

**Statkraft Annual Report**  
and Sustainability Report 2004



## Financial key figures

Statkraft SF Group	Unit of measurement	2004 adjusted***	2004	2003	2002	2001 adjusted**	2000
<b>From the Income Statement</b>							
Gross operating revenues	NOK mill.	10 276	11 286	12 120	10 889	7 942	5 285
EBITDA	NOK mill.	6 581	7 436	7 611	6 966	5 230	3 027
Operating income/EBIT	NOK mill.	5 117	5 972	6 264	5 476	4 273	2 178
Income from associated companies	NOK mill.	1 529	1 529	1 114	871	1 054	729
Net financial items	NOK mill.	2 606	2 274	2 625	2 249	1 210	1 142
Pre-tax income	NOK mill.	4 039	5 226	4 754	4 098	4 117	1 765
Net income for the year	NOK mill.	3 354	4 600	2 867	2 478	2 577	847
<b>From the Balance Sheet</b>							
Total equity	NOK mill.	36 839	36 839	35 024	30 844	32 326	21 742
Interest-bearing debt	NOK mill.	38 722	38 722	41 225	47 162	29 768	29 045
Capital employed <sup>1)</sup>	NOK mill.	37 364	37 364	38 874	44 871	34 401	23 951
Investments in associated companies	NOK mill.	28 968	28 968	28 550	29 749	19 018	22 214
Total assets	NOK mill.	90 491	90 491	89 917	91 015	72 262	55 778
<b>Cash flow</b>							
Net cash flow from operating activities (A)	NOK mill.	3 859	3 859	8 160	22	4 120	1 940
Dividend for the year to owner	NOK mill.	3 402	3 402	2 605	2 192	3 640	631
Depreciation	NOK mill.	1 464	1 464	1 347	1 490	957	849
Maintenance investments <sup>2)</sup>	NOK mill.	487	487	706	703	396	433
Investments in new generating capacity <sup>3)</sup>	NOK mill.	1 061	1 061	571	684	150	197
Investments in shareholdings <sup>4)</sup>	NOK mill.	287	287	424	15 598	4 767	9 145
Cash and cash equivalents	NOK mill.	6 283	6 283	3 214	1 518	6 901	2 514
Unused drawing rights	NOK mill.	5 700	5 700	6 400	1 834	2 700	2 700
<b>Financing variables</b>							
FFO interest coverage <sup>5)</sup>		2.3	2.7	2.4	2.6	2.6	1.9
Interest-bearing debt ratio <sup>6)</sup>		51.2	51.2	54.1	60.5	47.9	57.2
Long-term rating – Standard & Poor's		BBB+	BBB+	BBB+	BBB+	AA+	AA+
Long-term rating – Moody's		Baa2	Baa2	Baa2	Baa2	Aaa	Aaa
<b>Financial ratios</b>							
EBITDA margin <sup>7)</sup>	%	64	66	63	64	66	57
ROACE before tax <sup>8)</sup>	%	13.4	15.7	15.0	13.8	14.6	8.5
ROACE after tax <sup>9)</sup>	%	10.0	12.4	8.7	8.5	8.2	3.7
Net return on investments in associated companies <sup>10)</sup>	%	5.3	5.3	3.9	2.9	5.5	3.3
Return on total assets after tax <sup>11)</sup>	%	6.1	7.5	5.6	5.5	6.1	3.8
Return on equity before tax <sup>12)</sup>	%	11.2	14.5	14.4	13.0	15.2	8.2
Return on equity after tax <sup>13)</sup>	%	9.3	12.8	8.7	7.8	9.5	3.9
Equity ratio <sup>14)</sup>	%	40.7	40.7	39.0	33.9	44.7	39.0
Tax rate <sup>15)</sup>	%	17.0	12.0	39.7	39.5	37.4	52.0
<b>Key figures, upstream business*</b>							
Production cost/MWh <sup>16)</sup>	NOK/MWh	52.5	52.5	51.6	55.8	52.3	48.6
Value added from optimisation and hedging <sup>17)</sup>	NOK mill.	1 844	1 844	1 008	-719	782	-124
Value lost on statutory-priced contracts <sup>18)</sup>	NOK mill.	-2 817	-2 817	-4 234	-2 296	-1 622	-45
Production, actual	TWh	34.3	34.3	39.2	48.8	35.1	40.2
– of which statutory-priced and concessionary sales	TWh	20.6	20.6	21.5	21.5	20.8	19.8
– of which power with green certificates	TWh	0.4	0.4	0.1	0.02	-	-
Production, annual mean	TWh	41.3	41.3	41.7	41.5	37.9	33.2
Installed production capacity	MW	10 698	10 698	10 822	10 822	10 160	8 815
Reservoir capacity	TWh	39.0	39.0	39.2	39.2	37.5	33.9
Wholly and partly owned power plants (excl. small-scale power plants)	No.	139	139	144	143	123	93
<b>Key figures, downstream business*</b>							
No. end-user customers	1 000	77	77	75	74	-	-
No. distribution grid customers	1 000	266	266	263	259	175	-
Distribution grid	km	22 945	22 945	22 500	22 500	17 500	-
Distribution grid capital (NVE capital) <sup>19)</sup>	NOK mill.	3 736	3 736	-	-	-	-
<b>Market variables*</b>							
Nord Pool's system price	NOK/MWh	242	242	291	201	187	103
Electricity consumption in the Nordic market	TWh	385	385	377	385	393	384
Electricity generated in the Nordic market, actual	TWh	375	375	361	381	387	386
Statkraft's share of Nordic electricity production	%	9.1	9.1	10.8	12.8	9.1	10.4

\*Key figures apply to group companies (not associated companies) in Norway.

\*\*Adjusted for non-recurring items (compensation and gains on the sale of assets totalling NOK 2,452 million before tax and NOK 1,765 million after tax. See Annual Report 2003 for non-adjusted figures.

\*\*\*Adjusted for non-recurring items (gains on the sale of assets and stamp duty).

<sup>1)</sup>Equity + interest-bearing debt - investments in associated companies - other long-term financial assets - cash and cash equivalents, incl. short-term financial investments

<sup>2)</sup>Book value of maintenance investments to sustain current generating capacity

<sup>3)</sup>Book value of investments to expand production capacity

<sup>4)</sup>Purchase of shares, as well as equity increases, in other companies

<sup>5)</sup>Operating income + financial revenues + depreciation + dividend from associated companies - taxes payable  
Financial expenses

<sup>6)</sup>Interest-bearing debt  
Interest-bearing debt + equity

<sup>7)</sup>Operating income before depreciation x 100  
Gross operating revenues

<sup>8)</sup>Operating income  
Average (equity + interest-bearing debt - investments in associated companies - other long-term financial assets - cash and cash equivalents, incl. short-term financial investments)

<sup>9)</sup>Income for the year + (net financial items x 0.72) - income from associated companies  
Average (equity + interest-bearing debt - investments in associated companies - other long-term financial assets - cash and cash equivalents, incl. short-term financial investments)

## Non-financial key figures

Environmental responsibility	Unit of measurement	2004	2003	2002	2001	2000
Electricity production:						
– hydropower	TWh	34.2	39.1	48.8	35.1	40.2
– wind power	TWh	0.1	0.1	0.02	-	-
District heating production*	TWh	0.37	0.35	0.35	-	-
Proportion of renewable energy	%	99	99	99	100	100
Serious environmental non-compliances	No.	0	4	11	8**	3**

\*Figures for district heating produced by TEV, which became part of the group with effect from 2002.

