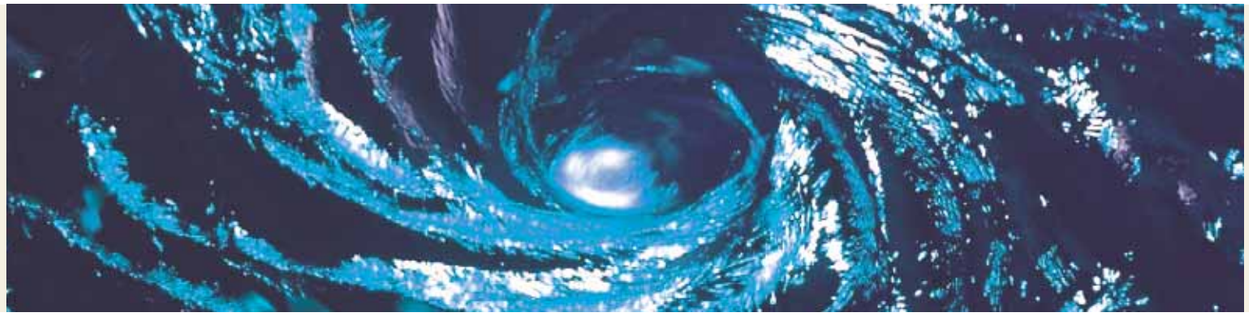


“It’s not surprising that electricity is so expensive when we keep selling it cheap to the Swedes.”

Actually, Norway buys more electricity from Sweden than we sell to them. It is a scheme that we should be grateful for.

THE COUNTRIES that make up the Nordic electricity market swap electricity with each other. It is a win-win situation that ensures we have access to the power we need. It must be remembered that we use more electricity in Norway than we produce ourselves, and we are therefore dependent on importing electrical power from other countries.

Strategic
business management



Statkraft has developed a value-driven management model that highlights the elements that have an influence on the company's earnings and value performance. The management focuses on these elements in steering the company, entrusting the majority of the operational details to the individual units.

Management signals

The premises for our operational management are determined by a strategic process based on the company's vision, in which strategic maps are drawn for the individual business areas. These are used as a basis for the preparation of a strategic platform that specifies the priorities and goals to be communicated within the company. In parallel to the development of a strategy, simulations and calculations are run to determine the effects the various strategic decisions will have in the long term. In addition to specific goals and focus areas, the strategic platform also consists of a long-term financial forecast.

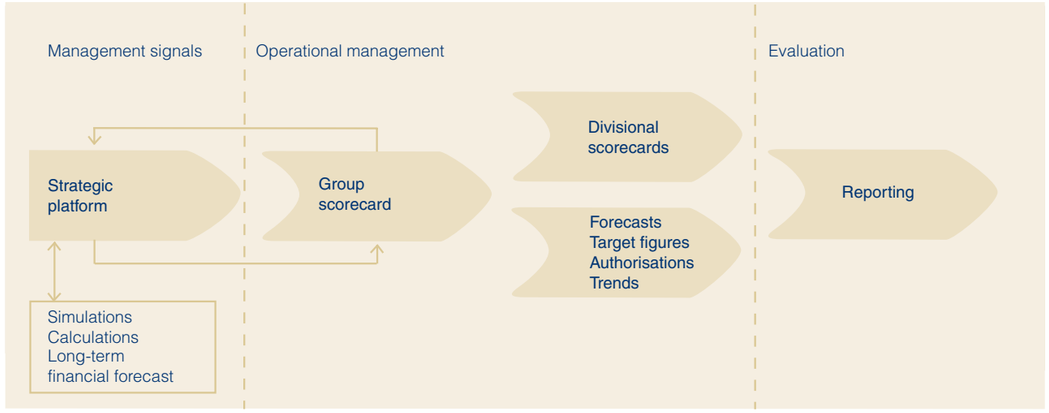
Operational management

The balanced scorecard model forms the core of Statkraft's operational management, and the company has balanced scorecards at several levels. The scorecards consist of measurable indicators that support the company's most important value drivers. The strategic platform is an important premise for the scorecards. A great deal of emphasis is placed on ensuring that the measurement indicators are balanced with regard to frequency, lead vs log indicators and perspective. As a result of our desire for balanced perspective, the scorecards include indicators that encompass financial results, operational and organisational efficiency, human resources, employee health and safety, company reputation and our impact on the external environment. Action plans are prepared for the individual measurement indicators should performance fall below the desired level, and a hierarchy of responsibility has been defined to progressively increase the focus and responsibility in the organisation according to the severity of the deficiency. Some of the target figures are linked to a remuneration system for all the employees.

The primary purpose of the scorecards is to ensure focus on important value drivers for the company, and to identify and illustrate the goals the company should reach. This is important for a management model, but management also encompasses other tasks. Statkraft has therefore decided to supplement the scorecards with other tools.

In order to provide a good basis for financial planning and resource coordination, Statkraft prepares a revised forecast for the current calendar year and a rolling forecast for the next 12 months on a monthly basis. The focus of these forecasts is aggregated, and they aim to be as realistic as possible. The units are not measured in relation to the forecasts.

Cost development is controlled by means of specially prepared cost target figures for the costs that can be influenced. Target figures have been prepared for line costs and project costs. Other cost components are followed up by accounting data trends, while an authorisation system ensures the approval and control of individual transactions.



Statkraft does not prepare budgets, since the traditional role of the budget is covered by other tools in the company's management model.

Follow-up

Monthly reports are prepared for the board of directors and management covering all the operational management tools. The scope of these reports is determined by the needs, and the focus is placed on the indicators that are unsatisfactory. This leads to decisions regarding action plans and responsibility. However, the reports also provide useful input for any future revision of the targets, measurement indicators and strategies.

Risk management

Knowledge about high risk

In August 2003 we carried out an experiment to increase our knowledge about the consequences of a possible dam breach at Røssåga in Nordland.

12:38 p.m.

2:50 p.m.

3:03 p.m.

In principle, Statkraft manages all risk in the company's business areas in the same manner. Each individual risk is assessed and ranked in relation to the probability that it will occur and what potential consequences it may have. The management of risk varies with the characteristics of the various types of risk elements. Operational risks will for example be managed primarily through contingency plans and procedures, while financial risks and market risks will be managed by authorisations and a continuous assessment of the risk exposure at any given time. Risk is discussed in greater detail in Note 28 to the accounts on Page 98.

Market risk

Volume and price

Market risk is defined on the basis of the volume and price uncertainty. Statkraft's principal operations are power production and trading. The Nordic power market is dominated by hydropower to such a great extent that both the price and potential production volume fluctuate greatly from year to year. The risk associated with the fluctuation of both price and volume is reduced naturally by the fact that the prices will be low as a rule when it is possible to produce a lot of power. The prices tend, correspondingly, to be high when the available production volume is low. The revenues of a power producer on the Nordic power market will nevertheless fluctuate a great deal if the company only sells power on the spot market. To hedge its revenues Statkraft trades power on the more long-term forward market. Before entering into any new contract, the contract is viewed in relation to the rest of the contract portfolio. The contract portfolio is adjusted continuously to adapt the portfolio to our current perception of the future prices and our own production capacity.

Trading and origination

In addition to hedging activities, the company also uses derivatives for trading purposes. A related business area is called origination. This trading activity consists essentially of the buying and selling of custom contracts that are hedged by standardised contracts so as to minimise the total risk. Both the trading and origination activities represent a significant volume, but the financial exposure is very limited at any given time in relation to the hedging activities. Value at Risk and Profit at Risk are used as the primary risk management tools for the trading and origination activities, respectively.

Financial risk

Foreign exchange

Statkraft's goal for its foreign exchange risk management is to limit fluctuations in the present value of revenues and assets in foreign currencies, and to maximise the present value of these within given limits. With regard to the launch of the euro as the trading currency on the Nord Pool exchange in 2006, Statkraft is currently assessing how this will be taken into account in relation to foreign exchange hedging and the denomination of trading on the Nord Pool exchange.

Interest rate

Statkraft's goal for interest rate management is to minimise interest costs, reduce fluctuations, and limit changes in the value of the company's net liabilities. Interest rate swaps are used in general to achieve risk-related goals.

Liquidity and credit

Statkraft assumes a liquidity risk because the term of our financial obligations is not matched to the cash flow generated by the assets. Statkraft has a creditworthiness that gives it good borrowing opportunities on the Norwegian money market and bank market. Moreover, drawing rights are used to secure access to short-term financing. Statkraft assumes a credit risk by placing excess liquidity with issuers of securities and by using hedging instruments, such as interest rate swaps, currency swaps and forward contracts. The limits for each debtor are set on the basis of a formal credit rating or assumed creditworthiness. The credit and contracting party risk is divided mainly between foreign financial institutions with an A rating or better, and the major Nordic banks.

Political

Statkraft's regulatory framework is affected by political decisions. Examples of political risk include changes in the regulations for taxes and levies (including environmental taxes), changes in the reversion scheme, and changes in the minimum water flow rates, as well as orders issued by the Norwegian Water Resources and Energy Directorate (NVE). As a borrower in a capital-intensive industry, the company is particularly exposed to interest rates, which are determined primarily by the key rate set by Norges Bank. As a state-owned enterprise, Statkraft is also exposed to political risk due to the fact that the State, as the owner, is free to determine what dividends are to be paid by the company.

Reputation

Because Statkraft's regulatory framework is determined to a great extent politically and by the authorities, our reputation risk is linked primarily to the trust of politicians and public administration decision-makers. This trust is influenced indirectly by the company's general reputation. Statkraft focuses now on maintaining its reputation risk at the desired level through targeted communication with key stakeholders.

Operational risk

Production facilities

The risk associated with the company's production facilities is our most important operational risk element. Statkraft is its own insurer for some of the risk elements associated with the physical production facilities. Statkraft has a long tradition of managing these types of risks through procedures and contingency plans. In 2003 a project was carried out that coordinated all these plans to establish a common overall contingency plan for the first time.

ICT

Statkraft makes extensive use of ICT tools in its day-to-day operations. The availability of these tools, as well as security in relation to the misuse of information from the company's databases and analysis tools, represent important risk elements that must be managed. The ICT risk is included in the overall contingency plan.

Health, safety and environment (HSE)

At Statkraft, the HSE risks are managed through detailed procedures for the activities of all our operative units. With our geographic distribution and many employees, we continuously focus our attention on the health and safety of our employees and society at large.

External environment

The environmental aspects of Statkraft's operations are significant and draw a great deal of public attention. Statkraft conducts annual surveys of the environmental aspects of all our operative units in connection with our ISO 14001 certification. These surveys shall assure the quality of measures to safeguard the external environment and contribute to improvement and renewal in this area. The registration and follow-up of environmental components in our technical maintenance system provide us with empirical data and also make our risk management visible to our supervisory authorities, such as the Norwegian Water Resources and Energy Directorate (NVE). The licence requirements and requirements in the manoeuvring regulations are registered in our process systems. Any nonconformance is registered, and such registration may lead to specific measures or a change in our risk assessment.

Corporate governance

Statkraft's vision, core values and business concept shall act as guidelines for anyone who is involved in the commercial management of the company. Statkraft considers the core of corporate governance to be the relationships between the owner, board of directors and management.

The relationship between the owner, board of directors and management

Good owner and company management goes beyond statutory provisions and should ensure responsible conduct throughout the company over time. For Statkraft, this is part of the company's risk management and an element in the generation of added value. The company desires open internal and external communication concerning these issues as well and we hope that this will contribute to increasing the trust of our stakeholders. A separate Investor Relations function is being established in 2004 to strengthen our efforts in this area. Statkraft stresses the importance of compliance with the company's guidelines, and we will therefore focus more on the operationalisation of the company's management principles.

An interdisciplinary working group at Statkraft is responsible for coordinating the various tasks associated with corporate governance and has the following goals for 2004:

- Supplement the overall general principles for conducting business to cover all the business areas and functions
- Entrench these principles in the group management and board of directors

The owner

Statkraft is owned by the State and is under the jurisdiction of the Ministry of Trade and Industry. As a state-owned enterprise, Statkraft is legally and financially separate from the State, and the company is thus not subject to the Storting's appropriation authority. The enterprise general meeting corresponds to the general meeting of a limited company. The State-Owned Enterprise Act regulates the relationship between the enterprise general meeting and the board of directors. Matters that are assumed to have a significant bearing on the object of the enterprise, or which will significantly change the nature of the enterprise, shall be put before the owner ministry. This has taken place in practice when Statkraft has applied for a new capital injection. The owner ministry receives a copy of the minutes of all board meetings. The State's 10 principles for good ownership (Report no. 22 to the Storting [2001–2002]) shall act as a guideline.

The board of directors

Statkraft's board of directors consists of nine members. The term of office is two years. Six board members are elected by the enterprise general meeting, while the remaining three are elected by and from among the group's employees. The composition and competence of the board of directors are considered by the owner ministry. The goal is to ensure diversity on the board of directors in relation to geographic affiliation, gender (at least 40 per cent of each gender), industrial comprehension and academic background. Continuity is also sought on the board of directors. The board members are evaluated on the basis of their impartiality and independence in relation to the State, which excludes for example ministerial employees or people with commercial interests in the industry from being board members. The company's current challenges shall be taken into consideration for the composition of the board of directors. The rules of procedure for Statkraft's board shall provide guidelines for the role and duties of the board of directors, as well as the duties and obligations of the President and CEO in relation to the board of directors. These rules of procedure will be updated in 2004, especially to adapt them to changes in the use of management and control functions, code of conduct and our overall general principles.

The President and CEO

The President and CEO is responsible for the day-to-day management of the enterprise and is obligated to follow the board of directors' guidelines and instructions. The day-to-day management does not include matters that are of an unusual nature or have a significant bearing on the company in accordance with the nature of the enterprise. The President and CEO shall ensure that the enterprise's registration and documentation of accounting information is in accordance with the law, and that the assets of the company are soundly managed. The President and CEO shall give a detailed account of any specific matters that are requested by the board of directors or an individual board member.

The group management

The group management consists of five executive vice presidents in addition to the President and CEO. The executive vice presidents are responsible for following up the company's strategic and operational plans in the following organisational units:

- Production, development and R&D
  They shall safeguard the existing and new energy production capacity and ensure optimal utilisation of the energy resources.
- Markets
  They shall ensure optimal results from the physical and financial trading of energy products.
- Regional companies
  They shall ensure that the objectives of the Statkraft Group and the Statkraft Alliance are fulfilled through participation on the boards of companies where Statkraft Holding has ownership interests.
- Strategy, finance and law
  They shall ensure optimal business development, optimal financial results from finance management within the scope of the defined risk limits, as well as optimal business management.
- Communication, organisation, ICT, environmental and quality assurance
  They shall ensure optimal relations with Statkraft's stakeholders, as well as an optimal organisation of the company.

The President and CEO's reference group

A reference group consisting of five other executive vice presidents in the parent company is also at the disposal of the group management.

Incentive schemes

Statkraft places great emphasis on offering competitive salaries, without being a salary leader. We have accordingly prepared incentive schemes, the purpose of which is to motivate our employees.

A variable pay scheme for all the employees of Statkraft SF was established in 2003. This scheme is based on four critical target figures for the company, and each of these target figures can result in the payment of up to NOK 10,000, for a maximum annual remuneration of NOK 40,000 per individual employee. The total resulting pay from this scheme in 2003 was NOK 28,000, which was paid in March 2004 to employees that had been employed the whole of 2003. The company remuneration scheme is based on the following target figures:

1. Return on equity
2. Added value from power trading and optimisation
3. Availability of power plant operations
4. Productivity of power plant operations

In addition, there are a limited number of employees who have individual variable supplements.

The President and CEO does not have a bonus scheme.

The executive vice presidents have a bonus scheme based on fixed criteria and results achieved in their individual area that can give an annual bonus of up to NOK 200,000 to each individual vice president.

In March 2004 some NOK 23 million in variable wages was paid to the company's employees. In addition, around NOK 4 million was paid out on the basis of individual agreements.

Pension schemes

Statkraft's pension schemes have recently been revised. Statkraft's employees are members of the National Pension Fund and are guaranteed a pension of 66 per cent of their salary upon retirement with a full contribution period of 30 years. Statkraft's pension age is 67 years. The pension age for employees with salaries exceeding 12G (12 times the National Insurance Scheme's basic amount) is 65 years. The group management has a reduced contribution period. None of Statkraft's employees have severance pay agreements.

Ethics

Statkraft is a company where the employees have a long tradition of generating social value. Statkraft acknowledges at the same time that the company's employees may make human errors. The focus on ethics is part of Statkraft's efforts to manage risk and build up a good reputation. Statkraft is involved in maintaining the code of conduct of all employees and is currently intensifying communication regarding the code of conduct Statkraft's representatives are expected to have. We are also focusing on routines for following up any sanctions.