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

## Social responsibility

	Unit of measurement	2004	2003	2002	2001	2000
<b>Distribution of value added:</b>						
– Owner, state & local authorities	NOK mill.	4 437	4 923	4 165	6 184	1 833
– Lenders	NOK mill.	3 007	3 098	2 783	1 860	1 568
– Employees	NOK mill.	1 085	1 353	1 262	645	554
– The company	NOK mill.	1 084	137	115	632	210
<b>Reputation</b>						
– Total	Scale of 1 to 100, where 100 is best	66	72	-	-	-
– Financial community*		81	87	-	-	-
– Policymakers*		65	77	-	-	-
– Public opinion*		64	51	-	-	-
<b>Recruitment</b>						
– Total	Ranking as a preferred employer among recent graduates	29	38	67	81	-
– Business graduates**		24	37	84	77	-
– Engineering graduates**		34	39	50	85	-

\*Source: Itera ResearchLab

\*\*Source: Universum Graduate Survey

## Building competence

	Unit of measurement	2004	2003	2002	2001	2000
Full-time jobs (equivalent) as at 31 December 2004	No.	1 877	1 968	2 370	2 035	1 276
H1	No. of lost-time injuries per million hours worked	7.2	7.0	4.0	9.2	6.1
H2	Total no. of injuries per million hours worked	14.1	18.0	11.0	14.6	13.9
Sickness absence	%	4.2	4.1	4.2	3.9	4.2
Organisation and management survey	Scale of 1 to 5, where 5 is best	4.01	3.93	3.57	-	-

<sup>10)</sup>Income from associated companies  
Investments in associated companies

<sup>11)</sup>(Net income for the year + financial expenses x 0.72) x 100  
Average total assets

<sup>12)</sup>Pre-tax income x 100  
Average equity

<sup>13)</sup>Net income for the year x 100  
Average equity

<sup>14)</sup>Total equity x 100  
Total assets

<sup>15)</sup>Tax expenses  
Pre-tax income

<sup>16)</sup>Production cost, incl. property tax and depreciation, excl. sales costs, overhead, net financial items and tax  
Normal output from power plants under own management

<sup>17)</sup>Value added by physical and financial commercial contracts compared with spot price

<sup>18)</sup>Loss on statutory-priced contracts compared with spot price

<sup>19)</sup>Key figure used to calculate the 2004–2006 income ceiling. Published at www.nve.no

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## Addresses

The annual report for 2004 has been prepared for the Statkraft SF Group. As a result of its reorganisation to a limited company, certain articles in the annual report relate to the Statkraft AS Group.



### *A century of electricity*

*Electricity was the most important factor in the industrialisation of Norway. Three periods during the last century were particularly significant: the first years after Norwegian independence in 1905, the period of reconstruction following the second world war – from 1945 to 1965 – and the period following the deregulation of the electricity market in 1991. The photo shows concrete work in connection with the construction of the Glomfjord power plant in 1921.*

## 2005:

### Competence now

Today, Statkraft's workforce is made up of a diverse team of engineers, technicians, traders, analysts, hydrologists, scientists, environmental coordinators, accountants, lawyers and project managers.



## 1950:

### Competence then

The 1950s saw a sharp increase in the number of hydropower plants being constructed, and Statskraftverkene (as the company was then called) needed skilled professionals who could plan and complete these demanding construction projects. The photo is from the mid-50s and shows a construction team at the Røssåga plant in Nordland. The Øvre and Nedre Røssåga power plants will celebrate their 50th anniversary in 2005.

## Statkraft in brief

The Statkraft Group is the third largest producer of electricity in the Nordic region, and the second largest producer of renewable energy in Europe. The group also engages in power trading from offices in the Nordic region and on the Continent. In addition, Statkraft owns shares in several regional companies in Norway which handle distribution grid operations and end-user sales. The group plans to invest in hydropower, wind power and gas power generation both in Norway and abroad.

Statkraft is developing its business operations to realise its vision of being a European leader in environment-friendly energy. Statkraft creates value for its owner, customers and society at large by:

- developing and generating environment-friendly power
- trading in energy and associated products
- meeting customer needs for energy and associated services in cooperation with its partners

In 2004 the Statkraft Group had gross operating revenues totalling NOK 11.3 billion and a pre-tax income of NOK 4.6 billion. The Statkraft Group has at its disposal the output from 139 power plants in Norway. The group has an 11 per cent share of the Nordic market, and a nearly 14 per cent share if the output from its Norwegian associated companies is included. The group's facilities generate an average of 41.3 TWh, while associated companies in Norway produce a further 13.8 TWh. The group employed the equivalent of 1,924 full-time employees in 2004.

Statkraft has a unique production infrastructure which generates electricity at a low variable cost. Hydropower plants have a long lifespan and a low maintenance requirement. Statkraft possesses considerable expertise in the development and construction of hydropower and wind power plants. Practically all of its power generation is based on renewable resources.

The group has long experience of physical and financial power trading in the Nordic market.

### Organisation

With effect from January 2005, Statkraft AS has been organised into three business areas and three key group functions. Each of these units is headed by an executive vice president who reports directly to the chief executive. Together they form the group management team.

Generating capacity and customers	Average production (TWh)	Electricity customers	Distribution grid customers
Generation & Markets	33.2	50	-
Regional (consolidated businesses)	8.1	77 000	266 000
Regional (associated partners)	13.8	507 000 <sup>1)</sup>	335 000

<sup>1)</sup>Customers of Fjordkraft, a company jointly owned by Statkraft, BKK and Skagerak Energi, are included.



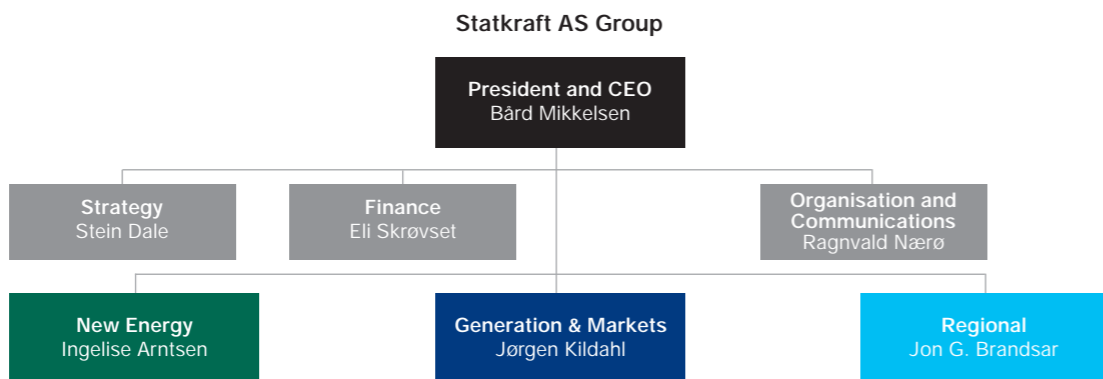
\*Associated partners

**Generation & Markets** produces and sells electrical power on European power exchanges for delivery to major industrial companies and other large-volume buyers. This business area is one of Europe's largest in the field of origination and trading of energy and energy-related products, with offices in Norway, Sweden, Germany and the Netherlands.

**New Energy** develops and constructs new, environment-friendly power generation facilities in Norway and the rest of Europe. The construction of new wind farms, small-scale hydropower plants and gas-fired power plants is a major area of focus. Great

emphasis is being placed on innovation and R&D to ensure that new environment-friendly technologies may be commercialised in the future.

**Regional** encompasses power generation and sales, and distribution grid and end-user activities. Customers include companies and private households. This business area comprises four regional power companies: Trondheim Energiverk (TEV), Skagerak Energi, Bergenshalvøens Kommunale Kraftselskap (BKK) and Agder Energi. While TEV is wholly owned by Statkraft, the remaining companies are co-owned by Statkraft and various Norwegian local authorities.









### The history of Statkraft

Statkraft's history is inextricably linked to the development of hydropower generation in Norway. Though Statkraft was not established as an independent enterprise until 1992, its power plants and business operations date as far back as the end of the 19th century, when the power of the country's waterfalls was first harnessed.

As shown below, the picture is one of expanding power generation under state management and regulation until 1992. Since then, the focus of Statkraft's board and management has been the further development of the company.