Compliance Officer

Statkraft complies with Nord Pool's requirement that all the companies who trade on the exchange shall have a function that ensures knowledge of Nord Pool's code of conduct, and that the ethical standards for such trading are followed. The executive vice president of the Markets Division acts as Compliance Officer for Statkraft. The role of Compliance Officer is primarily associated with the communication of guidelines and the availability to give advice on such matters. The responsibility for compliance lies with each individual employee and the line management.

Corporate Social Responsibility

Statkraft has a corporate social responsibility and focuses on the generation of financial, environmental and social value. Statkraft's sustainability report will provide further details about this.

Written code of conduct at Statkraft SF

"To do or not to do …code of conduct at Statkraft",	which also include the code of conduct for Nord Pool.
"Guidelines for Statkraft's internal auditing procedures",	which govern the independent and neutral assessment of the group and reporting to the board of directors and group management.
"Power of attorney at Statkraft",	which sets out the limits to the individual Statkraft employee's signing authority and other authorities.
"Code of conduct for procurement at Statkraft",	which regulates the way contracts for the purchase of goods and services shall be entered into.
"Adding value through leadership",	which sets out Statkraft's management philosophy and details the company's management training programme.
"Committed and competent – adding competence to the future",	which sets out Statkraft's competence philosophy, its links to the company's core values, as well as principles for competence development.
"Job satisfaction and development – Statkraft's core values and personnel policy",	which describes Statkraft's core values and principles for recruitment, employment, personnel policy, retirement and termination are described here.
"Statkraft SF – human rights strategy ",	which describes the company's principles for doing business in developing countries, with particular focus on human rights, wages and working conditions, safeguarding the external environment, HSE, local cooperation, implementation and control.

Internal auditing

The object of Statkraft's internal auditing is to assist the board of directors and management in exercising good business management through an independent and neutral evaluation of whether the group's most important risks are adequately managed and controlled. Internal auditing shall also contribute to a continuous improvement in the quality of the internal management and control systems.

The task of internal auditing is to reduce undesired risk exposure for Statkraft through assisting the organisation in identifying and evaluating significant risk exposure and contributing to improvement of the systems for risk management. Internal auditing also assesses whether the organisation has established targeted, appropriate and effective control measures that reduce the risk exposure to an acceptable level. This includes an evaluation of:

- the reliability and integrity of financial and operational information
- whether the organisation's processes are appropriate and function as intended to achieve the goals the organisation has set
- whether the applicable laws and regulations, as well as the company's articles of association and internal guidelines, are observed
- whether the organisation's material and immaterial assets are properly safeguarded

Internal auditing shall be organisationally independent of the areas and individuals that are being audited. The President and CEO is responsible for appointment, termination and ongoing administrative contact with the internal auditing manager.

Reporting to group management

The detailed procedure for performing internal audits is approved by the President and CEO. The internal auditing manager reports directly to group management, who will take up any issues where there is disagreement between the internal auditing function and the audited unit. The group management approves the audit plan before it is presented to the board of directors. All the auditing reports are sent on an ongoing basis to the President and CEO and the relevant executive vice president. Internal auditing prepares a half-year and annual report for the group management that sums up the most important findings from the audits conducted. The internal auditing manager shall be present when the group management discusses these reports.

Reporting to the board of directors

The board of directors approves the overall guidelines for internal auditing. The board is presented with the annual internal auditing report and an audit plan for the coming year, and they are normally presented at the same meeting. The board considers whether the audit plan adequately covers the areas the board would like to focus on. The internal auditing manager is present for questions when the board discusses these matters, and she is otherwise entitled and obligated to appear at board meetings, or to write to the board, if there are any special matters that internal auditing would like to discuss with the board. In the event of a disagreement between the audited unit or group management and internal auditing, any particularly important matters shall be presented to the board by internal auditing.

Presentation of the group management

From left: Ragnvald Nærø, Jørgen Kildahl, Bård Mikkelsen, Christian Rynning-Tønnesen, Ingelise Arntsen and Jon G. Brandsar.

Bård Mikkelsen
Year of birth: 1948
Position: President and CEO
Background: Managing Director, Oslo Energi Holding/Group Chief Executive, Oslo Energi Group, 1999–2001; Group Chief Executive, Ulstein Group, 1997–1999; Managing Director, Widerøe's Flyveselskap/Group Chief Executive, Widerøe, 1988–1997

Ingelise Arntsen
Year of birth: 1966
Position: Executive Vice President
Business areas: Production, Development and R&D
Background: Director, Arthur Andersen Business Consulting/BearingPoint Norway, 2000–2003; Managing Director, Sogn og Fjordane Energiverk, 1997–2000; Controller/Finance Manager, Kværner Fjellstrand, 1991–1997

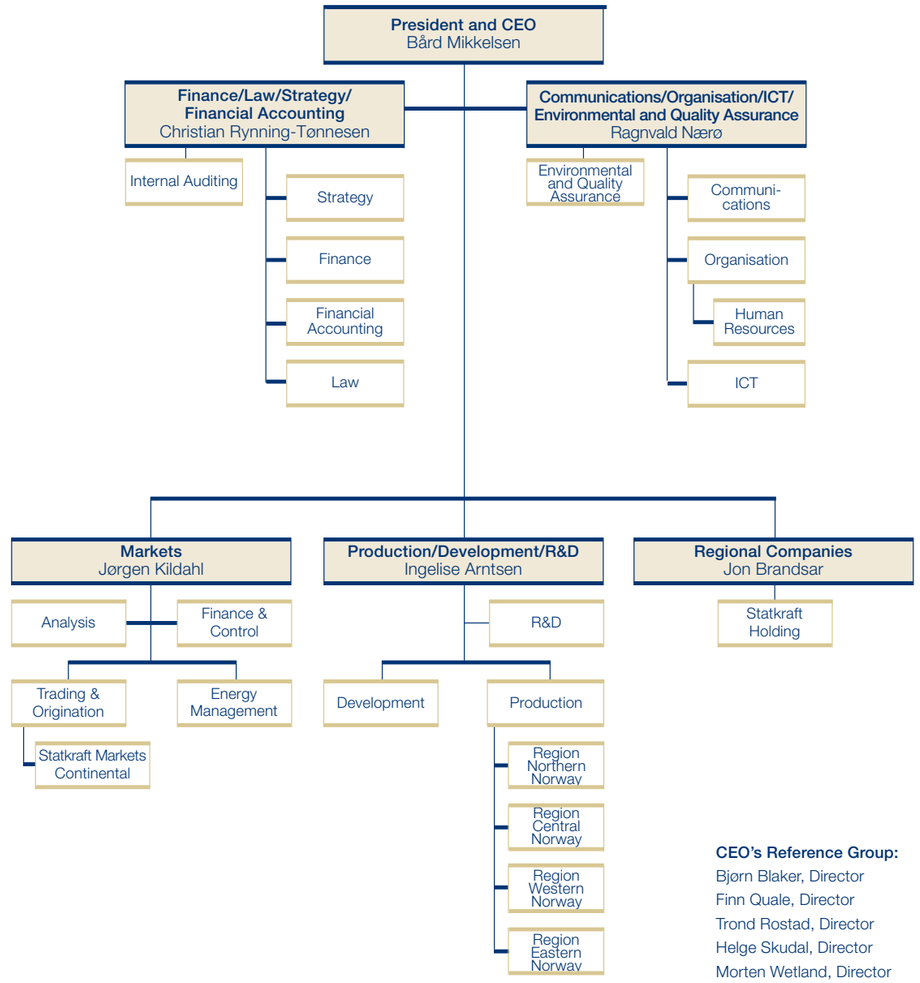
Jon G. Brandsar
Year of birth: 1954
Position: Executive Vice President
Business areas: Regional Companies
Background: Group Chief Executive, Trondheim Energiverk, 2002–2003; Technology Director, Statkraft, 1995–2002; Department Manager, Statkraft Engineering, 1994–1995; Department Manager, ABB, 1977–1994

Jørgen Kildahl
Year of birth: 1963
Position: Executive Vice President
Business areas: Markets
Background: Partner, Geelmuyden.Kiese, 1991–1999; Portfolio manager, International Formuesforvaltning, 1989–1991

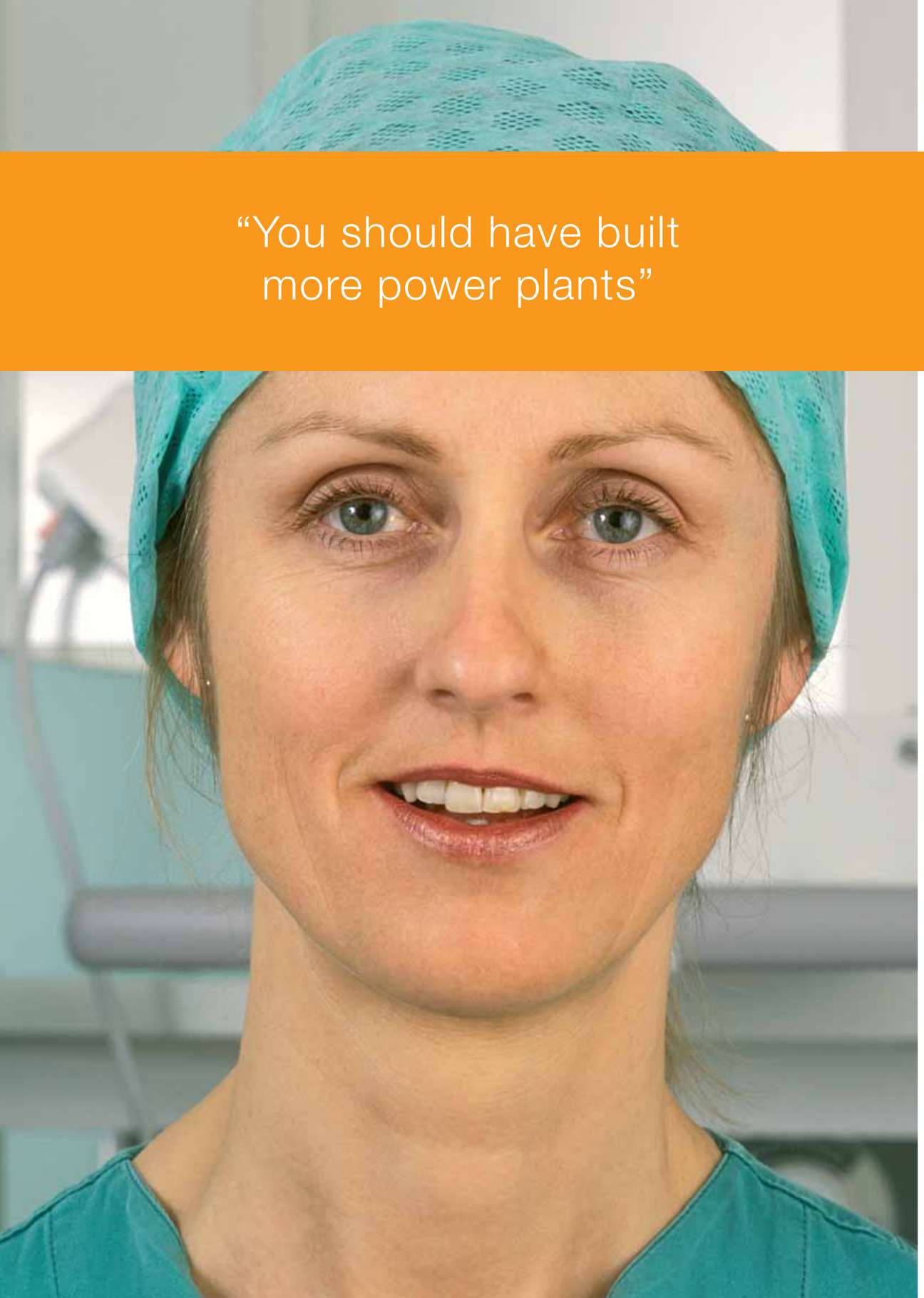
Ragnvald Nærø
Year of birth: 1954
Position: Executive Vice President
Business areas: Information Director, E-CO Energi, 1999–2001; Information Director, Widerøes Flyselskap, 1996–1998; Information Director, Norwegian Civil Aviation Administration, 1995; Communications Consultant, Geelmuyden.Kiese, 1994–2000; Journalist, Editorial Manager, Editor, Aftenposten, 1981–1994

Christian Rynning-Tønnesen
Year of birth: 1959
Position: Executive Vice President
Business areas: Finance, Law, Strategy, Financial Accounting, Internal Auditing
Background: Markets Director, Statkraft, 1995–1998; Director of Business Development Northern Europe, Statkraft, 1993–1994; Strategic Planning Manager, Statkraft, 1992–1993; Consultant and Project Manager, McKinsey & Co., 1989–1992

Organisation chart



CEO's Reference Group:
Bjørn Blaker, Director
Finn Quale, Director
Trond Rostad, Director
Helge Skudal, Director
Morten Wetland, Director



“You should have built more power plants”

If that is what Norwegian society wants, we are in a position to do so.

BY 2015 we aim to have built an extra 12 TWh of production capacity in Norway. This is enough to meet the electricity requirements of around 600,000 households. Our plans include hydropower, wind power, natural gas, and new renewable sources of energy.


Terje Vareberg


Marit Büch-Holm


Thorbjørn Holøs


Astri Botten Larsen


Toril Mølmen


Erik Nygaard


Halvor Stenstadvold


Odd Vanvik


Inger Østensjø

Presentation of the board of directors

Terje Vareberg, Chairman of the board
Year of birth: 1948
Position: Managing Director, SpareBank 1 SR-Bank
Background: Group Director, Statoil, 1989–1999; Managing Director, Agro Fellesslakteri, 1983–1989
Board member from: 2000
Other board positions: SpareBank 1 Gruppen, Rogaland Theatre

Marit Büch-Holm, Vice Chairman
Year of birth: 1952
Position: Bank Manager, Nordea Bank Norge
Background: Financial Director, Siemens Nixdorf, 1990–1992
Board member from: 1994

Thorbjørn Holøs
Year of birth: 1957
Position: Senior Employee Representative, Skagerak Energi
Background: Foreman, Vestfold Kraft – Skagerak Energi, 1996–1999; Installation Foreman, Larvik og Lardal Everk, 1989–1995
Board member from: 2002

Astri Botten Larsen
Year of birth: 1964
Position: Senior Engineer, Statkraft
Background: Consultant, NPC (Norwegian Petroleum Consultants) 1988–1989; advanced mechanical engineering degree; business administration degree
Board member from: 2002

Toril Mølmen
Year of birth: 1960
Position: Human Resources Director, Innovation Norway
Background: Director of the Norwegian Industrial and Regional Development Fund's (SND's) Regional Office for Buskerud and Vestfold 1997–2004; adviser in SND's Industrial Division, 1993–1997; Managing Director and Business Development Consultant for industrial and tourism development in Nord-Gudbrandsdal/Møre and Romsdal, 1986–1992
Board member from: 1998
Other board positions: Startfondet; Kongsberg Innovasjon; Buskerud University College; Programme Committee for VS2010, Research Council of Norway; Connect Østlandet

Erik Nygaard
Year of birth: 1957
Position: Attorney; Director of Bryn Eiendom
Background: Partner of the law firm of Thommessen 1993–2000; authorised assistant lawyer at the law firm of Thommessen, 1989–1992
Board member from: 2002

Halvor Stenstadvold
Year of birth: 1944
Position: Managing Director and member of the Executive Group Management, Orkla
Background: Director of Orkla's Corporate Staffs, 1991–present
Board member from: 2003
Other board positions: Storebrand, Carema Vård och Omsorg

Odd Vanvik
Year of birth: 1952
Position: Employee Representative
Background: Skilled worker, Statkraft, 1980–present
Board member from: 1993

Inger Østensjø
Year of birth: 1954
Position: College Director, Stavanger University College
Background: Organisation Manager, Project Manager and Deputy County Executive, Rogaland County Authority, 1991–1995
Board member from: 2001
Other board positions: NTO (Norwegian Theatre and Orchestra Association), Rogaland Research, Uninett, Rogaland Theatre

Annual report
from the board of directors

In 2003 the market was characterised by major price fluctuations, and Statkraft's financial results varied significantly more throughout the year than would be expected due to normal seasonal fluctuations. For the year as a whole, however, the earnings were satisfactory, with an income for the year of NOK 4,754 million before tax and NOK 2,867 million after tax. This is a significant improvement over 2002. The increase is due primarily to higher power prices and good results from power trade.

Statkraft has continued its efforts to develop new environmentally friendly power in 2003. An investment decision was made and the construction of wind farms on Hitra and Stage 2 of the Smøla development were started. Statkraft sold its ownership interest of 92 per cent in Statkraft Grøner to the Swedish company SWECO in the third quarter.

Statkraft's financial standing was in focus in 2003. The loss of government guarantees for loans raised after 1 January 2003 has weakened the company's creditworthiness. As a measure to reinforce the company's financial foundation, the board of directors has prepared a plan for restructuring the balance sheet, and has, among other steps taken, requested the injection of NOK 12 billion in new equity from the owner. The State injected NOK 4 billion in new equity towards the end of the year. The dividend for 2003 has been fixed at 95 per cent of the group's net income for the year.

The Government is considering making a proposal to convert Statkraft's form of business organisation to a new form of enterprise, about which the board of directors is positive.

Income statement

Income for the year before tax totalled NOK 4,754 million, compared to NOK 4,098 million in 2002. Income for the year after tax totalled NOK 2,867 million, compared to NOK 2,478 million in the preceding year. This was an improvement of 16 per cent before and after tax.

The business area of power production and trade contributed more than 85 per cent of the net income for the year after tax. The distribution grid operations contributed 10 per cent, while the other areas, which include trading, end-user operations and district heating, made a more modest contribution to the group income.

Return. The pre-tax income for the year gives a return of 14.4 percent on average equity. The calculation of the average annual equity includes the capital injection of NOK 4 billion from the owner in December 2003. The level of return is about the same as the average return of several of the large European energy companies over the last few years. Income after tax gives a return of 8.7 per cent despite Statkraft's considerable portfolio of industrial contracts at prices determined by the Norwegian Storting (Parliament) and the high tax level on power companies in Norway. There was a slight increase in the return on equity compared to 2002, so the board of directors considers the level of return satisfactory.

Operating revenues. The group recorded gross operating revenues of NOK 12,120 million in 2003. Statkraft SF had operating revenues of NOK 8,147 million, while the subsidiaries contributed a total of NOK 3,973 million.

Group operating revenues increased by NOK 1,231 million from 2002 to 2003. Statkraft SF contributed NOK 1,196 million, while the subsidiaries contributed NOK 35 million to this increase.

There were major revenue fluctuations throughout the year as a result of the unusually great variation in the power prices. Most of the improvement over 2002 came in the first quarter, when the average spot price on the Nordic power exchange Nord Pool was NOK 0.399/kWh compared to NOK 0.167/kWh in 2002. The situation on the power market stabilised in the course of the year, and this resulted in lower prices. For the year as a whole, the average spot price was NOK 0.291/kWh, compared with NOK 0.201/kWh for the previous year. The group produced 39.2 TWh in 2003, compared to 48.8 TWh in 2002. The volume in 2003 was somewhat lower than the normal production of 41.7 TWh. In addition to good earnings as a result of high prices, the income from financial power trade was significantly higher in 2003 than the previous year.

The transmission costs for power increased from NOK 840 million in 2002 to NOK 927 million in 2003. This increase is due to the net effect of price and volume variations.

Operating costs totalled NOK 4,929 million in 2003, an increase of NOK 357 million over the previous year.

The group reduced the interest rate assumptions used to calculate pension costs in 2003, as a result of the general market decline in interest rates. The resulting estimate deviation together with restructuring costs led to a one-time charge that significantly increased the salaries and payroll costs. The salaries and payroll costs would have declined slightly without this.

Other operating costs increased by NOK 313 million. Part of this increase is related to provisions for bad debts and disputes. After adjustment for the provisions, the increase was around 5 per cent and is related primarily to increased maintenance needs for power plants.

Ordinary depreciation declined by NOK 144 million as a result of the coordination of depreciation times between the companies in the group in 2003.

In the opinion of the board of directors, the development of the company's costs is satisfactory, and our efforts to enhance efficiency and reduce costs will continue.

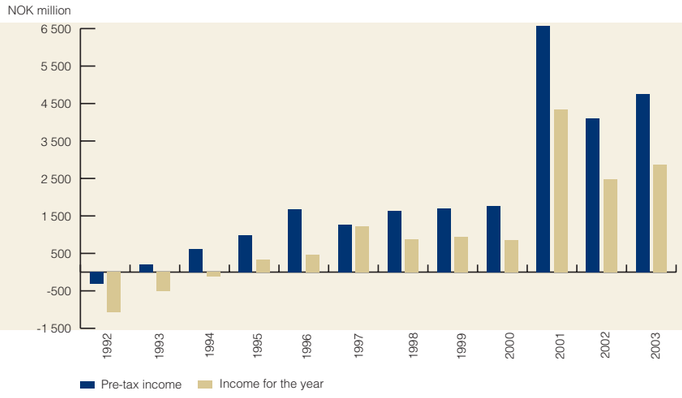
Operating income increased by NOK 788 million, from NOK 5,476 million in 2002 to NOK 6,264 million in 2003. NOK 995 million of the improvement is attributed to Statkraft SF. The subsidiaries as a whole showed a decline in operating income of NOK 207 million, primarily as a result of increased pension costs and provisions for restructuring.

Income from the group's associated companies totalled NOK 1,114 million in 2003, which is NOK 243 million higher than the previous year. The main reason for this change is the full-year effect of increased ownership interests. This refers primarily to the 45.5 per cent interest in Agder Energi AS that was acquired towards the end of 2002. In addition, the ownership interest in BKK AS increased from 26.0 to 49.9 per cent, and the interest in Sydkraft AB increased from 35.7 to 44.6 per cent in 2002.

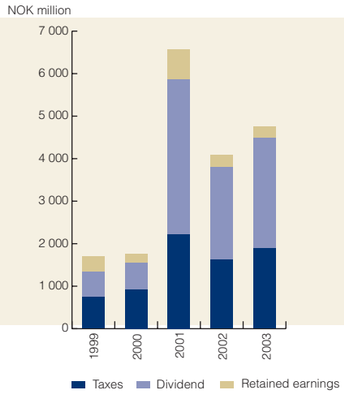
As a condition of approval for the acquisition of shares in Agder Energi, the Competition Authority has ordered Statkraft to sell its ownership interests in Hedmark Energi Holding AS (49 per cent) and E-CO Vannkraft AS (20 per cent). Statkraft has resigned from the boards of the companies. Due to this the ownership interests will be dealt with as financial investments in accordance with the cost method starting in 2003, and they are no longer included as associated companies.

Net financial costs increased by NOK 376 million, from NOK 2,249 million in 2002 to NOK 2,625 million in 2003. The main reason for this is the full-year effect in 2003 of the interest costs associated with increased borrowing in connection with the acquisition of ownership interests in other companies in 2002. Moreover, Statkraft has paid a guarantee premium for loans, covered by the implicit government guarantee, from 1 July 2002. For 2003 this

The group income 1992–2003



Allocation of pre-tax income



premium was differentiated according to the benefit Statkraft gained from each individual loan raised, and totalled NOK 280 million. This corresponds to an average of 0.68 per cent, compared to 0.60 per cent in 2002.

Taxes and fees. The tax charges for 2003 totalled NOK 1,887 million, compared to NOK 1,620 million in 2002, an increase which is due to the improvement in pre-tax income. The tax payable was NOK 1,895 million, compared to NOK 1,281 million for the previous year. The tax payable includes an adjustment tax of NOK 192 million due to the fact that the dividend to the State and group contribution paid exceed the taxed equity.

Including licence fees and compensation, the tax and fee charges totalled NOK 2,221 million in 2003, which is NOK 298 million more than the previous year.

Cash flow. The operating activities generated a net cash flow of almost NOK 3.1 billion. Changes in other short-term capital employed generated a cash flow of around NOK 4.3 billion. Most of this refers to the repayment of a deposit from an account at the Nord Pool exchange, because the decline in the power prices since the end of last year has reduced the size of the deposit of funds as security for power trading over the exchange. In addition, dividends of NOK 742 million have been received from associated companies. In December, the equity was increased by NOK 4 billion through the injection of new company capital from the owner. NOK 6.6 billion was used for the net repayment of debt and changes in other long-term items, and a dividend for 2002 of close to NOK 2.2 billion was paid to the owner. NOK 1.7 billion was used for investments, while cash and cash equivalents increased by NOK 1.7 billion.

Continuation as a going concern. Pursuant to the provisions of the Norwegian Accounting Act, the board of directors confirms that the accounts are prepared under the assumption of continuation as a going concern.

Allocation of net income for the year

In the State Budget for 2004, Statkraft's dividend distribution to the national authorities was fixed at 95 per cent of the group's income after tax and minority interests. The board of directors would like to stress that the stipulated dividend represents yet again this year a breach of the principle of a 50 per cent payout ratio that the Storting adopted in the autumn of 2000. Both the unpredictability of the payout ratio, and the level at which the owner makes withdrawals, impair the financial basis for realisation of the group's strategy.

The dividend is calculated based on the State's share of the group's net income, ie after the deduction of the minority interests' share. This share of the net income was NOK 2,742 million, and the dividend to the State will be NOK 2,605 million for 2003.

Statkraft SF contributed NOK 2,859 million to the group's net income. The board of directors proposes accordingly the following allocation of the net income for 2003:

(Amounts in NOK million)	Statkraft SF
Net income for the year	2 859
Allocation of net income:	
Dividend	2 605
Transferred to other reserves	254

A company contribution of NOK 1,580 million before tax has been paid by Statkraft SF to subsidiaries.

Balance sheet and financial structure

Statkraft invested a total of NOK 1,701 million in 2003. Of this, NOK 1,277 was investments in fixed assets, NOK 937 million of which was for improvement of own plant and NOK 340 million of which was for new capacity, including wind farms. NOK 424 million was used for ownership interests in other companies, including SN Power.

Statkraft reduced its net debt in 2003 as a result of a high cash flow from operations, relatively low investment activity and the injection of NOK 4 billion in new equity at the end of the year. The repayment of long-term loans totalled NOK 8.5 billion for the group and NOK 8.6 billion for the parent company. NOK 1.1 billion in new long-term loans was raised by the group, and NOK 400 million was raised by Statkraft SF. Interest-bearing debt totalled NOK 43.1 billion for the group and NOK 38.2 billion for Statkraft SF at the end of the year. Statkraft SF's total loan and guarantee portfolio was NOK 41.6 billion at the end of the year, and the limit for this portfolio is NOK 52.5 billion.

Statkraft's cash and cash equivalents were relatively stable throughout 2003 and totalled NOK 3.2 billion at the end of the year, of which NOK 298 million was restricted. Statkraft established a revolving credit facility of NOK 4.0 billion with nine relationship banks to give the company financial flexibility. The unutilised credit facilities totalled NOK 6.4 billion. In comparison the interest-bearing current liabilities totalled NOK 776 million, while first-year instalments on long-term loans totalled NOK 3.2 billion.

At year-end the equity ratio stood at 39.7 per cent, compared to 34.5 per cent at the beginning of the year. The increase in the equity ratio is due to the State's injection of new equity at the end of the year, as well as the reduction in long-term loans. At year-end the group's total equity was NOK 35.0 billion, compared to NOK 30.8 billion at the beginning of the year.

The Government has indicated that an initiative will be taken in the Storting concerning Statkraft in the spring of 2004. The Government is considering making a proposal to convert Statkraft from a state-owned enterprise to a new form of enterprise. Moreover, it is expected that the Government will address the company's capital structure and dividend policy. The board of directors is positive about the Government's initiative, which can help to clarify Statkraft's future regulatory framework.

The Nordic power market

The market was marked by relatively large price fluctuations in 2003. The development of prices on the power exchange at the beginning of the year must be viewed in the context of the difficult power situation at the end of 2002 when the prices were very high. The development of the market in the first half of 2003 was marked by normalisation, and the prices declined from NOK 0.524/kWh in January to NOK 0.202/kWh in June. Then the spot price rose again in the second half of the year to NOK 0.256/kWh in December. The average price in 2003 was NOK 0.291/ kWh, compared to NOK 0.201/kWh in 2002.

Power consumption and production in the Nordic region

Figures in TWh	2003	2002	Change
Consumption in Nordic region	377.0	385.0	-2.1 %
Hereof consumption in Norway	*113.1*	*118.2*	*-4.3 %*
Production in Nordic region	359.7	380.7	-5.5 %
Hereof production in Norway	*105.7*	*129.0*	*-18.1 %*

The weather was overall somewhat warmer in 2003 than in a normal year. Both the rainfall/snowfall and inflow were close to normal in Norway, but the inflow was somewhat below normal in Sweden. The water reservoirs were historically low at the beginning of the year, and the power producers focused on filling up their reservoirs so that they could handle variations in the market. At the end of 2003 the water reservoirs were higher than at the same time in 2002, but still slightly less than normal for the season.

The consumption in the Nordic region was 8 TWh lower in 2003 than 2002. This reduction is attributed primarily to the high power prices. Nordic power production was 21 TWh lower than the previous year, a decline of 5.5 per cent, and this was related to the difficult water situation. The Nordic market imported 17.3 TWh throughout the year.

Statkraft's power production and sales

Power sales

Statkraft SF started the year with relatively more water in its reservoirs than other producers in Norway and used this capacity to maintain a relatively high level of production in the winter season at high prices. The Statkraft Group produced a total of 39.2 TWh in 2003, compared to an unusually high 48.8 TWh in 2002. Statkraft SF's production was 32.5 TWh, compared to 40.4 TWh in the previous year. Annual production was 2.3 and 0.7 TWh lower, respectively, than in a normal year for the group and Statkraft SF.

The inflow to the company's reservoirs throughout the year was close to normal as it was in the rest of the country. The level of the reservoirs at the end of the year was still somewhat below normal.

For Statkraft SF, power sales to industry at publicly determined prices accounted for 17.9 TWh at an average price of NOK 0.110/kWh. Moreover, 2.2 TWh was sold as licence power by Statkraft SF to counties and local municipalities at an average price of NOK 0.07/kWh. The total power sales at prices determined by the authorities accounted thus for 62 per cent of Statkraft SF's power production.

Statkraft increased its formal ownership interest in Baltic Cable between Sweden and Germany from 33.3 per cent to 66.7 per cent in January 2004. Statkraft's subsidiaries in Germany and the Netherlands were responsible for Statkraft's financial share of 66.7 per cent throughout all of 2003. The subsidiaries are active in the power markets in Europe. A majority of these operations are related to the supply of green power, cross-border deliveries, via Baltic Cable, for example, and structured agreements for individual customers.

Return on equity

Statkraft, Statnett and the Dutch company NEA agreed in January 2004 to terminate the agreement relating to a DC cable between Norway and the Netherlands, the so-called NorNed project. It is the deregulation of the power markets in Europe that have made it difficult to realise the project in accordance with the original contracts. Statkraft and NEA have made arrangements so that the distribution grid companies Statnett in Norway and TenneT in the Netherlands can realise the cable project.

Power plant operation and maintenance

The operating organisation's most important task is to ensure that electricity is produced and delivered to the transmission grid in the right volume at the right time. Production in 2003 deviated only slightly from the production plans. An additional task is to ensure the availability of the production facilities so that power optimisation is not hindered and production does not shut down. The availability stood at 89.7 per cent for Statkraft SF in 2003, compared to 90.4 per cent in 2002. Execution of planned maintenance and rehabilitation tasks led to 9.2 per cent unavailability, which is considered to be a normal level. Unscheduled unavailability stood at 1.1 per cent in 2003, compared to 2.2 per cent in 2002, which is considered to be satisfactory. Production drop-outs did not place any significant restrictions on the market operations in 2003.

The operating organisation focuses continuously on increasing efficiency through the improvement of processes and routines, workforce reductions and general cost reductions. The parent company's production division has just completed a workforce reduction process that started in 2001 and has resulted in the elimination of 75 man-years. Similar processes are either underway or in their initial stages in the subsidiaries. A plan for the future composition of the workforce and competence mix was adopted by Statkraft SF in December 2003, and the implementation of this will start in 2004. A condition-based analysis of all the power plants in the parent company will be conducted with a view to optimising the ongoing maintenance efforts. This analysis work is scheduled for completion in 2004, and it is a prerequisite for achieving further cost reductions through more suitable maintenance procedures and the reduced use of external services.

New power production

The demand for electricity has risen steadily over the last decade, but power prices have in general been too low to make new production development profitable. A tight power balance is made visible in particular in years with less than normal rainfall/snowfall and inflow, as we saw at the end of 2002 and beginning of 2003 when the power prices were especially high. Higher prices than the current normal level and a harmonisation of conditions of competition will lay the foundation for the building of new production capacity. In light of this, Statkraft is seeking to develop profitable, environmentally friendly energy projects.