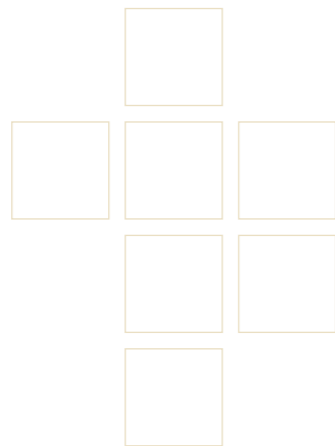
- 1895** The Norwegian state pays NOK 23,245 to buy its first waterfall, Paulenfossen, to supply electricity to the Setesdalsbanen railway line.
- 1921** The Norwegian Water Resources and Energy Directorate (NVE) is created and given responsibility for constructing and operating Norway's state-owned power plants. The Norwegian Storting (parliament) allocates funds for the regulation of the Numedalslågen river and the purchase of the Glomfjord power plant in Nordland.
- 1960** Direktoratet for Statskraftverkene (the Directorate for State-Owned Power Plants) is created as a separate department within the NVE.
- 1986** Statskraftverkene becomes an autonomous state-owned enterprise under the ownership of the Ministry of Petroleum and Energy.
- 1991** Proposition no. 104 to the Storting states that "the state-owned enterprise may renegotiate the terms and conditions of all its contracts on a commercial basis". The Energy Act comes into effect with the objective of "more rational operations and flexible power utilisation".
- 1992** Two state-owned enterprises are created out of the original one: Statkraft SF for power generation and Statnett SF for the national distribution grid. Proposition no. 100 to the Storting states: "Statkraft shall be operated as a commercial enterprise, but will have responsibility for statutory-priced contracts."
- 1993** The Nordic power exchange, Nord Pool, is established.
- 1996** Statkraft acquires its first shares in other companies: Sydskraft and Oslo Energi Produksjon.
- 1997** The first long-term supply contracts with Norwegian industry are signed with Hydro and Norske Skog. Construction of the last major hydropower scheme, Svartisen in Nordland, is completed.
- 1998** Statkraft opens its first European trading office in Amsterdam, The Netherlands.
- 1999** Statkraft acquires shares in BKK and Scanenergi. A trading office is opened in Düsseldorf, Germany. Proposition no. 52 to the Storting extends leasing contracts and allows the phasing out of statutory-priced industrial contracts.
- 2000** Statkraft sells Statkraft Anlegg to NCC and acquires shares in Vestfold Kraft, Skiensfjordens Kommunale Kraftselskap (later merged and named Skagerak Energi) and Hedmark Energi Holding AS (HEAS). Prime Minister Jens Stoltenberg says: "The days of large-scale hydropower schemes are over." The construction of a hydropower scheme at Beiarn in Nordland is halted by Petroleum and Energy Minister Olav Akselsen.
- 2001** Statkraft acquires 1/3 of Baltic Cable, the cable between Sweden and Germany. Construction of Norway's first large-scale wind farm begins at Smøla. Statkraft acquires shares in Agder Energi and takes 100 per cent control of TEV.
- 2002** Shareholding in Sydskraft is increased to 44.6 per cent. In Report no. 22 to the Storting, the government announces plans to convert Statkraft into a limited company. The Norwegian Competition Authority orders Statkraft to sell off E-CO Vannkraft, HEAS and TEV or equivalent assets. Statkraft Norfund Power Invest (SN Power) and Småkraft AS are established.
- 2003** Statkraft Grøner is sold to SWECO.
- 2004** With effect from 1 October, Statkraft's business is transferred from the state-owned enterprise Statkraft SF to the limited company Statkraft AS, and the group Statkraft AS is created.

## Events in 2004

	January	February	April	May	June	July	August	September	October	December	
<b>STRATEGIC EVENTS</b>	 <p><b>Baltic Cable</b> Statkraft becomes the largest shareholder in Baltic Cable AB, which owns the cable connecting Sweden and Germany. Statkraft owns 2/3 and Sydkraft 1/3 of the company.</p>	<p><b>First sell-off</b> Nord-Trøndelag Elektrisitetsverk FKF agrees to pay NOK 1,265 million for Statkraft's shares in the power plant group Kraftverkene i Øvre Namsen. The sale is prompted by the Norwegian Competition Authority's directive requiring Statkraft to sell off some of its production capacity in Norway. This is the first time Statkraft has sold a power plant.</p>	<p><b>HEAS</b> Statkraft signs an option agreement to transfer its shares in Hedmark Energi Holding AS (HEAS) to the other regional shareholders in the company for a sales price of around NOK 2.2 billion. The sale is in response to a directive from the Norwegian Competition Authority requiring Statkraft to sell off generating capacity in southern Norway. Statkraft exercised its sales option in December and the sale will be completed in 2005.</p>	<p><b>From SF to AS</b> The Storting approves the reorganisation of Statkraft's business activities under a newly established limited company, Statkraft AS. Statkraft SF, which will remain 100 per cent state-owned, owns all the shares in Statkraft AS.</p>	<p><b>Rana and E-CO agreement</b> A Finnish consortium agrees to buy Statkraft's shares in E-CO Vannkraft AS and the rights to 65 per cent of the Rana power plant's output for a period of 15 years. The agreements are a further response to the Norwegian Competition Authority's directive regarding Statkraft's production capacity in Norway. In October the board of E-CO Energi AS decides to exercise its right of first refusal with respect to Statkraft's shares in E-CO Vannkraft.</p>				 <p><b>Graninge</b> Statkraft and E.ON sign an agreement in principle giving Statkraft the right to purchase power plants corresponding to an average annual output of around 1.6 TWh from Sydkraft's Swedish subsidiary Graninge.</p>		<p><b>New organisation</b> The new limited company's overall organisational structure is completed with the establishment of the three business areas: Generation &amp; Markets, New Energy and Regional.</p>
<b>OPERATIONAL EVENTS</b>				<p><b>New Bjølvo</b> The Petroleum and Energy Minister at the time, Einar Steensnæs, opens Statkraft's newest and most modern hydropower plant in Ålvik, Hardanger, to replace the almost 90-year-old Bjølvo power plant. The New Bjølvo power plant can generate 20 per cent more electricity than its predecessor.</p>	 <p><b>Tidal power</b> Statkraft applies for permission to build a pilot tidal power plant in the Kvalsundet strait in Tromsø. The plan is to position one turbine in the strait in order to test the newly developed technology under realistic conditions. The Norwegian Water Resources and Energy Directorate (NVE) grants permission on 8 February 2005.</p>	 <p><b>Salmon</b> More salmon and more electricity. Statkraft applies to the NVE for a change in the river management regulations for the Suldalslågen river. The application is based on over 100 scientific reports and years of research and analysis which show that it is possible to protect the environment and provide good living conditions for salmon in a river system used for hydropower generation.</p>	 <p><b>Small-scale power plant</b> The Bjørgum power plant in Valle, Setesdalen, goes into production. This small-scale power plant is the first to be completed under the auspices of Småkraft AS.</p>	 <p><b>Anniversary</b> Statkraft Markets Continental (SMC) celebrates the fifth anniversary of its Düsseldorf office.</p> <p><b>HSE campaign</b> An internal health, safety and environment (HSE) awareness campaign is launched. Board chair Arvid Grundekjøn kicks off the campaign at the Glomfjord generating facilities in Nordland.</p>	<p><b>Upgrading</b> Statkraft decides to invest NOK 400 million to upgrade and modernise the Aura power plant in Sunndalsøra. The project includes the renovation of the Aursjødammen dam, which was built in 1956, and the modernisation of the power plant in Sunndalsøra.</p> <p><b>Wind in Finnmark</b> The NVE grants Statkraft a licence for the Skallhalsen wind farm. This is Statkraft's second licence in Finnmark, a county which has great potential with respect to wind power. The wind farm will generate up to 230 GWh of electricity a year, enough to meet the needs of 11,000 households. The company's application to build a wind farm at Magerøya on the North Cape is rejected.</p> <p><b>Hitra opens</b> The Hitra wind farm in Sør-Trøndelag is officially opened by Trade and Industry Minister Børge Brende. When the expansion of the Smøla wind farm is completed in 2005, the Hitra and Smøla wind farms will together generate 600 GWh of electricity, almost as much as the Alta hydropower plant.</p>		

**Value creation,**  
profitability and responsibility

The energy sector in Norway and the rest of Europe is undergoing rapid structural and technological change. Statkraft's vision of being a European leader in environment-friendly energy remains the same, necessitating a development strategy tailored to meet the challenges of an increasingly integrated market.



In the course of 2004, Statkraft and its owner implemented a number of measures to keep the company at the leading edge of market developments. In connection with Statkraft's reorganisation into a limited company, the group restructured its activities into three newly created business areas. The new organisation will be better able to exploit the company's combined resources in relation to its overall strategy, thereby further increasing profitability.

In 2004 Statkraft's focus on developing environment-friendly energy was made apparent in a number of ways. In October Norway's largest wind farm so far was opened at Hitra, and a licence was granted for the construction of a pilot tidal power plant in the Kvalsundet strait in Tromsø. The production capacity at the New Bjølvo and Tyssedal power plants was increased without further impact on the environment. A decision was made to go ahead with plans for a gas-fired power plant at Kårstø through the company Naturkraft AS. The plant will be based on the best available technology and will reduce the need to import electricity generated in a far more polluting manner on the Continent.

In line with the Norwegian Competition Authority's directive, Statkraft sold its 20 per cent stake in E-CO Vannkraft AS. An agreement was also signed last year regarding the sale of its 49 per cent stake in Hedmark Energi Holding AS. The transaction will be completed in 2005. We have also sold our 50 per cent stake in the power plant group Kraftverkene i Øvre Namsen. With effect from 1 January 2005, 65 per cent of the output from the Rana power plant has been leased out for a period of 15 years. The divestments were necessary to meet the Competition Authority's requirement that we reduce our presence north of Dovre in central Norway. The purchasers were regional companies for whom these acquisitions represent a strengthening of their production base. Strong regional companies contribute to more efficient power distribution, which from our point of view is a good thing. As part of our European strategy, Statkraft will acquire hydropower plants in Sweden and Finland, and we are aiming to sign an agreement to build a gas-fired power plant in Germany during 2005.

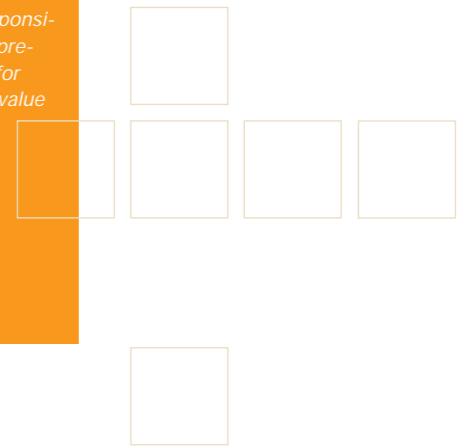
Rapid development and the continuing need for profound change must not lead the company to compromise its core values. During 2004 we revised Statkraft's business principles and other governing documents. We will shortly be inviting management and staff at all levels to participate in a wide-ranging programme of events to implement and develop our new strategic platform and guidelines for corporate social responsibility. We will continue to protect the environment and natural resources, and maintain high moral standards in everything we do. The will and ability to achieve ever more profitable value creation is by no means incompatible with the exercise of high moral standards. Demonstrating corporate social responsibility in practice is a precondition for long-term value creation.

  
Bård Mikkelsen

The generating capacity of the New Bjølvo power plant in Hardanger has been increased without further environmental intervention. From the opening ceremony on 12 May 2004.



Corporate social responsibility is a prerequisite for enduring value creation.





Group management: From left, Stein Dale, Ragnvald Næro, Eli Skrøvset, Bård Mikkelsen, Ingelise Arntsen, Jørgen Kildahl and Jon G. Brandsar.

## Presentation of the **group management**

### **Bård Mikkelsen**

Born: 1948  
Position: President and CEO Statkraft SF and Statkraft AS  
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**

Born: 1966  
Position: Executive Vice President New Energy  
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**

Born: 1954  
Position: Executive Vice President Regional  
Background: Group Chief Executive, Trondheim Energiverk, 2002–2003; Technology Director, Statkraft, 1995–2002; Department Manager, Statkraft Engineering, 1994–1995; Department Manager, ABB, 1977–1994

### **Stein Dale**

Born: 1962  
Position: Executive Vice President Strategy  
Background: Vice President Strategy and M&A, Statkraft, 2002–2004; Vice President Production, Enitel, 2000–2001; various senior management positions in the Telia group, 1994–2000

### **Jørgen Kildahl**

Born: 1963  
Position: Executive Vice President Generation & Markets  
Background: Partner, Geelmuyden.Kiese, 1991–1999; Portfolio Manager, International Formuesforvaltning, 1989–1991

### **Ragnvald Næro**

Born: 1954  
Position: Executive Vice President Organisation and Communications  
Background: Information Director, E-CO Energi, 1999–2001; Information Director, Widerøe's Flyveselskap, 1996–1998; Information Director, Norwegian Civil Aviation Authority, 1995; Partner, Geelmuyden.Kiese, 1994–2000; Journalist, Editorial Manager, Editor, Aftenposten, 1981–1994

### **Eli Skrøvset**

Born: 1965  
Position: Executive Vice President Finance  
Background: Senior Vice President Finance, Statkraft, 2002–2004; various positions at Statkraft, 1992–2002



The board of directors: From left, Odd Vanvik, Marit Büch-Holm, Aud Mork, Thorbjørn Holøs, Arvid Grundekjøn, Erik Nygaard, Astri Botten Larsen and Halvor Stenstadvold. Rebecca Selvik was not present when this photo was taken.

## Presentation of the **board of directors of Statkraft SF and Statkraft AS**

### **Arvid Grundekjøn\*, Chair**

Born: 1955  
Position: President and CEO of the Anders Wilhelmsen Group  
Background: Qualified lawyer and Master of Science in Business  
Board member since: 2004  
Other board positions: Chair of Linstow, Awilco and Creati; board member of Royal Caribbean Cruises Ltd.

### **Marit Büch-Holm\*, Deputy Chair**

Born: 1952  
Position: Senior Credit Manager Nordea Bank Norge  
Background: Master of Science in Business  
Board member since: 1994

### **Erik Nygaard**

Born: 1957  
Position: General Manager of Bryn Eiendom  
Background: Qualified lawyer  
Board member since: 2002

### **Halvor Stenstadvold**

Born: 1944  
Position: Managing Director and member of executive group management, Orkla  
Background: Master of Political Science  
Board member since: 2003  
Other board positions: board member of Storebrand ASA and Carema Vård och Omsorg AB

### **Rebecca Selvik**

Born: 1952  
Position: Head of Credit and Compliance at Norges Bank Kapitalforvaltning  
Background: MA International Economics and Middle East Studies  
Board member since: 2004

### **Aud Mork**

Born: 1945  
Position: Mayor of Aukra in Møre og Romsdal County  
Background: BEd and Diploma in Special Education  
Board member since: 2004  
Other board positions: board member of Naturgass Møre AS and Romsdalsmuseet AS; Deputy Chair of Møreaksen AS

### **Astri Botten Larsen, employee representative**

Born: 1964  
Position: Senior Engineer, Statkraft  
Background: Master of Mechanical Engineering, Diploma in Business Studies  
Board member since: 2002

### **Odd Vanvik\*, employee representative**

Born: 1952  
Position: Senior union representative for the Statkraft Group  
Background: Master craftsman  
Board member since: 1993

### **Thorbjørn Holøs, employee representative**

Born: 1957  
Position: Senior union representative, Skagerak Energi  
Background: Energy technician  
Board member since: 2002

\*Member of the compensation committee.



## Report 2004 from the board of directors of Statkraft SF

In 2004 Statkraft made an income before tax of NOK 5,226 million and NOK 4,600 million after tax. This was an improvement of NOK 472 million and NOK 1,733 million, respectively, compared with 2003. However, profits were greatly affected by non-recurring items, primarily gains on the sale of assets charged as revenues and payment of stamp duty relating to Statkraft's reorganisation charged as expenses. Adjusted for non-recurring items, income from normal operations totalled NOK 4,039 million before tax and NOK 3,354 million after tax. Furthermore, prior years' tax provisions were written back to the income statement. Adjusted for these items as well, the income after tax amounted to NOK 2,763 million, a decline of NOK 104 million compared with 2003.