Upgrading and expansion of existing hydropower plants and construction of new, small power plants

The largest hydropower project in 2003 was the construction of the new Bjølvo Power Plant. It replaces the old power plant, which was in poor technical condition and subject to an order for the replacement of forge welded pipes. The new power plant was completed and commissioned in the fourth quarter of 2003. Moreover, Statkraft, in association with Tinn Energi Produksjon AS, has built a small-scale power plant at Stegaros in the county of Telemark, which was put into operation in January 2003. Combined, these two power plants will increase production by around 80 GWh. In the spring of 2003, the construction of Øvre and Nedre Bersåvatn, two small power plants in Tyssedal, started. These power plants will exploit the drop between three existing regulation reservoirs. The project has little environmental impact, and the power plants will be completed late in 2004 or early in 2005 and will have a production capacity of 43 GWh. Among other projects, Statkraft is at the planning stage of a study of the development opportunities at Helgeland, which will provide about 1.5 TWh of new hydropower.

Statkraft SF has established the company Småkraft AS together with Skagerak Energi, Trondheim Energiverk, BKK, Agder Energi and Hedmark Energi. The aim of this company is to develop small hydropower plants in cooperation with private landowners. The goal is to realise 1.5 TWh of new production capacity by 2012. Contracts were signed in 2003 that give entitlement to the construction of small power plants with an estimated total production of 400 GWh.

New wind farms

Statkraft started the construction of a wind-driven power plant on the island of Hitra and Stage 2 of the Smøla wind farm in 2003. Hitra wind farm will consist of 24 windmills when it is completed at the end of 2004. The estimated annual production is 150 GWh. Stage 1 of the Smøla wind farm was completed in the autumn of 2002. The farm consists of 20 windmills with a total annual production of around 120 GWh. The construction of Stage 2 started in the autumn of 2003 and will be completed in 2005. An additional 48 windmills will give an annual production of around 330 GWh. In total, these development projects will provide an annual production of around 600 GWh at an investment cost of around NOK 1.7 billion. Of this amount, NOK 172 million has been granted as investment support by Enova.

The three projects are organised as separate limited liability companies that are managed through Statkraft's subsidiary Statkraft Vind AS. In 2002 Statkraft SF entered into cooperation with the Dutch power company Nuon, which will ensure the profitability of the projects through long-term agreements to purchase power and green certificates. Nuon also has an option to become a minority owner of the project companies.

In addition, Statkraft is working on licence applications for several additional wind-driven power plants along the Norwegian coastline, and we are also considering projects in the UK. The profitability of additional wind farms, in both Norway and abroad, requires that provisions be made for this in the regulatory framework in the form of green certificates or other market mechanisms and subsidy schemes.

Gas-fired power plants

Naturkraft AS, which is owned equally by Statoil, Norsk Hydro and Statkraft, has a licence to build two power plants at Kårstø and Kollsnes. In accordance with the licence, these gas-fired power plants must be completed and put into operation by 31 October 2007. The owners have not yet found a means for the projects to give adequate profitability, but they are continuing to work on this with a view to a possible realisation.

Research and development (R&D)

Its hydropower production has already made Statkraft a leader in environmentally friendly energy in Europe. However, if this leading position is to be maintained or improved, the group must stay at the forefront of both technology and know-how. Statkraft must utilise the natural resources that are available to the company in the most efficient and environmentally friendly manner possible, and must also develop new business opportunities. Developing new solutions and energy technologies for commercial use are important contributions to furthering our position as the leading company in environmentally friendly energy.

The purpose of R&D is to create value by giving Statkraft access to technology, know-how and relationships that will represent a competitive advantage for a significant period of time. The return will come from increased profitability in the existing operations and the establishment of new production and operations.

Statkraft has made a significant research investment in the development of tidal energy technology, salinity power and the use of hydrogen as an energy carrier. R&D also contributes to improvements in the existing production facilities through increased efficiency and environmental adaptations in the river systems.

Ownership in other companies

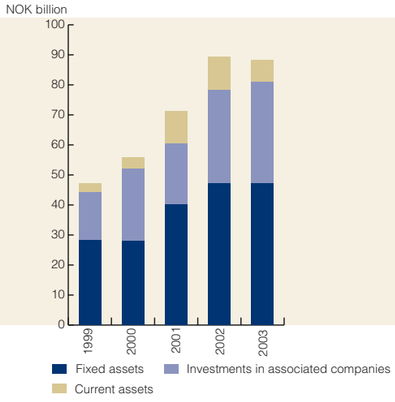
Norwegian ownership interests. As part of its strategy to acquire shares in regional power companies, Statkraft acquired ownership interests in BKK, Skagerak Energi, Agder Energi and Trondheim Energiverk. Statkraft has not acquired any additional interests in Norwegian power companies in 2003.

The Competition Authority has ordered Statkraft to sell its shares in Hedmark Energi Holding AS and E-CO Vannkraft AS. In addition, 1 TWh of production capacity in Southern Norway must be sold if the import capacity to that part of the country is not increased by at least 200 MW. In addition, Statkraft has been ordered to sell its shares in Trondheim Energiverk, sell the part of the company that generates power, or sell other corresponding production capacity in Central/Northern Norway.

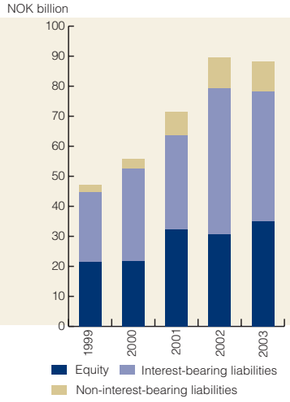
Due to the orders from the Competition Authority, Statkraft is negotiating the sale of its stake in Hedmark Energi Holding with the owners of Eidsiva energi AS. A letter of intent has been signed with a view to transferring the shares in the first half of 2004. In February 2004 an agreement was signed with Nord-Trøndelag Elektrisitetsverk concerning the sale of Statkraft's ownership interest in the Øvre Namsen power plants as partial fulfilment of the terms associated with Trondheim Energiverk. The sale involves a production capacity of 0.6 TWh, and it will give a financial gain of around NOK 1 billion.

Statkraft will continue to contribute to the restructuring of the power industry in Norway within the given regulatory framework. Statkraft desires to have a controlling interest in Agder Energi and BKK if the municipal owners desire to sell addi-

Changes in assets



Changes in equity and liabilities



tional ownership stakes. In addition, Statkraft, in cooperation with the other owners, will support the regional companies with the aim of increasing profitability and regional focus.

International ownership interests. Statkraft's largest foreign ownership interest is 44.6 per cent of the shares in the Swedish company Sydkraft AB. The principal shareholder is the German energy company E.ON. This shareholding has not changed in 2003.

Statkraft and the investment company Norfund established the company, Statkraft Norfund Power Invest AS (SN Power), with equal ownership interests in 2002. SN Power's vision is to become a leading hydropower company in new growth markets and contribute to economic growth and sustainable development. The company will accomplish this by acquiring, developing, owning and operating hydropower plants and other renewable power production facilities. Each of the two owners has provided the company with NOK 500 million in equity capital, of which NOK 400 million was provided in 2003. There is an ongoing process to clarify the transfer of Statkraft's ownership interests in power plants in Nepal and Laos to SN Power, pending the approval of the relevant licence authorities, lenders and co-owners.

Organisation and working environment

At the end of 2003 there were 1,968 full-time equivalent employees in the group and 820 in Statkraft SF. This number has been reduced significantly from 2,370 full-time equivalent employees in the group at the beginning of 2003 and is attributed primarily to the sale of Statkraft Grøner, as well as to the workforce reduction processes in the group, including Skagerak Energi and Trondheim Energiverk.

Statkraft's personnel policy is based on our core values: committed and competent, and bold and responsible. An annual organisation and management evaluation survey measures employee satisfaction. There was an improvement in the average result from 2002 to 2003, and around 80 per cent of the group's employees are very satisfied. This is considered to be a good result.

Statkraft attaches considerable importance to company based management training. Examples of ongoing activities include team orientation of management groups, enhancing the efficiency of business and support processes, organisational changes and execution of restructuring measures, and the organisational effects of ICT investments. In addition, the group has three different management training programmes that focus on understanding the management role and manager conduct, management and result follow-up processes, and strategy formulation and implementation.

Statkraft will maintain its sharp focus of recent years 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, safety and environment (HSE). A number of risk-reduction measures were introduced in 2003 on the basis of risk assessments. A web-based HSE course has been developed for the employees. This course will also be taken by contractors and subcontractor employees. Consistent requirements for risk assessments have contributed to the fact that there were no serious accidents in 2003. There has, however, been an increase in the number of less serious injuries, which has resulted in somewhat higher H and F values. These incidents have occurred in everyday situations with a low level of risk. In 2004 we will increase our educational and risk-reducing measures aimed at this type of risk. Greater demands will also be placed on contractors and suppliers with regard to the management of health and safety risks.

Statkraft has achieved a great deal of openness concerning accidents and hazardous conditions. This openness makes it possible to register and prevent potential risks and serious accidents. In 2003 the use of audits has been expanded to follow up HSE issues at Statkraft and its suppliers.

The lost time injury frequency (the H1 value, which indicates the number of injuries with lost time per million hours worked) was 7 for the group in 2003 compared to 4 in 2002. The injury frequency (the H2 value, which indicates the number of injuries with and without lost time per million hours worked) was 18, compared to 11 in 2002. The injury lost time number (the F value, which indicates the number of lost days per million hours worked) was 132, an increase from 45 in 2002. There were 25 injuries with lost time in 2003, but none of these were serious. Statkraft will intensify its measures to prevent all types of injury.

The sick leave rate has declined somewhat in the group from 4.2 per cent in 2002 to 4.1 per cent in 2003. The sick leave rate has been somewhat lower for Statkraft SF. All the companies in the group still focus on creating a good working environment with a low sick leave rate, and a number of them have entered into an agreement with the National Insurance Scheme's Working Life Centre to become an Inclusive Workplace.

Equal opportunities

Statkraft SF aims to achieve a more even balance between the sexes, and appoint more women to managerial positions. The equal opportunities aspect of Statkraft's personnel policy is particularly evident in connection with recruitment and career development.

During the last two years, there has been an increase in the number of women employees, who now account for 22 per cent of the total workforce. The percentage of women in managerial positions is at the same level as before at 17 per cent. There is, however, a great deal of variation within the company, and the head office has shown an increase in the number of women executives from 21.5 to 27 per cent. Statkraft announced its first woman executive vice president in 2003. In recent years Statkraft has invested a great deal in the development of managers through various types of management courses, where the percentage of women participants has been high. The percentage of women in the management trainee programme was 44 per cent for 2003–04. Efforts to further increase the percentage of women are important to create a lasting and more balanced profile.

In 2003 Statkraft has focused attention on female representation on the boards of its subsidiaries and companies where Statkraft has large ownership interests. The percentage distribution between women and men on the various boards varies, however, a great deal. Plans have been prepared to promote a better balance between the sexes, and the board of directors will actively supervise the implementation of these plans.

Equal pay is a key element in the effort to achieve gender equality. Statkraft's aim is that its salary systems should reflect competence, job complexity and results achieved. Our objective is to achieve equal pay for equal work and performance at all job levels. Another key element is the establishment of flexible working schemes. These safeguard the needs of both the company and the employees, and provide greater flexibility for employees who have a particular burden of care. There has been a significant increase in men who are taking advantage of their statutory right to leave of absence to care for their children.

External environment

Hydropower and wind power are renewable sources of energy that represent an environmentally friendly alternative to other types of power production. However, the development and operation of any power plant has an impact on the environment. Statkraft attaches a great deal of importance to following up the environmental aspects of our own organisation, and we have implemented a number of improvement measures in this area in recent years.

In 2001 Statkraft SF was certified in accordance with the environmental standard ISO-14001:1996. This certification was an important milestone, and in 2003 we established cooperation with the Norwegian Water Resources and Energy Directorate (NVE) to improve and coordinate Statkraft's internal supervision, ISO-14001 audits and the NVE's inspections. The goal is to increase the efficiency of environmental follow-up on the part of the company and the authorities.

Environmental issues and environmental risks are key to our day-to-day operations. Environmental planning and follow-up of major projects have been improved significantly. We cooperate extensively with the local authorities and interested parties in both planning and execution. This has given us better solutions and contributed to a significant environmental risk reduction.

Statkraft's goal is to have zero environmental non-compliances. Four non-compliances with environmental consequences were nevertheless recorded in 2003. All non-compliances are followed up by compensatory and preventive measures. The most serious non-compliance occurred during the rehabilitation of the Akersvass dam, whose drainage basin is a reserve source of drinking water, and where it was discovered that the contractor had used contaminated clinker. All work was stopped immediately and some of the clinker was removed. Surveys show that it is not likely that the clinker will reduce the water quality of Akersvatn lake. Statkraft is in the process of reviewing and improving its quality assurance routines and follow-up of contractors in medium-sized and smaller projects to prevent such serious incidents.

Statkraft also registers minor incidents that do not have any environmental consequences. The number of registrations has increased significantly. As a result of this, improvements have been made to technical installations and measuring equipment, educational work has been performed and routines have been changed in 2003.

Outlook

In 2004 the efforts to develop the Statkraft Group in line with its vision of becoming a European leader in environmentally friendly energy and its strategic goals will continue. In these efforts, the company will focus on:

- Enhancing the efficiency of its core activities in production and trading by developing its existing competence and competitive advantages
- Developing its own ownership interests of regional companies and contributing, together with the other owners, to increased profitability and support of the companies' regional focus
- Executing the mandated divestiture in Norway and making new investments in the Nordic and Northern European markets
- Contributing to the harmonisation of the regulatory frameworks, with respect to taxes, power transmission etc, in a common Nordic market

The deregulation of the European energy market, technological advances and the demand for environmentally friendly energy represent interesting business opportunities for Statkraft both in Norway and Europe. A limited potential for further growth in Norway has increased our international focus. Our core competence in hydropower, financial trading, and flexible, environmentally friendly production facilities gives us a good foundation on which to realise profitable new business opportunities.

Statkraft requested an injection of NOK 12 billion in new equity from its owner towards the end of 2002. The Storting approved an injection of NOK 4 billion in new equity in December 2003. Statkraft will continue to focus on securing the company's competitiveness and financial foundation in the light of the Government's plans to propose a change in Statkraft's form of business organisation.

Statkraft entered 2004 with water reservoir levels that are somewhat lower than normal. Assuming that the inflow and market conditions are more or less equivalent to a normal year, the results of the company's ordinary operations are expected to be about the same as in 2003. The market situation is, however, still unstable, and there is a great deal of uncertainty concerning our profit performance.

The board of directors would like to thank all the employees for their efforts, which generated a satisfactory result in 2003.

The board of directors of Statkraft
Oslo, 3 March 2004

Terje Vareberg
Board Chairman

Marit Büch-Holm
Vice Chairman

Erik Nygaard

Toril Mølmen

Inger Østensjø

Astri Botten Larsen

Odd Vanvik

Thorbjørn Holøs

Bård Mikkelsen
President and Chief Executive Officer

Income statement

Statkraft SF					Group		
2003	2002	2001	Amounts in NOK million	Note	2003	2002	2001
7 730	6 423	6 417	Power revenues	3	9 324	7 979	7 038
417	527	2 880	Other operating revenues	5	2 796	2 910	3 356
8 147	6 951	9 297	Gross operating revenues		12 120	10 889	10 394
-542	-503	-652	Transmission costs		-927	-840	-680
7 605	6 448	8 645	Net operating revenues		11 193	10 048	9 714
613	476	434	Salaries and payroll costs	6,7	1 536	1 379	741
284	257	262	Compensation and licence fees	8	334	303	271
1 092	936	829	Other operating costs	9	1 713	1 400	1 020
621	778	807	Depreciation and amortisation	14,15	1 347	1 490	957
2 610	2 448	2 332	Operating costs		4 929	4 572	2 989
4 995	4 000	6 313	Operating income		6 264	5 476	6 725
-	-	-	Income from associates	16	1 114	871	1 054
2 290	1 908	1 442	Financial income	10	474	535	650
-2 732	-2 221	-1 761	Financial costs	10	-3 098	-2 783	-1 860
-442	-313	-319	Net financial items		-2 625	-2 249	-1 210
4 554	3 687	5 994	Pre-tax income		4 754	4 098	6 569
-1 694	-1 557	-2 110	Taxes	11	-1 887	-1 620	-2 227
2 859	2 130	3 884	Net income for the year		2 867	2 478	4 342
			Hereof minority interests		125	171	70
			Hereof majority interests		2 742	2 307	4 272
			Allocation of net income for the year				
2 605	2 192	2 690 [1)]	Dividend				
254	-62	1 194	To other equity				
			Group contribution				
1 580	1 803	491	Group contribution made (before tax)				

[1)] The Norwegian Storting (Parliament) decided in June 2002 to increase the 2001 dividend by NOK 950 million to NOK 3,640 million. The increase was recorded in 2002.