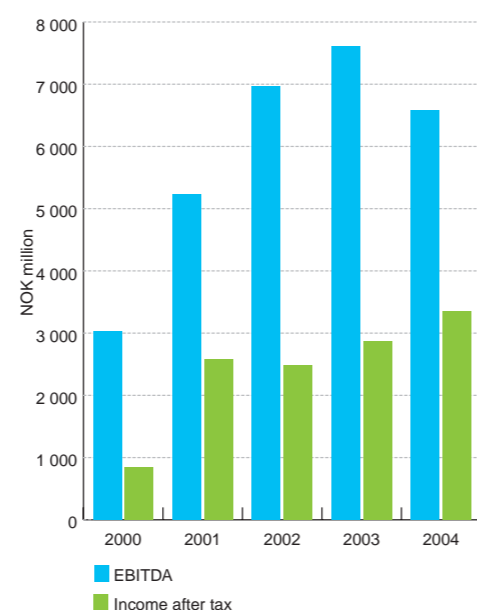
Statkraft sold several assets in 2004. The group sold its stake in E-CO Vannkraft AS, Kraftverkene i Øvre Namsen (KØN) and Kvæningen Kraftverk AS. It also entered into an agreement to sell its shares in Hedmark Energi Holding AS (HEAS) and lease out the rights to 65 per cent of the power generated by the Rana power plant for a period of 15 years with effect from 2005. The transactions will result in the release of NOK 8.7 billion in capital during 2004 and 2005. The net gain before and after tax amounts to NOK 1.6 billion, of which NOK 1.3 billion was taken to income in 2004.

Statkraft has signed an agreement in principle to purchase hydropower plants in Sweden and Finland with a total generating capacity of 1.6 TWh at a cost of NOK 4 billion. The agreement is part of Statkraft's strategy of acquiring generating capacity outside Norway. Statkraft was reorganised as a limited company with effect from 1 October 2004. With few exceptions the business activities of Statkraft SF were transferred to a newly created limited company owned by Statkraft SF. The reorganisation resulted in a new corporate structure that became effective at the start of 2005.

Statkraft continued its efforts to construct new, environment-friendly power generation facilities in 2004. The New Bjølvo power plant, which was completed at the end of 2003, was officially opened

in May. The Hitra wind farm went into operation in October. The Øvre Bersåvatn power plant went into commercial operation in 2004, while the Nedre Bersåvatn power plant is due for completion during the first quarter of 2005.

### Income development, normal operations



### The board of directors

In June 2004 the ordinary corporate meeting of Statkraft SF elected a new chair, Arvid Grundekjøn, and two new board members, Rebecca Selvik and Aud Mork. The board held a total of 13 board

meetings in the course of the year. The chair and board members of Statkraft SF have also been appointed to the same positions in Statkraft AS.

In addition to monitoring Statkraft's business operations, the board of directors has focused on Statkraft's transformation into a limited company and the subsequent establishment of a new corporate structure. As an extension of these efforts, the board has adopted new sets of business principles and principles for corporate governance, and a new code of conduct.

The board has undertaken a thorough review of company strategy. Although there is no change in Statkraft's main strategic direction, it was important to clarify the strategy in relation to the framework conditions that now apply.

Considerable efforts have been made in relation to the sale of assets in Norway. The transactions will result in the release of capital that will be used for the further development of the group, and are in line with the demands made by the Norwegian Competition Authority with regard to Statkraft's shareholdings. The agreement in principle regarding the acquisition of generating capacity in Sweden and Finland is an important element in the realisation of Statkraft's overall strategy.

### Financial results in 2004<sup>1)</sup>

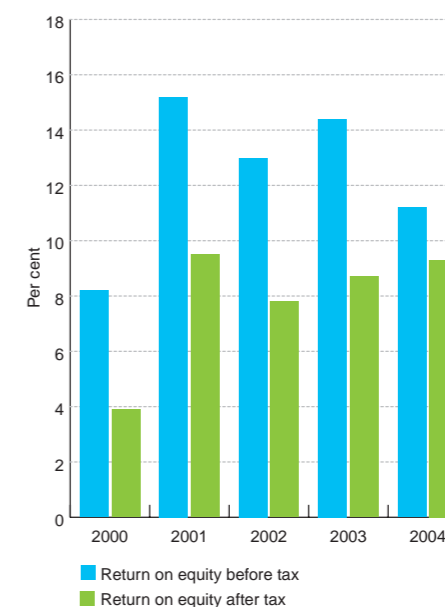
**Income for the year.** The power market experienced a year of relative calm in 2004, though prices fell slightly towards the end of the year. Revenues from the generation and sale of electrical power fell relative to the year before due to lower overall output and a reduction in the average price. The group took to income substantial gains on the sale of assets which partially offset the fall in revenues from normal operations. The income for the year as a whole totalled NOK 5,226 million before tax (NOK 4,754 million) and NOK 4,600 million after tax (NOK 2,867 million).

Several major non-recurring items were recorded in the income statement in 2004. These include gains on

<sup>1)</sup>Figures in parentheses show comparable results for 2003.

the sale of fixed assets and shares in other companies, as well as stamp duty payable as a result of Statkraft's reorganisation. Adjusted for such items, Statkraft made an income before tax of NOK 4,039 million and after tax of NOK 3,354 million. Compared with 2003 this is a fall of NOK 715 million before tax, but an improvement of NOK 487 million after tax. The relative improvement after tax compared with before tax is due to the write-back in 2004 of previous years' tax provisions amounting to nearly NOK 600 million. The write-back is primarily a consequence of new tax regulations. If adjustments are made for the write-back of tax provisions, Statkraft's income after tax totalled NOK 2,763 million.

### Return on equity, normal operations

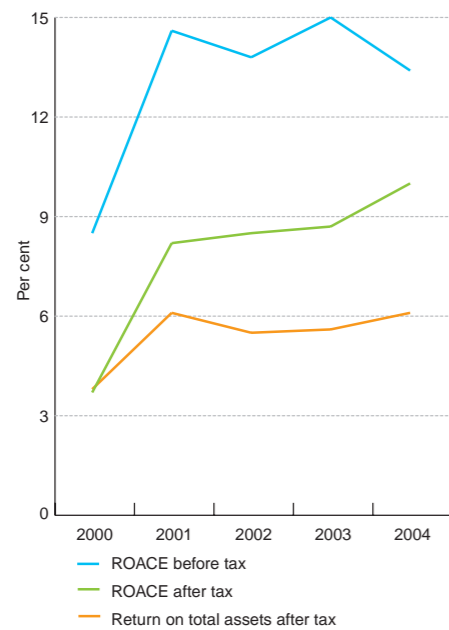


**Return on investment.** The return generated by operating activities, measured as the return on average capital employed – ROACE – was 15.7 per cent before tax (15.0 per cent) and 12.4 per cent after tax (8.7 per cent). Return on total assets was 7.5 per cent after tax (5.6 per cent).

Adjusted for non-recurring items, ROACE was 13.4 per cent before tax and 10.0 per cent after tax, while return on total assets was 6.1 per cent after tax.

In relation to 2003, therefore, the return on investment from normal business activities in 2004 was slightly lower before tax but slightly higher after tax. The board considers the level to be satisfactory, given the fall in both price levels and annual output, as well as Statkraft's substantial portfolio of statutory-priced industrial contracts.

#### Return on capital, normal operations



**Operating revenues.** Statkraft's gross operating revenues totalled NOK 11,286 million in 2004, NOK 834 million less than the year before.

The average spot price in 2004 was NOK 242/MWh, almost NOK 50/MWh less than in 2003. The Norwegian part of the group generated a total of 34.3 TWh of electricity, which was 4.9 TWh less than the year before. This resulted in a marked drop in physical power sales, which was to a certain degree offset by increased revenues from financial power hedging. Total electricity sales revenues fell from NOK 9,324 million in 2003 to NOK 7,287 million in 2004. The NOK 2,037 million reduction in revenues can largely be ascribed to the parent company, while the subsidiaries showed a slight combined increase.

Other operating revenues rose by NOK 1,203 million from 2003 to 2004. The increase can largely be ascribed to gains on the sale of Statkraft's shareholding in KØN. Furthermore, Statkraft received a lump-sum compensation in connection with the termination of the agreement between Statkraft, Statnett and the Dutch company NEA relating to a direct current cable between Norway and the Netherlands. On the other hand, revenues in 2004 were reduced by just over NOK 200 million as a result of the sale of the subsidiary Statkraft Grøner in September 2003.