Balance sheet

Statkraft SF					Group		
31.12.03	31.12.02	31.12.01	Amounts in NOK million	Note	31.12.03	31.12.02	31.12.01
			ASSETS				
2 265	2 108	2 192	Intangible assets	14	3 247	2 997	3 386
22 657	22 908	23 503	Property, plant and equipment	15	43 824	44 077	36 585
19 933	10 878	9 075	Investments in subsidiaries and associates	16	28 550	29 749	19 018
27 467	36 326	19 898	Other fixed financial assets	17	5 293	1 532	1 411
72 323	72 220	54 668	Fixed assets		80 914	78 356	60 400
37	39	44	Inventories		41	43	47
2 876	7 809	3 099	Receivables	18	3 854	9 241	3 683
-	-	-	Short-term financial investments	19	254	217	263
1 473	724	5 937	Cash and cash equivalents	20	3 214	1 518	6 901
4 386	8 571	9 080	Current assets		7 363	11 019	10 894
76 709	80 792	63 748	Total assets		88 277	89 375	71 294
			EQUITY AND LIABILITIES				
29 250	25 250	25 250	Paid-in capital	21	29 250	25 250	25 250
1 917	1 663	2 722	Retained earnings	21	2 050	1 820	3 378
-	-	-	Minority interests	21	3 724	3 774	3 698
31 167	26 913	27 972	Total equity		35 024	30 844	32 326
315	281	291	Provisions	22	3 226	2 731	1 914
-	-	-	Subordinated loan		65	74	100
37 680	46 001	30 985	Interest-bearing long-term liabilities	23	42 220	47 814	31 133
37 996	46 282	31 276	Long-term liabilities and provisions		45 511	50 620	33 147
516	729	-	Interest-bearing current liabilities	24	776	729	35
1 168	826	693	Taxes payable		1 483	1 066	981
5 862	6 042	3 807	Other non-interest-bearing liabilities	25	5 484	6 116	4 805
7 546	7 597	4 500	Current liabilities		7 743	7 910	5 821
76 709	80 792	63 748	Equity and liabilities		88 277	89 375	71 294
2 094	2 095	2 098	Pledges		3 436	2 095	2 098
3 316	3 583	5 722	Guarantees		4 240	3 802	5 803

Cash flow statement

Statkraft SF					Group		
2003	2002	2001	Amounts in NOK million		2003	2002	2001
			CASH FLOW PROVIDED BY/USED IN OPERATING ACTIVITIES				
4 554	3 687	5 994	Pre-tax income		4 754	4 098	6 569
7	-208	-69	Gain/loss on sale of fixed assets		-2	-187	-78
621	778	863	Depreciation and write-downs		1 347	1 490	1 048
-	-	-	Income from associates		-1 114	-871	-1 054
-1 839	-1 472	-2 053	Taxes payable		-1 895	-1 281	-2 109
3 343	2 785	4 735	Cash flow provided by operations		3 090	3 249	4 376
1 632	-1 489	114	Change in inventories, debtors and creditors		1 411	-1 354	6
-	-	-	Dividend from associates		742	905	381
1 533	-1 511	-1 301	Change in other current assets and liabilities		2 917	-2 778	-643
6 508	-215	3 548	Net cash flow from operations	A	8 160	22	4 120
			CASH FLOW PROVIDED BY/USED IN INVESTMENT ACTIVITIES				
-389	-672	-395	Investments in fixed assets		-1 277	-1 387	-546
8	697	173	Proceeds from sale of fixed assets		50	856	349
-935	-	-559	Investments in other companies		-424	-15 598	-3 340
-1 316	25	-781	Net cash flow from investment activities	B	-1 651	-16 129	-3 537
			CASH FLOW PROVIDED BY/USED IN FINANCING ACTIVITIES				
408	19 616	4 210	Long-term loan proceeds		1 141	21 097	4 210
-8 572	-4 560	-3 481	Repayment of long-term liabilities and subordinated loans		-8 466	-6 663	-3 622
1 913	-16 439	-3 990	Change in other long-term receivables and liabilities		704	-70	-2 153
4 000	-	6 000	Payment of new equity		4 000	-	6 000
-2 192	-3 640	-631	Dividend distributed to owner		-2 192	-3 640	-631
-4 443	-5 023	2 108	Net cash flow from financing activities	C	-4 813	10 724	3 804
749	-5 213	4 875	Net change in cash and cash equivalents	A+B+C	1 696	-5 383	4 387
724	5 937	1 062	Cash and cash equivalents as of 1 January		1 518	6 901	2 514
1 473	724	5 937	Cash and cash equivalents as of 31 December		3 214	1 518	6 901

The board of directors of Statkraft
Oslo, 3 March 2004

Terje Vareberg
Board Chairman

Marit Büch-Holm
Vice Chairman

Erik Nygaard

Toril Mølmen

Inger Østensjø

Astri Botten Larsen

Odd Vanvik

Thorbjørn Holøs

Bård Mikkelsen
President and Chief Executive Officer

Accounting principles

Accounting rules

The annual accounts have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. Statkraft SF is established as a state-owned enterprise, and its activities are regulated by the Act governing state-owned enterprises.

Consolidation principles 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. The 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/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 and group 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 during 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 (NOK) at the current exchange rates. Any conversion differences are recorded directly against equity.

Partly owned power plants. Power plants with joint ownership, ie power plants operated by Statkraft but with other owners as well, and plants operated by others but where Statkraft has an ownership interest, are accounted for using the gross method of accounting. The electricity produced is managed directly by the co-owners, with the exception of licence 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 as 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 in companies where Statkraft has a considerable, but not a controlling, interest are dealt with in accordance with the equity method of accounting in the group accounts. This means that the group's share of the associated companies' results after tax, adjusted for goodwill amortisation, as well as any deviations from the accounting principles, 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 associated accumulated net results, less dividends received and any currency adjustments.

The principles for consolidating ownership interests in connection with the acquisition of businesses are the same as for subsidiaries.

Investments that are not considered to be material to the group are dealt with in accordance with the cost method in the company and group accounts.

Valuation and classification principles

Principles governing revenue and cost accounting

Revenues relating to the sale of goods and services are recognised when they are earned, while costs are recorded in accordance with the accrual principle. Results from subsidiaries are recognised in the year they are earned, while dividends from other companies are recognised in accordance with the cash principle. See also the section above on consolidation principles and group accounts. 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 the produced volume multiplied by the sales price. Statkraft hedges its 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 classification as hedging is that the hedging level is within the company's production capacity. Production capacity is defined as the production capacity that the company is 80 per cent certain to achieve. Losses/gains on hedging contracts, calculated as the margin between the contract price and spot price, are recorded on realisation as part of power revenues. No valuation is made during the intervening period. If the net sales obligations exceed the production capacity, the excess is dealt with in accordance with the lower value principle based on the LIFO principle.

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

Trading and origination. The company has separate portfolios for trading and origination, which are managed independently of the company's expected power production. The trading portfolio consists of financial power contracts and 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 consists primarily of products traded on the Nord Pool exchange or bilateral standardised products. The portfolio is recorded at fair value pursuant to Section 5–8 of the Norwegian Accounting Act. The origination portfolio consists of custom bilateral power contracts that are offered to customers as needed. Since there is no market to provide quotes for a satisfactory pricing of such non-standard contracts, the portfolio does not meet the requirements for recording at fair value in accordance with the generally accepted accounting principles in Norway, and the portfolio is therefore recorded in accordance with the lower value principle at the portfolio level.

Distribution grid revenues. With effect from 1997, the Norwegian Water Resources and Energy Directorate (NVE) introduced a regulation regime for distribution grid operations. Each year, the NVE sets a maximum income ceiling for the individual grid owner. This ceiling is reduced annually by a general efficiency enhancement demand of 1.5 per cent. In addition to this, individual efficiency enhancement demands can be imposed on the individual grid owner.

Each year, an additional/lower income is calculated, which is the difference between actual tariff revenues and permitted revenues (ceiling). Accumulated additional/lower income is recorded as a liability to or a receivable from distribution grid customers. Interest is calculated on the accumulated additional/lower income in accordance with an interest rate stipulated by the 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 the 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 related 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 stated in the Notes to the accounts.

Licence fees

Licence fees are paid annually to central and local authorities for the increase in hydropower capacity 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 stated in 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 defined benefit plans.

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 estimated obligation and the projected yield on pension fund assets. The effect of plan changes is spread over the remaining average earning period. Estimate deviations that exceed 10 per cent of the value of the gross pension obligations or pension fund assets (corridor) are recognised immediately.

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

Research and project engineering costs

Project development and project engineering costs are expensed until the necessary board resolutions have been made and licence approval has been granted.

Maintenance

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

Taxes

Companies in the group that are engaged in power production are subject 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. The 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/kWh. Income tax can be offset against the 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. The property tax on power plants is to some extent an income-dependent tax. It is calculated on the basis of the actual production, less the individual power plant's actual operating costs and resource rent tax paid. The revenue side in the property tax is calculated on the same basis as the resource rent tax, taking as its 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 five years' average net operating revenue for the power plant is discounted at a fixed rate in perpetuity. The discounted value of the plant's estimated cost of replacing fixed assets is deducted. The property tax rate is from 0.2 to 0.7 per cent of the property tax base and is paid to the relevant municipality.

The property tax on power plants, which is correlated largely to power revenues, is classified as a tax charge.

Income tax. Income tax is calculated in accordance with the ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax/tax assets. The 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 of forwardable losses on taxes. 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-dependent. It is calculated on the individual plant's production, hour by hour, multiplied by the spot price for the corresponding hour. In the case of the delivery 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 reduced by the actual operating costs, depreciation, and tax-free revenues in order to arrive at the net resource rent revenue tax base. Tax-free revenues amount to 9.7 per cent of the value of the power plant's operating assets for taxation purposes.

The resource rent tax is 27 per cent of the net resource rent revenues at each power plant. Negative resource rent revenues for a power plant can be carried forward and offset against future positive resource rent revenues, with interest, in the same power plant. The deferred tax assets linked to tax loss carryforwards, as well as deferred tax linked to other temporary differences, are utilised for power plants where it is probable that there will be positive resource rent revenues in the foreseeable future, and are calculated based on the estimated actual resource rent tax.

Classification and valuation of assets and liabilities

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 classified as current assets. Analogue criteria are applied to the classification of current and long-term liabilities.

Fixed assets are recorded at acquisition cost and are written down to fair 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, adjusted for any unamortised premium or discount. 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 fair 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 Statkraft 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.

Long-term shares and stakes. 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 valued in accordance with 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 water 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, certificates etc that are classified as current assets are, for each group of assets, valued on a portfolio basis in accordance with 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 statement

The cash flow statement is prepared using the indirect method. This implies that the statement 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

2003

Sale of business

Statkraft SF abandoned the consulting business in September 2003 through the sale of around 92 per cent of the shares in Statkraft Grøner AS to the Swedish company SWECO AB. The book value of the company in the group accounts was NOK 64 million, and it was sold with a limited financial gain.

New capital

In December 2003 Statkraft received an injection of NOK 4 billion in new equity capital through a capital increase adopted by the Norwegian Storting (Parliament).

2002

Acquisitions

In 2002 Statkraft acquired 100 per cent of the shares in Trondheim Energiverk AS (TEV) for NOK 4,338 million and 45.5 per cent 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 per cent and its interest in the Swedish company Sydkraft from 35.7 to 44.6 per cent. Statkraft paid NOK 3,224 million and NOK 3,451 million, respectively, for these higher stakes.

Other issues

Statkraft and the state-owned investment company Norfund established a new company, Statkraft Norfund Power Invest AS, with equal ownership interests.

2001

Acquisitions

Statkraft acquired additional shares in Hedmark Energi AS, Skagerak Energi AS, Sydkraft AB and Nordic Hydropower AB during the year.

Other issues

Statkraft SF recorded an income of NOK 1,995 million due to the fact that E.ON terminated a long-term power exchange agreement. Moreover, the Storting appropriated NOK 457 million for losses associated with the development of Beiarn, Bjellåga and Melfjord, which was stopped.

NOTE 2 SEGMENT INFORMATION

The Statkraft Group had the following results in its most important business areas. The consulting business is included under the category “Other”. Reference is made to Page 20 of the annual report for a more detailed description of the business areas.

Figures for the Statkraft Group 2003

Amounts in NOK million	Group	Production and hedging activities	Trading	Distribution grid	End-user	Other	Group functions and eliminations
Gross operating revenues	12 120	9 944	575	1 364	574	497	-835
Operating income	6 264	5 964	101	167	37	51	-55
Result from associated companies	1 114	520	30	486	79	106	-106
Net financial items	-2 625	-2 161	-11	-329	-16	-70	-39
Pre-tax income	4 754	4 328	120	327	102	86	-209
Net income for 2003	2 867	2 530	76	305	88	66	-197
Hereof minority interests	125	112	-	12	4	-1	-2
Net income for 2002	2 478	2 133	253	414	-89	-13	-220
Net income for 2001	4 342	3 508	526	294	-66	9	71

The group's operating revenues are generated primarily in Norway.

NOTE 3 POWER SALES

Statkraft optimises its power production based on an assessment of the value of available water in relation to the actual and expected future spot price. This is done irrespective of any contracts entered into. In the event that Statkraft has physical contractual obligations to supply power that deviate from the actual production, the difference is either bought or sold on the spot market. Necessary spot purchases are recorded as a correction of the power revenues. Physical and financial contracts are used to hedge the underlying production through entering into positions to buy or sell. Sales positions are taken to hedge the price of a specific fraction of the planned future production. Purchase positions are taken to adjust the hedging level if the 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 the contract price and spot price (system price for financial contracts).

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
9 932	8 766	6 236	Production at spot prices	11 645	10 111	6 473
-3 917	-2 128	-1 622	Deviation from spot prices on Storting-mandated contracts [1]	-4 234	-2 296	-1 622
1 416	-539	782	Result from commercial contracts	1 034	-767	722
299	324	1 021	Other net power sale revenues [2]	879	932	1 465
7 730	6 423	6 417	Total	9 324	7 979	7 038

[1] Industrial power contracts at prices mandated by the Norwegian Storting (Parliament), as well as licence power supplied to local authorities. In 2003 the price for this power was NOK 0.11/kWh and NOK 0.07/kWh, respectively. The industrial power contracts will gradually expire by 2011.
[2] Includes gain/loss on trading, margin on production optimisation, international exchange contracts and licence power for power plants outside the group.

Figures in TWh	2004	2005	2006	2007	2008	2009	2010	2011	2012
Industrial contracts	17.3	14.3	13.1	10.9	9.1	8.7	8.8	1.1	0
Licence contracts	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.2	2.2
Firm sales agreements	19.6	16.7	15.4	13.2	11.4	11	11.1	3.3	2.2

As a result of agreements relating to accelerated reversion/remainder during the period from 1957 to 1966, Statkraft SF owns the Saudefaldene, Tyssefaldene, Bjølvo, Høyanger and Svelgen power plants. Statkraft operates Bjølvo and Høyanger. The others are leased out at Storting-mandated terms in accordance with Proposition no. 52 (1998–99) to the Storting. In 2003 and through to 2006, this applies to Saudefaldene, Tyssefaldene and Svelgen. The power plants Tysso II and Sauda IV reverted to Statkraft in 2007 and 2010, respectively. These plants have a mean production and leased-out volume of 1.1 TWh. Statkraft will regain control of a number of the power plants at Tyssefaldene from 2011, while the remaining power plants are leased out until 2030.

Figures in TWh	2004	2005	2006	2007	2008	2009	2010	2011–2030
Leased-out volume	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 PRODUCTION

	Reservoir levels as of 31 December			Maximum	Production [1]			
Figures in TWh	2003	2002	2001	capacity	2003	2002	2001	Average
Statkraft SF	18.4	18.8	26.5	33.9	32.5	40.4	33.3	33.6
Group	21.9	21.7	29.1	39.6	39.3	48.8	35.1	41.7

[1] After losses

In a normal year, water levels in the reservoirs vary around an average level of -11 TWh at the minimum in April and + 5 TWh at the maximum in October. The inflow in 2003 has been close to normal. In spite of the low reservoir levels at the start of the year, the production has been maintained by the high prices. This has entailed a slight reduction in the reservoir levels throughout the year.

NOTE 5 OTHER OPERATING REVENUES

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
249	249	245	Revenues from leasing out power plants	215	315	245
-	-13	120	Net revenues from distribution grid operations	1263	1 285	306
-	-	-	Revenues from end-user operations	574	430	-
-	-	-	Revenues from district heating operations	184	177	-
114	83	47	Other lease revenues and sale of services	525	523	337
54	208	16	Gain on sale of fixed assets	35	180	16
-	-	2 452	Compensation	-	-	2 452
417	527	2 880	Total	2 796	2 910	3 356

Negative income from leasing the 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 grid capital have been transferred to new owners. As a consequence, information on monopoly activities is no longer reported in Statkraft SF's accounts.

NOTE 6 SALARIES AND OTHER PAYROLL COSTS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
400	343	357	Salaries	1 047	900	577
70	65	56	National Insurance Scheme contribution	156	145	87
143	66	20	Pension costs	288	178	48
-	2	1	Other benefits	45	155	29
613	476	434	Total	1 536	1 379	741

The President and Chief Executive Officer's salary totalled NOK 2,200,000 in 2003. The year's pension cost amounted to NOK 1,957,494 and other benefits amounted to NOK 163,590.
Members of the group management have a pension age of 65 years with entitlement to 66 per cent of their annual salary. For the period between the ages of 60 and 65, members of the group management have agreements that imply a mutual right to scale back work assignments and remuneration for work performed. Members of the group management, with the exception of the President and CEO, are entitled to an annual bonus of up to NOK 200,000. This bonus is paid on the basis of the 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 of directors has no agreements for remuneration other than directors' fees, 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 1,177,500, of which NOK 210,000 went to the Chairman.
In 2003, the average number of employees was 2,211 in the group and 807 in the parent company.

NOTE 7 PENSIONS

Group pension schemes in the group

The group has a group pension scheme for its employees, which provides benefits equivalent to those provided by the National Pension Fund Act. These benefits include a retirement, disability, surviving spouse's and child's pension. The schemes cover 66 per cent of pensionable income up to 12 G (12 times the National Insurance Scheme's basic amount) with a full contribution period. The pension benefits are coordinated with the benefits from the National Insurance Scheme. All the schemes have membership in the transfer agreement. Moreover, all the companies have agreement-linked early retirement pension (AFP) schemes from age 62.
Statkraft SF has a group pension scheme for its employees with the National Pension Fund. The National Pension Fund scheme is not asset-based. The pension benefits are 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.
Trondheim Energiverk (TEV) had a group pension scheme through the Trondheim Municipal Pension Fund until 31 December 2003. This pension scheme was transferred to the National Pension Fund as of 1 January 2004.
Skagerak Energi has a group pension scheme for its employees with its own pension fund.

Other schemes

Statkraft's Pension Fund

In addition to the National Pension Fund, Statkraft SF had a supplementary scheme with its own pension fund, which provided a retirement, disability, surviving spouse's and child's pension and covered 44 per cent of pensionable income in the interval from 8 to 12 G. This scheme was terminated on 1 May 2000, and the employees' benefits have been converted to free paid-up policies. The scheme also provides a survivor's pension beyond the benefits of the National Pension Fund for employees with pension seniority after 1976, but it was closed to new employees on 1 July 2002.

Uncovered pension obligations

In addition to the above, Statkraft SF has entered into pension agreements that provide all employees with pensionable incomes over 12G with a retirement and disability pension covering 66 per cent of their pensionable income exceeding 12G. This scheme also provides eight executives with a survivor's and child's pension. These pensions are covered through the company's running operations.

Pension asset investments

A description of investment strategy and yield in 2003 for the funds in the group's various pension schemes is summarised in the following table.

Portfolio	Share	Description of investment strategy	Yield in 2003
National Pension Fund	32 %	Fictive funds that yield interest corresponding to the yield of 10-year government bonds at the time of the investment	6.6 %*
Statkraft Pension Fund	8 %	Interest-bearing Norwegian papers through an external manager	11.5 %
Skagerak Pension Fund	41 %	Diversified portfolio of Norwegian and foreign interest-bearing papers, mortgages, shares (max. 19 per cent) and hedge funds (max. 7 per cent) through external managers	10.7 %
Trondheim Municipal Pension Fund on behalf of Trondheim Energiverk	19 %	Interest-bearing Norwegian and foreign papers and shares (max. 10 per cent), as well loans to members	12.0 %*
Total	100 %		

* Estimate

Assumptions

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

	2003	2002	2001
Annual discount rate	5.5 %	6.0 %	6.0 %
Salary adjustment	3.3 %	3–4 %	3.3 %
Adjustment of current pensions	2.9 %	2.9 %	2.9 %
Adjustment of National Insurance Scheme's basic amount (G)	2.9 %	2.9 %	2.9 %
Forecasted voluntary retirement			
• Up to age 45	2.5 %	2.5 %	2.5 %
• Between ages of 45 and 60	0.5 %	0.5 %	0.5 %
• Over age 60	0.0 %	0.0 %	0.0 %
Projected yield	6.5 %	7.0 %	7.0 %
Rate of inflation	2.5 %	2.5 %	2.5 %
Withdrawal tendency for early retirement (AFP)	20–50 %	20–25 %	20–25 %

Pension costs breakdown

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
39	30	22	Present value of earned pension rights for the year	83	141	49
37	32	26	Interest costs on pension obligations	102	76	66
76	62	48	Gross pension cost for the year	185	217	115
-34	-32	-26	Projected yield on pension fund assets	-87	-78	-67
89	1	-	Recognised effect of estimate deviations	179	3	-
11	35	-2	Recognised effect of plan changes	11	36	-
142	66	20	Net pension cost for the year	288	178	48

Reconciliation of pension obligations and pension fund assets

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
750	555	480	Gross pension obligations	1 921	1 456	1 204
582	499	456	Pension fund assets	1 478	1 240	1 095
-168	-56	-24	Net pension obligations	-443	-216	-109
65	54	15	Unamortised estimate deviations	182	117	70
20	-	35	Non-recognised plan changes	20	22	41
-12	-3	-2	National Insurance contributions	-34	-15	-15
-95	-5	24	Net pension obligations in balance sheet	-275	-92	-13
-139	-46	-20	Pension obligations through operations – unfunded schemes	-356	-258	-123
44	41	44	Pension assets – funded schemes	81	166	110

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

NOTE 8 COMPENSATION AND LICENCE FEES

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
210	201	213	Licence fees	248	236	221
74	56	49	Compensation	85	67	50
284	257	262	Total	334	303	271

Licence fees are adjusted five years after the licence has been issued, and thereafter at intervals of five years, based on the Consumer Price Index. Annual and permanent fixed compensation payments for damage and inconvenience, which arise as a result of hydropower development, are adjusted in accordance with the same rules that apply to licence fees. The present value of current and fixed licence fees and compensation obligations related to plants are estimated to be NOK 3,000 million and NOK 439 million, respectively, discounted at an interest rate of 7 per cent in accordance with the regulations relating to licence fees, annual compensation, funds etc.

NOTE 9 OTHER OPERATING COSTS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
37	44	30	Materials	118	97	43
400	472	399	External services	606	663	442
98	96	91	Costs, power plants leased out	98	95	42
69	59	65	Costs, power plants operated by others	135	128	75
-	-	72	Write-down of fixed assets	11	-	91
488	265	172	Other operating costs	745	418	327
1 092	936	829	Total	1 713	1 401	1 020

The fees paid to the group auditor in 2003 can be broken down as follows (in whole NOK):

	Statkraft SF	Subsidiaries	Group
Audit fees	940 000	1 955 250	2 895 250
Audit-related assistance	382 058	745 025	1 127 083
Tax consulting	1 122 492	345 550	1 468 042
Operational auditing [1]	2 343 424	-	2 343 424
Other assistance	84 550	1 167 425	1 251 975
Total	4 872 524	4 213 250	9 085 774

[1] Audit-related fees are recorded in the balance sheet during the period in which the invoice is received from the auditor. The 2003 total for operational auditing includes NOK 1,424,000 for services rendered in 2002.

NOTE 10 FINANCIAL INCOME AND COSTS

Financial income

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
1 890	1 479	935	Interest received from group companies	-	-	-
314	381	441	Other interest income	396	487	237
86	48	66	Other financial income	78	48	413
2 290	1 908	1 442	Total	474	535	650

Financial costs

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
-	-39	-	Interest paid to group companies	-	-	-
-2 646	-2 115	-1 704	Other interest costs	-2 949	-2 637	-1 805
-86	-67	-57	Other financial costs	-149	-146	-55
-2 732	-2 221	-1 761	Total	-3 098	-2 783	-1 860

NOTE 11 TAXES

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
466	470	455	Natural resource tax	581	580	478
280	270	266	Property tax	348	334	279
-4	-1	-1	Tax refunded/reversed from previous years	-4	-1	-1
742	739	720	Income-independent taxes	925	913	756
1 067	901	1 552	Income tax	944	602	1 503
-615	-570	-1 507	Income tax offset [1]	-787	-510	-1 385
149	100	1 052	Brought forward/reversed [2]	206	-70	924
334	339	222	Resource rent tax	445	386	229
-30	-37	14	Changes for previous years/restatements	-30	-40	82
905	733	1 333	Income-dependent taxes	778	368	1 353
1 647	1 472	2 053	Taxes payable [3]	1 703	1 281	2 109
-145	85	57	Change in deferred tax	-8	339	118
192	-	-	Adjustment tax [4]	192	-	-
1 694	1 557	2 110	Taxes	1 887	1 620	2 227
37 %	42 %	35 %	Effective tax rate [5]	40 %	40 %	34 %

[1] Income tax charged by the national authorities is offset against the natural resource tax.
[2] In the event that the natural resource tax cannot be fully coordinated with the income tax, the excess amount of natural resource tax and interest can be carried forward and offset against income tax in later years.
[3] For Statkraft SF the taxes payable are stated before the effect of group contribution.
[4] The estimated adjustment tax is due to the fact that the dividend to the State and group contribution paid exceed the ordinary income.
[5] Taxes/pre-tax income.

The table below illustrates how the tax base for calculating income tax is derived based on the accounts:

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
4 554	3 687	5 994	Pre-tax income	4 754	4 098	6 569
-415	-269	-268	Permanent differences	-78	-765	-452
-	-	-	Permanent differences recorded against equity	-	-456	-
-312	-184	-178	Change in temporary differences	173	-597	-455
3 827	3 234	5 547	Tax base for the year	4 849	2 279	5 663
28 %	28 %	28 %	Tax rate	28/40 %	28/35 %	28/35 %
1 071	906	1 553	Estimated income tax	1 151	668	1 601
-4	-4	-1	Tax credit for deduction	-207	-66	-98
1 067	902	1 552	Income tax before offset	944	602	1 503
-615	-570	-1 507	Natural resource tax offset	-787	-510	-1 385
452	332	45	Income tax after offset	157	92	118

The following table specifies the temporary differences and tax loss carryforward, and illustrates the calculation of 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 utilised. 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 a single 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 change in temporary difference due to deferred tax in acquired companies.

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
-346	-413	-202	Current assets/short-term liabilities	-647	-530	-265
-1 334	-1 444	-1 838	Fixed assets	-1 184	-1 377	-2 398
-	-	-	Tax loss carryforward/credit	-37	-76	-433
-1 680	-1 856	-2 040	Total temporary differences and tax loss carryforward	-1 868	-1 983	-3 096
-470	-519	-571	Deferred tax assets	-524	-564	-867
-577	72	20	Temporary differences, resource rent tax	-577	386	20
-116	14	4	Deferred tax on temp. diff., resource rent tax	-116	35	4
-248	-184	-207	Negative resource rent tax carryforward	-248	-184	-207
-364	-170	-203	Deferred tax assets, resource rent tax	-364	-149	-203
-834	-689	-774	Total deferred tax assets	-888	-713	-1 070
28/20 %	28/20 %	28/20 %	Tax rate	40/28/20 %	40/28/20 %	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 entities/regimes are presented separately. Deferred tax is calculated on shares of results from foreign associated companies.

Group			
2003	2002	2001	Amounts in NOK million
1 438	1 024	1 129	Share of results
6 724	6 755	3 882	Excess values, acquired companies
8 162	7 779	5 011	Total temporary differences
2 285	2 178	1 403	Deferred tax
1 100	637	461	Temporary differences, resource rent tax
182	127	75	Deferred tax on temp. diff., resource rent tax
-48	-62	-33	Resource rent tax carryforward
134	65	42	Deferred tax, resource rent tax
2 419	2 243	1 445	Total deferred tax
28/20 %	28/20 %	28/16 %	Tax rate

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

In power companies where Statkraft SF has an ownership interest without operating responsibility, cf. Note 15, the company withdraws for its own sale a share of that company's electricity production that corresponds to its ownership interest. This is included in the 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 from 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 for settlement on a current basis. The following is a summary of Statkraft SF's share of the income statement items in these power plant companies. The calculated revenues are Statkraft's actual withdrawal of power multiplied by the average price for saleable production, and Statkraft's share of licence power revenues.

	Statkraft SF		
Amounts in NOK million	2003	2002	2001
Calculated revenues	903	759	673
Other operating revenues	10	10	10
Transmission costs	-55	-52	-52
Net operating revenues	858	717	631
Compensation and licence fees	23	23	22
Other operating costs	90	85	84
Ordinary depreciation	80	80	80
Operating costs	193	188	186
Calculated income before tax and financial items	665	529	445

NOTE 13 PRO FORMA FIGURES FOR THE GROUP

	Group		
Amounts in NOK million	2003	2002	2001
Operating revenues	12 120	10 889	12 066
Operating income	6 264	5 476	7 217
Pre-tax income	4 754	4 098	6 270
Net income for the year	2 867	2 478	3 962
Hereof minority interests	125	171	106

The pro forma figures for 2001 have been prepared to illustrate the effect of the acquisitions of the subsidiaries Skagerak Energi and Trondheim Energiverk had they taken place as of 1 January 2001.

Adjustments have been made to the recorded shares of the results of Skagerak Energi for the periods prior to the establishment of the group. Furthermore, consideration has been given to the annual amortisation of excess values, as calculated at the time of the acquisition. The result is adjusted for imputed interest (7 per cent) relating to financing of the acquisition.

The pro forma figures are not audited.

NOTE 14 INTANGIBLE ASSETS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
1 431	1 419	1418	Licences, fall rights etc	2 093	2 039	2 063
834	689	774	Deferred tax assets	887	713	1 070
-	-	-	Goodwill	267	245	253
2 265	2 108	2 192	Total	3 247	2 997	3 386

Amounts in NOK million	Rights	Goodwill	Total
Group			
Acquisition cost 1 January 2003	2 123	338	2 461
Additions 2003	43	44	87
Disposals 2003	-	-	-
Accumulated depreciation 31 December 2003	73	115	188
Book value 31 December 2003	2 093	267	2 360
Current year's ordinary depreciation	22	23	45
Statkraft SF			
Acquisition cost 1 January 2003	1 476	-	1 476
Additions 2003	24	-	24
Disposals 2003	-	-	-
Accumulated depreciation 31 December 2003	69	-	69
Book value 31 December 2003	1 431	-	1 431
Current year's ordinary depreciation	21	-	21
Estimated useful economic life	7 years to perpetuity	5–25 years	

Deferred tax assets are discussed in greater detail in Note 11.