Power transmission costs fell from NOK 927 million in 2003 to NOK 651 million in 2004 as a result of lower prices and reduced transmission volume, as well as a certain adjustment in the tariff. After deducting transmission costs, net operating revenues totalled NOK 10,635 million in 2004, NOK 558 million less than the year before.

**Operating costs** totalled NOK 4,663 million in 2004, NOK 266 million less than in 2003.

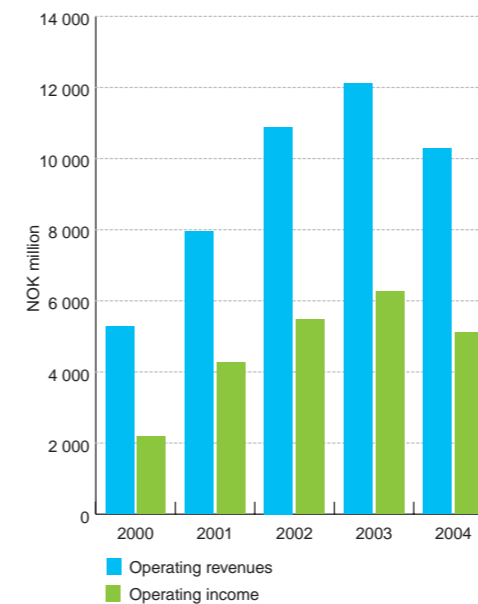
The financial statement shows that payroll costs have been reduced by NOK 290 million. This is largely due to the fact that in 2003 substantial pension provisions were made following changes in actuarial assumptions, as well as provisions relating to the restructuring of group companies. The sale of Statkraft Grøner in 2003 has also had an impact. Adjusted for these factors, payroll costs are slightly lower than the year before.

Other operating costs have been reduced through lower provisions for bad debts and legal disputes, as well as the write-back of previous provisions. The sale of Statkraft Grøner in 2003 has an impact here, too. This is partially offset by the payment in 2004 of NOK 155 million in stamp duty relating to Statkraft's reorganisation.

In reality total operating costs in 2004 were on a par with 2003. Depreciation increased largely as a result of the start-up of new generating facilities. In the board's opinion, Statkraft's costs are at a satisfactory level.

**Operating income** fell by NOK 292 million to NOK 5,972 million in 2004. Adjusted for non-recurring gains on the sale of fixed assets and stamp duty payments, the income from normal operations amounted to NOK 5,117 million, a fall of NOK 1,147 million compared with the previous year.

#### Operating revenues and operating income, normal operations



**Income** from Statkraft's associated companies totalled NOK 1,529 million in 2004, NOK 415 million more than the year before. The change is due to improved results from the most important associated companies.

The largest contributor is the Swedish company Sydkraft AB, in which Statkraft has a 44.6 per cent stake. Statkraft's share of Sydkraft's profits amounted to NOK 1,256 million. The German energy company E.ON is the majority shareholder in Sydkraft. Statkraft has an option to sell its shares in Sydkraft to E.ON for just over EUR 2 billion by 2007.

**Net financial costs** fell by NOK 351 million to NOK 2,274 million in 2004. This can mainly be ascribed to gains totalling NOK 332 million on the sale of shares in E-CO Vannkraft and Kvænangen. Statkraft has also benefited from a reduction in interest-bearing debt and

lower interest rates on its debt in SEK. Reduced returns on cash and cash equivalents and a realised loss of NOK 239 million resulting from the buying back of loans and cancellation of associated interest rate swap agreements has offset reduced interest expenses. In 2005 the interest rates on NOK 15 billion in outstanding loans will be adjusted. In accordance with Statkraft's revised financing strategy, a larger proportion than previously will be subject to floating interest rates, and this is expected to lead to lower interest expenses in 2005.

**Taxes.** NOK 626 million in taxes have been charged as expenses in 2004 (NOK 1,887 million). The reduction is partly due to a fall in taxable income. Furthermore, substantial corrections in previous deferred tax positions have been made. The corrections are largely in the form of write-backs of previous years' provisions following the decision in the national budget for 2005 to grant tax exemption for gains on the sale of assets. The tax write-backs amount to almost NOK 600 million.

**Cash flow and balance sheet.** Operating activities generated a cash flow of almost NOK 2.3 billion in 2004. In addition Statkraft received dividends from associated companies of around NOK 1 billion and reduced short-term tied-up capital by NOK 0.6 billion. Net cash flow generated by the business was NOK 3.9 billion.

In 2004 NOK 1.8 billion was invested in property, plant and equipment and the purchase of shares. Just over NOK 600 million of this was invested in the wind farm at Hitra and Phase 2 of the Smøla wind farm, which are currently the group's largest construction projects. Moreover, almost NOK 1 billion has been invested in the modernisation and upgrading of existing power generation and transmission facilities. Close to NOK 200 million was used to increase Statkraft's stake in the Swedish company Baltic Cable AB from 33.3 per cent to 66.7 per cent. Baltic Cable is now consolidated in the accounts as a subsidiary.

The sale of fixed assets and shares in other companies generated a positive cash flow of NOK 4.2 billion. In addition, almost NOK 0.5 billion in loans has been repaid. In total investing and divesting activities generated a cash flow of NOK 2.8 billion.

New long-term debt amounting to NOK 7 billion has been raised, and long-term debt amounting to NOK 8.3 billion has been repaid. A dividend for 2003 of NOK 2.8 billion was paid in 2004. Total cash flow from financing activities amounted to NOK 3.6 billion.

Cash and cash equivalents rose from NOK 3.2 billion at the end of 2003 to almost NOK 6.3 billion at the end of 2004. The size of the company's liquid reserves must be seen in light of the planned acquisition of power plants from Sydkraft, which is expected to be completed during the first half of 2005.

At the close of 2004 Statkraft had equity of NOK 36.8 billion. After a NOK 3.4 billion dividend provision, this corresponds to 40.7 per cent of total assets. In 2003 the equity ratio was 39.0 per cent. At the close of 2004 Statkraft had interest-bearing debts totalling NOK 38.7 billion, down from NOK 41.2 billion at the start of the year. The interest-bearing debt ratio was 51.2 per cent, compared with 54.1 per cent in 2003.

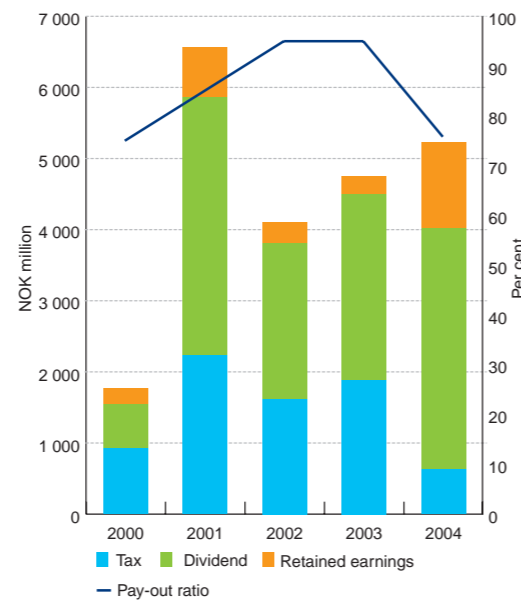
The credit rating agencies have given Statkraft AS a formal credit rating that is identical to the rating previously given to Statkraft SF's non-guaranteed debt. The long-term rating from Standard & Poor's is BBB+ and from Moody's Baa2. Statkraft's long-term objective is to achieve an A-level credit rating.

**Going concern.** In accordance with the provisions of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the assumption that Statkraft is a going concern.

#### Allocation of income

The Norwegian national budget for 2005 requires Statkraft to pay the state a dividend of NOK 3.4 billion for 2004. This corresponds to 76 per cent of the income for the year after tax and minority interests.

Allocation of pre-tax income



The dividend requirement remains extremely high this year. The board is worried that the unpredictable dividend policy and the high level of dividend required contribute to uncertainty regarding the framework conditions for the group's planning and business management.