NOTE 15 FIXED ASSETS

Amounts in NOK million	Regulation plant	Turbines, generators etc.	Grid facilities	Interest in power plants operated by others	Underground chambers, buildings, roads, bridges and quays	Plants under construction	Other	Total
Group								
Acquisition cost 1 January 2003	22 742	16 996	7 259	3 565	6 100	745	2 235	59 642
Additions 2003	246	296	310	8	172	344	353	1 729
Disposals 2003	-	20	108	-	29	607	267	1 031
Capitalised construction interest	-	-	-	-	-	40	-	40
Foreign currency effects	-	-	-	-	-22	-	-	-22
Accumulated depreciation and write-downs 31 December 2003	3 888	6 400	3 023	822	1 301	-	1 100	16 534
Book value 31 December 2003	19 100	10 872	4 438	2 751	4 920	522	1 221	43 824
Current year's ordinary depreciation	259	401	250	92	116	-	184	1 302
Statkraft SF								
Acquisition cost 1 January 2003	15 991	6 022	-	2 801	4 660	619	908	31 001
Additions 2003	246	78	-	4	167	152	218	865
Disposals 2003	-	-	-	-	4	520	150	674
Capitalised construction interest	-	-	-	-	-	40	-	40
Accumulated depreciation and write-downs 31 December 2003	3 497	2 724	-	792	1080	-	482	8 575
Book value 31 December 2003	12 740	3 376	-	2 013	3 743	291	494	22 657
Current year's ordinary depreciation	228	145	-	61	67	-	99	600
Depreciation period (years)	30–60	15–30	25–30	5–50	50–60		3–40	

In connection with the coordination of depreciation periods within the group, a new assessment of the economic life of the various fixed assets was made. This has reduced the annual depreciation by a total of NOK 170 million for Statkraft SF and around NOK 154 million for the group in 2003. The new depreciation periods are as follows:

	Depreciation period (years)		Depreciation period (years)
Fall rights	perpetual	Grid facilities	
Dam installations		– transformer	35
– riprap dams, concrete dams	75	– switch gear (high voltage)	35
– other dams	30	Buildings (administration etc)	50
Tunnel systems	75	Other fixed installations	
Machine technical installations		– permanent	20
– pipe trenches	40	– less permanent	10
– generators (turbines, valves)	40	Miscellaneous	5
– other machine technical installations	15	Land	perpetual
Underground chambers	75	Office and computer equipment	3
Roads, bridges and quays	75	Furnishings and equipment	5
Electrotechnical installations		Vehicles	8
– transformer/generator	40	Construction equipment	12
– switch gear (high voltage)	35	Small craft	10
– control gear	15	Goodwill	individual assessment
– operating centre	15		
– communications line	10		

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

County authorities and publicly owned power companies have the following rights to withdraw power from power plants operated by Statkraft SF:

Power plant	Others' share
Eidfjord	35.00 %
Folgefonn	14.94 %
Grytten	12.00 %
Kobbelv	17.50 %
Leirdøla	35.00 %
Svartisen	30.00 %
Svorka	50.00 %
Ulla-Førre	28.00 %
Vikfalli	12.00 %

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

Amounts in NOK million Power plant	Ownership interest	Share of fixed assets
Aurlandsverkene	7.00 %	372
Kraftverkene i Øvre Namsen [1]	50.00 %	255
Mørkfoss-Solbergfoss	33.33 %	62
Røldal-Suldal Kraft AS [2]	8.74 %	-
I/S Sira-Kvina kraftselskap	32.10 %	1 323
Tyssefaldene	20.29 %	1
TOTAL		2 013

[1] Statkraft's ownership interest in Kraftverkene i Øvre Namsen has been sold in 2004. See Note 29.

[2] Statkraft SF owns 8.74 per cent of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79 per cent of the power plant IS Røldal-Suldal Kraft. Statkraft's indirect ownership in the partnership is therefore 4.79 per cent.

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.

Shares owned by the parent company

Amounts in NOK million	Registered office	Ownership and voting share	Book value
Subsidiaries			
Statkraft Holding AS	Oslo	100 %	13 951
Statkraft Energy Enterprise AS	Oslo	100 %	3 738
Statkraft Energy Europe AS	Oslo	100 %	699
Finnmark Energiverk AS	Alta	100 %	343
Nordic Hydropower AB	Stockholm	100 %	166
Himal Power Limited	Katmandu	51 %	119
Statkraft Vind AS	Oslo	100 %	365
Statkraft Forsikring AS	Oslo	100 %	30
Empresa de Generacion Electrica Cheves SA	Peru	100 %	20
Associated companies			
Statkraft Norfund Power Invest AS	Oslo	50 %	500
Others			2
Total			19 933

Shares in consolidated subsidiaries owned by other group companies

Name	Registered office	Parent company	Ownership and voting share
Statkraft Invest AB	Malmö	Statkraft Energy Enterprise AS	100 %
Statkraft Markets AB	Stockholm	Statkraft Energy Europe AS	100 %
Statkraft Markets GmbH	Düsseldorf	Statkraft Energy Europe AS	100 %
Skagerak Energi AS	Porsgrunn	Statkraft Holding AS	66.62 %
Trondheim Energiverk AS	Trondheim	Statkraft Holding AS	100 %
Smøla Vind AS	Oslo	Statkraft Vind AS	100 %
Smøla Vind 2 AS	Oslo	Statkraft Vind AS	100 %
Hitra Vind AS	Oslo	Statkraft Vind AS	100 %
Statkraft Markets Austria GmbH	Wien	Statkraft Markets GmbH	100 %
Statkraft Markets BV	Amsterdam	Statkraft Markets GmbH	100 %
Enita AS	Trondheim	Trondheim Energiverk AS	66 %
Trondheim Energiverk Fjernvarme AS	Trondheim	Trondheim Energiverk AS	100 %
Trondheim Energiverk Kraft AS	Trondheim	Trondheim Energiverk AS	100 %
Trondheim Energiverk Kraftsalg AS	Trondheim	Trondheim Energiverk AS	100 %
Trondheim Energiverk Nett AS	Trondheim	Trondheim Energiverk AS	100 %
Skagerak Kraft AS	Porsgrunn	Skagerak Energi AS	100 %
Skagerak Nett AS	Sandefjord	Skagerak Energi AS	100 %
Telekraft AS	Porsgrunn	Skagerak Energi AS	100 %
Numedalsverkene AS	Porsgrunn	Skagerak Energi AS	100 %
Småkraft AS	Oslo	[1]	

[1] Statkraft Holding, Skagerak Energi and Trondheim Energiverk each have a 16.67 per cent ownership interest in Småkraft. The make-up of the board of directors gives Statkraft a controlling interest.

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:

Company name	Registered office	Ownership interest	Share of votes
BKK	Bergen	49.9 %	49.9 %
Agder Energi AS	Kristiansand	45.5 %	45.5 %
Fjordkraft AS [1]	Bergen	3.2 %	3.2 %
Theun Hinboun Power Company Ltd	Laos	20.0 %	20.0 %
Sydkraft AB [2]	Malmö	44.6 %	43.4 %
Baltic Cable AB [3]	Malmö	33.3 %	33.3 %
Statkraft Norfund Power Invest AS	Oslo	50.0 %	50.0 %
Istad AS	Molde	49.0 %	49.0 %
Barrow Offshore Wind Ltd	UK	37.5 %	37.5 %
HEAS [4]	Hamar	49.0 %	49.0 %
E-CO [4]	Oslo	20.0 %	20.0 %

[1] Fjordkraft AS is jointly owned by Statkraft SF (3.15 per cent), BKK AS (48.85 per cent) and Skagerak Energi AS (48 per cent), 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.
[2] Statkraft has an option to sell its interest in Sydkraft to the majority owner E.ON by 2007.
[3] Statkraft has increased its ownership interest in Baltic Cable to two-thirds effective 1 January 2004. The company is dealt with as a subsidiary from this date.
[4] The ownership interests in HEAS and E-CO are dealt with in accordance with the cost method and reclassified as other financial fixed assets as of 1 January 2003 due to the fact that a substantial influence no longer exists.

Amounts in NOK million	BKK	Agder	Fjordkraft	THPC	Sydkraft	Baltic Cable
Opening balance	5 852	4 491	344	268	13 884	195
Share of result	178	128	73	38	1 000	-
Amortisation of excess values	-18	-45	-29	-9	-182	3
Investments	-	38	-	-	-	-
Dividends	-125	-182	-	-36	-355	-
Conversion differences	-	-	-	-8	2 146	32
Closing balance	5 887	4 430	388	253	16 493	230
Excess value 31 December 2003	2 451	2 740	259	234	5 421	-38
Hereof fall rights that are not amortised	1 818	333	-	-	1 729	-

Amounts in NOK million	SNPI	Istad	BOW	Others [1]	HEAS	E-CO	TOTAL
Opening balance	97	371	-	10	1 939	2 254	29 705
Share of result	-17	8	-1	-	-	-	1 407
Amortisation of excess values	-	-13	-	-	-	-	-293
Investments	400	-	24	-	-	-	462
Dividends	-	-10	-	-	-34	-	-742
Conversion differences	-	-	-	-	-	-	2 170
Reclassification	-	-	-	-	-1 905	-2 254	-4 159
Closing balance	480	356	23	10	0	0	28 550
Excess value 31 December 2003	-	171	-	-	-	-	11 238
Hereof fall rights that are not amortised	-	-	-	-	-	-	3 880

[1] Other associated companies that are dealt with in accordance with the cost method.

NOTE 17 OTHER FINANCIAL FIXED ASSETS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
569	999	629	Loans to associated companies	618	1 003	629
26 569	35 106	18 657	Loans to group companies	-	-	-
258	173	561	Bonds and other long-term receivables	390	346	660
44	41	44	Pension fund assets	81	166	110
27	7	7	Other shares and interests	4 204	17	12
27 467	36 326	19 898	Total	5 293	1 532	1 411

Other shares and interests include 49 per cent of Hedmark Energi Holding AS and 20 per cent of E-CO Vannkraft AS. These items have been reclassified from investments in associated companies, since they can no longer be dealt with in accordance with the equity method. The book value is NOK 1,905 million and NOK 2,254 million, respectively.

NOTE 18 RECEIVABLES

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
227	1 890	427	Accounts receivable	966	2 960	1 012
280	266	268	Accrued revenues etc	1 228	889	405
1 260	3 931	161	Interest-bearing restricted funds	1 260	3 931	161
179	698	1 708	Other receivables	400	1 461	2 105
930	1 024	535	Current receivables from group companies	-	-	-
2 876	7 809	3 099	Total	3 854	9 241	3 683

Accounts receivable are recorded after provision for bad and doubtful debts. For Statkraft SF the provision was NOK 14 million for 2003. The corresponding figures for 2002 and 2001 were NOK 14 million and NOK 1 million, respectively.
The interest-bearing restricted funds are security for the negative market value of derivative contracts and margin account payments at the Nord Pool exchange.

NOTE 19 SHORT-TERM FINANCIAL INVESTMENTS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
-	-	-	Money market fund	11	20	-
-	-	-	Shares and financial investments	18	40	50
-	-	-	Bonds	225	157	213
-	-	-	Total	254	217	263

Bonds by debtor category:

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
-	-	-	Commercial/savings banks	54	36	74
-	-	-	Mortgage companies	15	7	10
-	-	-	Industrial sector	12	28	18
-	-	-	Public sector	144	86	111
-	-	-	Total	225	157	213

All bonds are in NOK.

NOTE 20 CASH AND CASH EQUIVALENTS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
295	300	1 562	Certificates and promissory notes	295	300	1 562
1 178	424	2 618	Cash in hand and bank deposits	2 919	1 218	3 582
-	-	1 757	Foreign certificates	-	-	1 757
1 473	724	5 937	Total	3 214	1 518	6 901

Restricted bank accounts for withholding taxes at source totalled NOK 100 million for the group and NOK 23 million for Statkraft SF. Collateral accounts linked to power trading on the power exchange totalled NOK 198 million. The Statkraft Group has long-term committed credit lines of up to NOK 6,850 million, of which NOK 450 million has been drawn down.

NOTE 21 EQUITY

Statkraft SF Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
Equity as of 31 December 2000	19 250	1 528	20 778
Capital increase	6 000	-	6 000
Net income 2001	-	3 884	3 884
Allocated to dividend 2001	-	-2 690	-2 690
Equity as of 31 December 2001	25 250	2 722	27 972
Net income 2002	-	2 130	2 130
Extraordinary dividend for 2001	-	-950	-950
Allocated to dividend 2002	-	-2 192	-2 192
Changes in accounting principles	-	-47	-47
Equity as of 31 December 2002	25 250	1 663	26 913
Capital increase	4 000	-	4 000
Net income 2003	-	2 859	2 859
Allocated to dividend 2003	-	-2 605	-2 605
Equity as of 31 December 2003	29 250	1 917	31 167

Group Amounts in NOK million	Paid-in capital	Retained earnings	Minority interests	Total equity
Equity as of 31 December 2000	19 250	2 412	80	21 742
Capital increase	6 000	-	-	6 000
Net income 2001	-	4 272	70	4 342
Allocated to dividend 2001	-	-2 690	-77	-2 767
Change due to acquisitions	-	-386	3 503	3 117
New issue/sale to minority interests	-	-	122	122
Change in conversion differences	-	-230	-	-230
Equity as of 31 December 2001	25 250	3 378	3 698	32 326
Net income 2002	-	2 307	171	2 478
Extraordinary dividend for 2001	-	-950	-	-950
Allocated to dividend 2002	-	-2 192	-77	-2 269
Change due to acquisitions	-	-	20	20
Change in conversion differences	-	-343	-	-343
Changes in accounting principles	-	-44	-	-44
Other changes in equity [1]	-	-336	-38	-374
Equity as of 31 December 2002	25 250	1 820	3 774	30 844
Capital increase	4 000	-	-	4 000
Net income 2003	-	2 742	125	2 867
Allocated to dividend 2003	-	-2 605	-164	-2 769
Change in conversion differences	-	221	-11	210
Other changes in equity [2]	-	-128	-	-128
Equity as of 31 December 2003	29 250	2 050	3 724	35 024

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

[2] Refers to the reversal of the tax effect of interest on the consideration for the acquisition of shares in Agder Energi AS.

NOTE 22 PROVISIONS

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
139	46	20	Pension obligations	356	258	123
-	-	-	Deferred tax	2 419	2 243	1 445
176	235	271	Other provisions	451	230	346
315	281	291	Total	3 226	2 731	1 914

Pension obligations are dealt with in Note 7, while deferred tax is discussed in Note 11. Other provisions for 2003 include restructuring provisions of NOK 199 million in Skagerak and TEV.

NOTE 23 INTEREST-BEARING LONG-TERM LIABILITIES

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
34 544	41 297	21 902	Bond loans	35 915	42 353	21 557
295	295	4 210	Liabilities to credit institutions	1 965	2 331	4 101
2 841	4 409	4 873	Other long-term liabilities	4 340	3 130	5 475
37 680	46 001	30 985	Total	42 220	47 814	31 133

Detailed specification of the above table for Statkraft SF:

Amounts in NOK million	2003	2002	2001
Government loans	1 275	1 700	2 125
Other long-term loans in NOK	22 949	29 680	14 315
Loans in SEK	11 890	11 912	11 796
Prepayments/accrued power sales	1 566	1 717	1 743
Loans from subsidiaries	-	992	1 006
Total Statkraft SF	37 680	46 001	30 985

The foreign currency 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. The loans are considered hedging of the investment and are recorded at the exchange rate in effect the loans were disbursed. The weighted average SEK/NOK exchange rate applied is 92.15. In the group accounts the SEK loans and the ownership interest in Sydkraft are valued at the rate in effect on the balance sheet date. The average effective interest rate on Statkraft SF's loans in NOK was 6.8 per cent, and 2.9 per cent for SEK, at the end of the year.

Instalment schedule

Amounts in NOK million	2004	2005	2006	2007	2008	Later	Total
Instalment schedule Statkraft SF	2 723	2 753	5 649	11 623	4 937	9 995	37 680
Instalment schedule other group companies	444	123	1362	119	116	1 367	3 531
Group items						1 008	1 008
Total for the group	3 167	2 876	7 011	11 742	5 053	12 371	42 220

Group items include, for example, foreign currency losses on hedging debt in SEK, which has been recorded against equity.
The Norwegian Storting (Parliament) has placed an upper limit of NOK 52.5 billion on the company's total loans and guarantee obligations. As of 31 December 2003 Statkraft SF's total loans and guarantee obligations were NOK 41.6 billion, of which NOK 40.7 billion is implicitly guaranteed by the State through the transitional rules in the act governing state-owned enterprises.

NOTE 24 INTEREST-BEARING CURRENT LIABILITIES

NOK 500 million in loan certificates are included in interest-bearing current liabilities.
The group contribution of NOK 1,803 million owed by Statkraft SF in 2002 was classified as an interest-bearing short-term liability. This has now been reclassified under other non-interest-bearing liabilities, since the group contribution was settled in 2003 without the calculation of any interest.

NOTE 25 OTHER NON-INTEREST-BEARING LIABILITIES

Statkraft SF				Group		
2003	2002	2001	Amounts in NOK million	2003	2002	2001
175	160	191	Accounts payable	640	879	599
277	504	220	Public duties payable	397	707	357
933	923	635	Accrued costs	1 266	1 272	760
292	460	42	Other non-interest-bearing liabilities	525	1 015	322
2 605	2 192	2 690	Dividend payable	2 656	2 243	2 767
1 580	1 803	29	Short-term liabilities to group companies	-	-	-
5 862	6 042	3 807	Total	5 484	6 116	4 805

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

NOTE 26 MORTGAGES, OBLIGATIONS AND GUARANTEES

Mortgages

County authorities and publicly owned power companies are, in certain cases, entitled to manage a share 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 granted for the county authorities/companies to offer lenders collateral in the power plants in question. As of 31 December 2003, mortgage debt raised by the county authorities under this scheme totalled NOK 2,094 million, while the book value of the pledged assets in Statkraft SF totalled NOK 6,522 million. In addition, the subsidiaries have NOK 342 million in assets pledged as security linked to individual new loans raised, as well as collateral for trading on the NordPool exchange.