Statkraft SF contributes NOK 1,761 million to group income. The board therefore proposes the following allocation of the net income for the year 2004:

NOK million	Statkraft SF
Net income for the year	1 761
<b>Allocation of net income for the year:</b>	
Dividend	3 402
Transferred from other equity	-1 641

#### Electricity generation and consumption in the Nordic region (TWh)

	2004	2003	2002	Change 2003-2004
Consumption in the Nordic region	385.4	377.1	385.0	2.2 %
Generation in the Nordic region	374.6	361.4	380.7	3.7 %
Import into the Nordic region	10.8	15.7	4.3	-
Consumption in Norway	119.4	113.1	118.2	5.6 %
Generation in Norway	108.7	106.5	129.0	2.1 %
Import into Norway	10.7	6.6	-10.8	-

#### Market conditions

##### The Nordic power market

The power market was far more normal in 2004 than in 2003, and the spot price in the Nordic market remained relatively stable. Due to milder weather the price of electricity during the early part of the year was lower than in 2003. However, prices were unusually high at the beginning of 2003 compared with the seasonal norm. Thermal fuel prices rose during the first half of 2004 which, together with low snow reserves, drove up the price of electricity during the summer season. During the last four months of the year the weather was extremely wet and mild, which resulted in falling prices through the autumn. The average price for 2004 was NOK 242/MWh, compared with NOK 291/MWh in 2003 and NOK 201/MWh in 2002.

Total power consumption in the Nordic region was 8.3 TWh or 2.2 per cent higher in 2004 than the year before. Total consumption in Norway rose by 5.6 per cent. General consumption in Norway totalled 81.1 TWh, a rise of 2.4 per cent. General consumption in Norway fell during the winter of 2002-2003 when prices were high. The reduction proved, however, to be temporary, and consumption has now returned to previous levels.

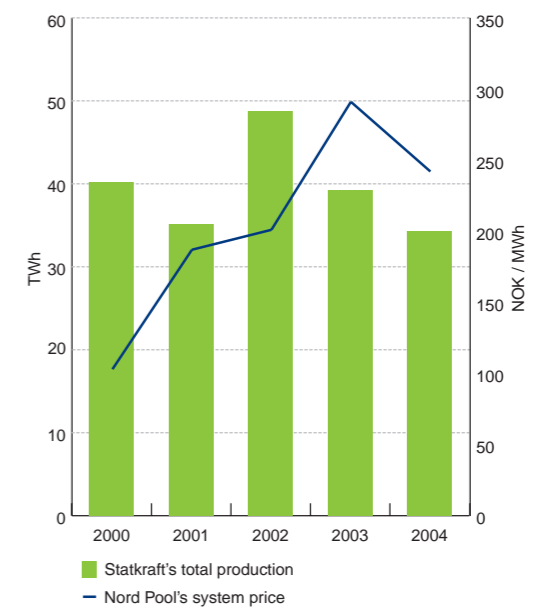
Nordic electricity production was 13.2 TWh or 3.7 per cent higher in 2004 than in 2003. 10.8 TWh was imported into the Nordic market and 10.7 TWh into Norway in 2004.

The inflow of water in the Nordic market was more or less normal for the year as a whole. The inflow was 13 TWh lower than normal in the first half-year, while it was correspondingly higher in the second half. The average temperature in 2004 was higher than normal. The water level in the Nordic region's reservoirs increased throughout 2004 and was 102.5 per cent of normal at year-end.

##### Statkraft's electricity sales

The water level in Statkraft's reservoirs was lower than normal at the start of the year. The group generated 34.3 TWh of electricity in 2004, compared with 39.2 TWh in 2003. The business area Generation & Markets produced 26.2 TWh, 6.3 TWh less than the year

#### Electricity prices and production



before. The Regional business area increased its output by 1.4 TWh to a more or less normal level of 8.1 TWh. (See page 23 for a description of the new business areas in the section "New corporate structure".) Annual output for the group as a whole was 7.0 TWh lower than in a normal year.

Through the year the inflow of water to Statkraft's catchment areas was approximately normal, as it was in the rest of the Nordic region. Reservoir water levels at the end of the year were somewhat higher than normal.

Generation & Markets sold 17.3 TWh of statutory-priced electricity to industry at an average price of NOK 116/MWh. The business area also supplied 2.1 TWh of concessionary electricity to county and local authorities at an average price of NOK 78/MWh. Sales of statutory-priced electricity thereby accounted for 74 per cent of the business area's total output and 60 per cent of the group's total output. In addition, several power plants that have previously reverted to the state are leased out on terms determined by the Storting.

Statkraft's subsidiaries in Germany and the Netherlands are active in the European power markets. The bulk of the business is linked to the delivery of green power, the international supply of electricity – including the transmission of power via Baltic Cable between Sweden and Germany – portfolio management and structured agreements with individual customers.

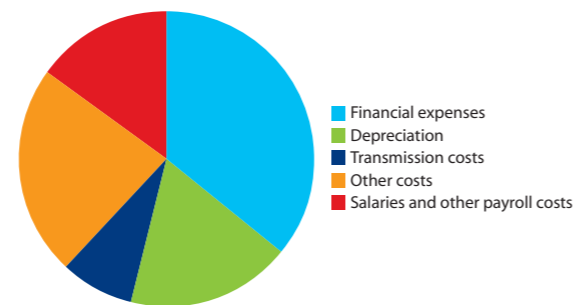
Statkraft, Statnett and the Dutch company NEA agreed in January 2004 to terminate their agreement for a direct current transmission cable between Norway and the Netherlands, the so-called NorNed project. An initiative was taken to ensure that the power distribution companies Statnett in Norway and TenneT in the Netherlands would be able to realise the cable project, and an agreement to this effect has been signed.

### Production conditions

#### Production and maintenance

One of the operating organisation's most important tasks is to ensure that electricity is generated and delivered through the distribution grid in the right volume and at the right time. This is achieved by ensuring that uptime at the company's production facilities is such that power optimisation is not restricted and unplanned outages do not occur. Generation & Markets' availability level in 2004 was satisfactory, with uptime at 90 per cent, compared with 89.7 per cent in 2003. The utility adjusted availability rate was 98.5 per cent, which is on a par with 2003. The figures demonstrate that neither maintenance and modernisation work nor power outages significantly restricted the company's ability to do business in the power market in 2004. In light of two major unforeseen incidents and a historically high level of heavy maintenance activity, this is a very satisfactory result.

#### Cost breakdown



In 2004 the operating organisation continued to pave the way for further efficiency improvements by carrying out inspections of all the power plants for which Generation & Markets is responsible. As a result, a new power plant maintenance plan has been drawn up. Day-to-day maintenance activities have been scaled back, which means manning levels can be reduced and costs cut in the longer term. The measure is necessary if Statkraft is to realise its plan regarding future competence and workforce composition in the operating organisation. In December 2004 it was decided to implement measures to stimulate a more flexible workforce. Agreements with individual employees will be concluded during 2005.

### Upgrading of existing power plants

The operating organisation is responsible for minor upgrading and expansion projects. A plan has been developed that will result in a potential 700 GWh of new generating capacity. In addition, projects have been initiated to modernise existing production facilities with the aim of increasing production levels, primarily through the upgrading of turbine runners. The replacement of turbine runners increased output by 125 GWh in 2003–2004.

### New production capacity

#### Shares in Nordic hydropower facilities

Statkraft and E.ON, which are the largest shareholders in the Swedish company Sydkraft AB, have signed an agreement in principle which gives Statkraft the right to purchase hydropower plants corresponding to an annual average output of 1.6 TWh from Sydkraft's subsidiary Graninge. Furthermore, Statkraft will acquire the right to use the name "Graninge". For the first five years this right is restricted to electricity production. The deal will cost Statkraft NOK 4 billion. Further negotiations between Sydkraft and Statkraft are expected to be concluded during the first half of 2005. The final agreement will require the approval of the appropriate authorities.