Obligations and guarantee liability

The Statkraft Group has off-balance-sheet obligations and guarantees totalling NOK 4,240 million, while the corresponding figure for Statkraft SF is NOK 3,316 million. For Statkraft SF, NOK 1,726 million refers to power exchange agreements, NOK 648 million refers to guarantees issued by the parent company, and NOK 941 million refers to rental guarantees. The subsidiaries have issued guarantees, mainly in respect of projects and power trading, for a total of NOK 907 million.

Statkraft's rental of office premises at Lilleakerveien 6, Oslo, from Mustad Eiendom AS is included in the rental guarantees. The agreement has a lease period of 20 years with an option to renew for a further 10 years. The annual rent totals NOK 54.5 million.

NOTE 27 OFF-BALANCE-SHEET ITEMS

Currency forward contracts

Amounts in million	Bought	Sold	Market value in NOK
EUR/NOK	1 000	1 191	18
EUR/DKK	-	3	-
EUR/SEK	65	24	-
SEK/NOK	78	4 952	-133
DKK/NOK	-	15	-
USD/NOK	-	3 079	403
Total	1 143	9 264	288

The forward foreign exchange contracts mature between 2004 and 2013. These transactions are linked to agreed sales revenues from electricity trades in foreign currency or investments in the relevant currencies. The forward foreign exchange contracts are therefore classified as hedging transactions, and according to the principles for recording such hedging transactions, they are not recorded at market value in the accounts. This is countered by the fact that the hedged sales revenues are recorded at the agreed forward exchange rates for hedging transactions. For currency hedged investments, the realised foreign exchange gains are recorded in the balance sheet until the disposal of the investment. For the latter, the interest element of the forward contract is recognised in the income statement on an ongoing basis.

Forward contracts have been entered into to hedge the investment in Sydkraft, and the unrealised loss/gain on the amount hedged, up to the book value, is recorded together with the conversion difference against the investment in the group accounts. Forward contracts entered into that exceed the book value of the investment are dealt with as cash flow hedging. Unrealised losses on this portion of the hedging totals NOK 33 million and has not been recorded.

The currency forward contracts are shown gross. Realised, unrecorded gains on hedging contracts in foreign currencies totalled NOK 39 million as of 31 December 2003.

Interest rate swaps

Amounts in million	Total gross principal in foreign currency	Market value in NOK
NOK	42 446	-268
SEK	500	14
EUR	350	262
CHF	400	95
Total		103

Interest rate swaps are used to adjust the interest sensitivity of the company's loans to what the company regards as adequate hedging.

Interest rate and foreign exchange swaps

Amounts in million	From currency	To currency	Market value in NOK
From EUR to NOK	419	3 405	50
From EUR to SEK	229	1 919	507
From CHF to NOK	200	1 083	40
From CHF to SEK	1 250	7 129	570
From NOK to SEK	2 794	3 225	-205
From JPY to NOK	13 000	970	-101
From JPY to SEK	1 500	130	-25
Total			836

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, NOK and JPY.

Options on loans and interest rate swaps

At year-end, Statkraft had loans with options for repayment prior to maturity for a total underlying amount of NOK 247 million.

Unrealised gains/losses on interest and foreign currency instruments must be viewed in the context of the underlying borrowing.

Interest rate exposure for Statkraft SF
Repricing table (amounts in NOK million)

Repricing period						
Duration	0–3 months	3–6 months	6–12 months	1–3 years	> 3 years	Total
Cash and cash equivalents	1 473	-	-	-	-	1 473
Certificates	-500	-	-	-	-	-500
Interest-bearing long-term liabilities	-4 461	-8 866	-1 926	-12 988	-9 439	-37 680

The table illustrates which parts of Statkraft's liquidity portfolio and funding, including interest rate swaps, are exposed to interest rate adjustments in the various duration intervals.

Statkraft uses modified duration to measure interest rate sensitivity in the funding portfolios. For NOK funding this was 2.6 years, and for SEK funding it was 0.3 years, as of 31 December 2003. The number gives an estimate of the percentage change in market value if the market rate changes by one percentage point.

NOTE 28 MARKET RISK, FINANCIAL RISK AND INSURED 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 include the production and trading of electric power. In a market with a great deal of hydropower, where the supply of 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, ie a great deal of water and high production bring 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. Statkraft endeavours accordingly to achieve long-term maximum earnings from production, while taking the company's risk criteria into account at the same time.

Risk management. Statkraft makes considerable 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 the total revenues from power sales, which is dependent 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 (Nord Pool). Price is the prime criterion when selecting a trading method. Hence, the most important factor is that contracts are considered good in relation to the existing power contracts, as well as the outcome of both our own production and spot prices. The company continuously adjusts the contract portfolio so that the expected earnings are maximised within the given risk criteria.

Use of derivatives for hedging purposes. Statkraft deals in various physical and financial instruments 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 the risk criteria. Statkraft is exposed to both price and volume risks, because the future prices and water inflow are unknown. At the end of 2003, the company had sold more than 40 per cent of its mean production in advance through to and including the year 2014. The total market risk can be quantified as the outcome of the net power revenues, after transmission, in relation to the expectations. With a probability of 80 per cent, it is estimated that the net power revenues will be within +/- NOK 800 million in 2004, +/- NOK 1,200 million in 2005, and +/- NOK 850 million in 2006. The taxation of power plants will dampen the impact on the company's income after tax.

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 given time is extremely limited compared to the hedging activities. Internal guidelines have been established for the degree of market exposure, for both hedging and trading purposes.

Origination. Statkraft offers customers custom bilateral contracts. By adapting the contract terms and conditions to the customer's individual needs, added value is generated in relation to standard exchange quoted contracts. The risk associated with this activity is hedged to a great extent by trading in standard contracts. The remaining financial exposure is very small in relation to the hedging activities and is quantified by both the Value at Risk and Profit at Risk. Internal limits for these two target figures ensure that the exposure is within the adopted guidelines.

Financial risk

Foreign exchange risk. Statkraft's goal for its foreign exchange risk management is to limit fluctuations in the present value of 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 relevant currencies, 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 its ownership interest in Sydkraft. The limit for the maximum estimated annual change in the market value of foreign exchange positions is NOK 300 million. Estimates of changes in the 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, and limit changes in the value of the company's net liabilities. Modified duration is used to measure interest rate sensitivity. This indicates the change in market value as a result of a one percentage point change in the market interest rates. The NOK portfolio shall have a modified duration of between 1.5 and 3.5 years, while the SEK portfolio shall have a modified duration of between 0 and 1 year. Interest rate swaps are used in general to achieve risk-related goals.

Liquidity risk. Statkraft assumes a liquidity risk because the term of our financial obligations is 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 of BBB+ and Baa2 from the rating agencies Standard & Poor's and Moody's Investor Service, respectively. As a result, Statkraft has good opportunities for borrowing on the Norwegian money market and in the bank market. Drawing rights are used to secure access to short-term financing. The company's policy is to limit short-term borrowing to the sum total 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.

Statkraft has a liquidity capacity target of between 1.5 and 2.5. The liquidity capacity in this connection is defined as the cash and cash equivalents, plus the committed drawing rights, plus the projected receipts for the next six months, divided by the projected payments for the next six months. Statkraft normally has cash and cash equivalents of between NOK 800 million and NOK 1,500 million.

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 a formal credit rating 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, eg from fire, floods or inundation following damage to or breaches in dams. Statkraft's insurance coverage is primarily channelled through its captive insurance company Statkraft Forsikring AS. Statkraft Forsikring AS assumes a limited risk per claim, and the risk for the cost of damage beyond this level is placed in the reinsurance market. All of Statkraft's assets are insured at their replacement value. For dams and tunnels, however, a maximum compensation level per claim has been set at NOK 400 million and NOK 50 million, respectively, on the basis of an overall assessment.

NOTE 29 OTHER ISSUES

Disputes

The Norwegian Water Resources and Energy Directorate (NVE) has ordered the replacement of the pipe trench for the Sauda I-III power plants. These power plants are leased to AS Saudefaldene. Statkraft and Saudefaldene disagree on which of them shall defray the cost of the replacement. Ryfylke County Court handed down a judgement in favour of Saudefaldene. Statkraft has appealed the ruling to the Court of Appeal. The appeal was heard in January 2004, and the Court of Appeal's decision is expected in the first quarter of 2004.

Statkraft has a small number of cases at any given time associated with compensation for properties and plants in regulated river systems. These issues involve modest sums.

Order to divest

The Competition Authority has upheld its decision concerning the order to divest assets as a result of Statkraft's acquisition of Agder Energi. This refers to the sale of the company's shares in Hedmark Energi Holding AS and E-CO Vannkraft AS. In addition, 1 TWh of production capacity in Southern Norway must be sold if transmission capacity to that part of the country is not increased by 200 MW.

We are currently negotiating the realisation of our shares in Hedmark Energi Holding AS and E-CO Vannkraft AS. It is assumed that the sales will not take place at a price level below the book value of the investments.

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 its shares in Trondheim Energiverk, sell the part of the company that generates power, or sell other power production facilities. As a result of this, an agreement was entered into in February 2004 to sell Statkraft's ownership interest in Kraftverkene i Øvre Namsen (KØN) as of 1 May 2004. The interest that is being sold now represents a total power production volume of 596 GWh. The sales price is NOK 1,265 million, which will give Statkraft a financial gain of NOK 1,010 million before tax.

Other

Statkraft and the state-owned investment company Norfund established the company Statkraft Norfund Power Invest AS, with equal ownership interests in 2002. There is an ongoing process to transfer Statkraft's ownership interests in power plants in Nepal and Laos to this company, assuming that the relevant licence authorities, lenders and co-owners give their approval. This issue is also discussed in the annual report.

NOTE 30 TRANSITION TO IFRS

The EU has adopted a directive that will require all listed enterprises in the EU to prepare consolidated accounts in accordance with the International Financial Reporting Standards (IFRS) from 2005. Statkraft is bound by these regulations through its listed bonds, but it has the option to postpone the implementation of IFRS until 2007. Statkraft will make use of its option to postpone the implementation.

For Statkraft the greatest changes in connection with the implementation of IFRS will be linked to the IAS 39 standard relating to financial instruments and hedging.

Auditor's report for 2003

ERNST & YOUNG

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Medlemmer av Den norske Revisorforening

Translation from Norwegian

Auditor's Report for 2003

To the Corporate Meeting of
Statkraft SF

We have audited the annual financial statements of Statkraft SF as of 31 December 2003, showing a profit of NOK 2.859 million for the Enterprise and a profit of NOK 2.867 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 law and regulations and present the financial position of the Enterprise and of the Group as of 31 December 2003, 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, 3 march 2004
Ernst & Young AS

Olve Gravråk (sig)
State Authorised Public Accountant (Norway)

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Electricity is ...

... a secondary form of energy that we have been using for the past hundred years or so – ever since the connection between electricity and magnetism was discovered.

Anything that turns can be used to make electricity, whether it be a bicycle dynamo, a windmill, a gas or petrol-driven engine, or a steam engine heated by coal, gas, oil or uranium. Today electrical energy is so common that it is almost impossible to imagine a world without it. An average Norwegian household uses around 20,000 kilowatt hours (kWh) a year. 1 kWh is enough to keep a 60-watt light bulb shining from early morning until midnight, or to boil three pans of potatoes.

Focus on finance

Statkraft is a commercial company that provides financial results in the form of a long-term return on investment for our owner.

Group	Unit	2003	2002	2001 adjusted*	2001	2000	1999
Income statement							
Gross operating revenues	NOK million	12 120	10 889	7 942	10 394	5 285	5 601
Operating income/EBIT	NOK million	6 264	5 476	4 273	6 725	2 178	2 174
Income from associated companies	NOK million	1 114	871	1 054	1 054	729	442
Net financial costs	NOK million	2 625	2 249	1 210	1 210	1 142	925
Pre-tax income	NOK million	4 754	4 098	4 117	6 569	1 765	1 691
Net income for the year	NOK million	2 867	2 478	2 577	4 342	847	947
Dividend	NOK million	2 605	2 192	3 640	3 640	631	600
Balance sheet							
Cash and cash equivalents	NOK million	3 214	1 518	6 901	6 901	2 514	1 299
Equity	NOK million	35 024	30 844	30 561	32 326	21 742	21 503
Total assets	NOK million	88 277	89 375	69 529	71 294	55 778	47 067
Key ratios – income statement							
Operating margin [1]	%	52	50	54	65	41	39
FFO interest coverage [2]		2.4	2.6	2.6	3.5	1.9	2.4
Tax rate	%	39.7	39.5	37.4	33.9	52.0	44.0
Key ratios – balance sheet							
ROACE before tax [3]	%	14.4	13.6	14.3	21.9	8.3	8.6
ROACE after tax [4]	%	8.4	8.0	8.0	13.5	3.6	4.6
Return on total assets after tax [5]	%	6.7	6.5	6.3	9.8	4.7	4.7
Return on equity before tax [6]	%	14.4	13.0	13.1	24.3	8.2	8.7
Return on equity after tax [7]	%	8.7	7.8	8.2	16.1	3.9	4.9
Equity ratio [8]	%	39.7	34.5	44.0	45.3	39.0	45.7
Unutilised drawing rights	NOK million	6 400	1 834	2 700	2 700	2 700	2 100
Long-term rating – Standard & Poor's		BBB+	BBB+	AA+	AA+	AA+	AA+
Long-term rating – Moody's		Baa2	Baa2	Aaa	Aaa	Aaa	Aaa
Cash flow							
Cash flow from the year's operations	NOK million	3 090	2 744	2 611	4 376	1 043	1 407
EBITDA	NOK million	7 611	6 966	5 230	7 682	3 027	2 973
Investments							
Investments in ownership interests	NOK million	424	15 850	4 767	4 767	9 145	6 861
Investments in fixed assets	NOK million	1 277	1 150	370	370	266	165
Personnel							
Man-years	Number	1 968	2 370	2 035	2 035	1 276	1 430
Figures from production and sales**							
Production, annual mean***	TWh	41.7	41.5	37.9	37.9	33.2	33.2
Production, actual***	TWh	39.2	48.8	35.1	35.1	40.2	32.5
– Hereof industrial contracts and licence power at fixed prices	TWh	21.5	21.5	20.8	20.8	19.8	18.6
Installed generator capacity	MW	10 822	10 822	10 160	10 160	8 815	8 800
Reservoir capacity	TWh	39.6	39.6	37.5	37.5	33.9	33.1
Wholly and partly owned plants	Number	144	143	123	123	93	91
Figures from other segments							
Number of end-user customers	1 000	75	74	-	-	-	-
Number of distribution grid customers	1 000	263	259	175	175	-	-
Distribution grid	Km	22 500	22 500	17 500	17 500	-	-
Market figures							
Share of production in the Nordic market	%	10.9	12.8	9.1	9.1	10.4	8.6
Macroeconomic figures of importance to Statkraft							
Power consumption in the Nordic market	TWh	377.0	385.0	393.0	393.0	384.0	376.0
Power production in the Nordic market, actual	TWh	359.7	380.7	387.0	387.0	386.0	377.0

* 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.

*** After pumping and losses

1) $\frac{\text{Operating income} \times 100}{\text{Gross operating revenues}}$

2) $\frac{\text{Operating income + financial revenues + depreciation + dividends from associated companies} \div \text{taxes payable}}{\text{Financial costs}}$

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

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

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

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

Focus on the environment

Statkraft's flexible, environmentally friendly energy is superior to the types of energy that dominate Europe today. We do our best to stay attuned to nature, which is the source of our product.

Indicator	Unit	2003	2002	2001	2000	1999
Power production:						
– hydropower	TWh	39.1	48.8	35.1	40.2	32.5
– wind power	TWh	0.1	0.02	-	-	-
Environmental non-compliances	Number	4	11	8*	3*	-

* Includes both environmental non-compliances and minor incidents, for Statkraft SF only.

Focus on society

As one of Norway's largest companies, Statkraft has an important role to play in society. We are a major employer and have a social responsibility to our employees and the wider community, at the local, national and global level.

Indicator	Unit	2003	2002	2001	2000	1999
Distribution of value added:						
– lenders and owner	NOK million	8 021	6 948	8 044	3 401	2 734
– employees	NOK million	1 353	1 262	645	554	575
– company	NOK million	137	115	632	210	346

Focus on competence and corporate culture

Next to natural resources, competence is Statkraft's most important input factor. We have the strong corporate culture that is necessary to recruit, retain and further develop knowledgeable professionals. Our common core values provide a solid foundation to support the company's vision and strategy.

Indicator	Unit	2003	2002	2001	2000	1999
Injury frequency, H1	Number of injuries with lost time per million hours worked	7.0	4.0	9.2	6.1	11.0
Sick leave	%	4.2	4.2	3.9	4.2	4.1
Organisation and leadership evaluation	Scale of 1 to 5, where 5 is best	3.93	3.57	-	-	-