#### New hydropower facilities in Norway

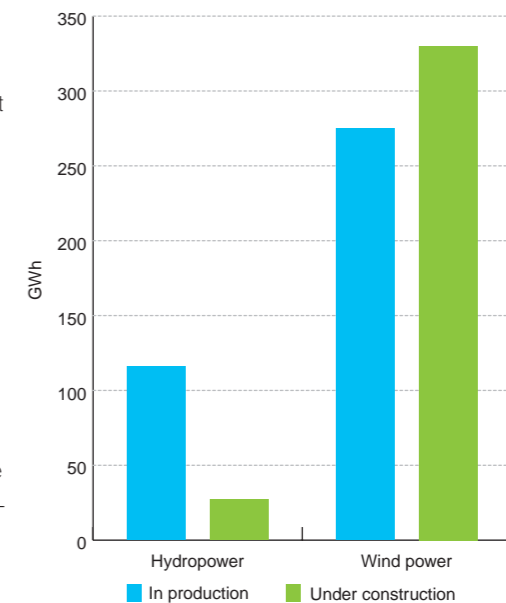
The New Bjølvo power plant in Hardanger, which went into trial production at the end of 2003, was completed in 2004. The power plant was officially opened in May and generates 391 GWh per year, 69 GWh more than previously.

The largest hydropower project in 2004 was the construction of the Øvre and Nedre Bersåvatn power plants, two small facilities in Tyssedal. The power plants exploit the drop between three existing reservoirs, and have a minor environmental impact. The power plants, which have a capacity of 43 GWh, were completed at the end of the year. Statkraft is also con-

sidering the possibility of constructing new power generating facilities with a capacity of 1.5 TWh in the Helgeland area.

Together with Skagerak Energi, Trondheim Energiverk (TEV), Bergenshalvøens Kommunale Kraftselskap (BKK) and Agder Energi, Statkraft owns the company Småkraft AS. The purpose of the company is to invest in and construct small-scale power plants in cooperation with local landowners, as well as to manage the power output from existing small-scale power plants. The aim is to construct 2.5 TWh of new generating capacity by 2015. In 2004 agreements were entered into for the construction of 58 small-scale power plants with an expected total output of 0.9 TWh. Småkraft's first power plant went into operation in October 2004.

#### New capacity in Norway since 2002



#### New wind farms

Norway's largest wind farm was opened at Hitra in October. The wind farm has 24 windmills with a generating capacity of 55 MW, corresponding to an annual output of 150 GWh. The wind farm took 15 months to build and required a total investment of NOK 450 million. In 2005 Phase 2 of the Smøla wind farm will go into operation. Statkraft will then have a total production capacity of 600 GWh of wind power in Norway, at

a cost of NOK 1.7 billion. NOK 172 million of this is an investment grant from Enova, the state agency for the promotion of energy efficiency in Norway.

In 2002 Statkraft entered into a collaboration with the Dutch power utility Nuon which secures the wind power projects' profitability through long-term agreements relating to the sale of green certificates. Nuon has the opportunity to take a minority stake in the project companies.

In 2004 Enova approved Statkraft's request for an investment grant of up to NOK 216 million for the construction of wind power facilities in Lebesby and Vadsø in Finnmark.

Statkraft became involved in wind power projects in the UK during 2004, and is a co-owner of several land-based projects for which operating licence applications have either been made or are in preparation.

#### **District heating**

TEV will be building a new waste incineration plant with a capacity of 37.5 MW. This corresponds to an annual output of 160 GWh. The plant will supply heat energy to the existing district heating system in Trondheim, and is expected to go into operation during the autumn of 2006. The project has a total budget of NOK 710 million, including new pipelines.

#### **Gas power**

In September Statkraft and Hydro took over Statoil's shares in Naturkraft AS. Statkraft and Hydro each own 50 per cent of the company. In 1997 Naturkraft was granted a licence to build and operate two gas-fired power plants. The co-owners intend to build a gas-fired power plant at Kårstø, while the licence relating to Kollsnes will not be used and has been returned to the authorities. The plant at Kårstø will be based on the best available technology with regard to the environment, safety and efficiency. The proposed gas-fired power plant will have an annual production capacity of 3 TWh. The investment requirement is estimated at just over NOK 2 billion. A final decision on whether to go ahead with the project is scheduled for the summer of 2005. If it is built the gas-fired power plant will go into operation late in 2007.

#### **Research and development (R&D)**

Through its hydropower production, Statkraft is already a European frontrunner in the field of environment-friendly energy. To maintain and improve this position the company must lead the way in terms of both technology and expertise, and must exploit available natural resources in as efficient and environment-friendly ways as possible. R&D contributes to improving existing production facilities through efficiency improvements and environment-driven adjustments to river management activities. At the same time it contributes to the necessary development of new business opportunities. Bringing new solutions and energy technologies to the point of commercialisation will help Statkraft to enhance its position as a leader in environment-friendly energy. Statkraft has devoted significant research resources to the development of tidal energy, osmotic power and the use of hydrogen as an energy carrier.

#### **Projects outside Europe**

Statkraft's business activities outside Europe are handled through Statkraft Norfund Power Invest AS (SN Power). The company is a 50/50 joint venture between Statkraft and Norfund, the Norwegian investment fund for developing countries. The business idea behind SN Power is to build and purchase profitable hydropower plants in selected countries. The company's most important activities are currently concentrated in areas of Asia and South America. SN Power is recorded as an associated company in the group accounts. The company finances its investments on a project basis.

#### **Group organisation**

##### **New legal status**

With effect from 1 October 2004 Statkraft was reorganised as a limited company, in line with the Storting's decision in June and the Reorganisation of Statkraft Act which came into effect 10 September. With certain exceptions, Statkraft SF transferred all its assets, licences and other rights, obligations and contracts to underlying limited companies. Statkraft AS is the parent company of the new operative group, while legal ownership of practically all property, plant and equipment in the Statkraft AS group has been passed to its subsidiary Statkraft Energi AS.

The Norwegian state, embodied in the Ministry of Trade and Industry, remains the sole owner of Statkraft SF. When the reorganisation took place 96.4 per cent of Statkraft SF's assets were transferred to Statkraft Energi AS. Assets retained by Statkraft SF comprise power plants that have reverted to state ownership and which are leased out, or which will revert to state ownership. Foreign investments which for formal reasons cannot yet be transferred have also been retained in Statkraft SF.

During the spring of 2005 Statkraft Energi AS will transfer shares in several group companies to Statkraft AS. As a result the assets held by Statkraft Energi AS will consist largely of waterfall rights, hydropower plants and associated assets. The business activities undertaken by Statkraft Energi AS will account for the bulk of the operations organised under the business area Generation & Markets.

#### **Revised strategic platform**

As part of its efforts to establish a new organisation Statkraft has reviewed and revised its group strategy. This process confirmed the continuation of the previous strategy.

Statkraft manages huge assets on behalf of its owner, and the overarching strategy is to further develop and augment the value created by its existing business. This applies to both its generating and trading activities, including the realisation of synergies between group companies and associated companies. Based on its core business, Statkraft seeks to grow along three main lines:

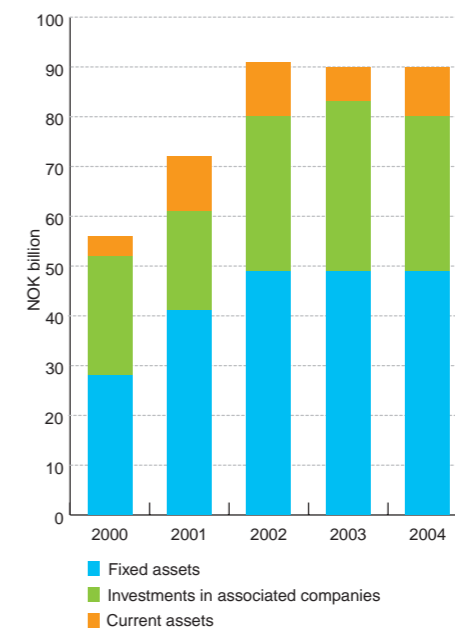
- the acquisition and construction of flexible and environment-friendly production capacity and infrastructure
- the construction of wind power facilities and other renewable production capacity
- the acquisition of shares in Norwegian energy utilities

The Norwegian Competition Authority has placed limitations on Statkraft's growth potential in Norway. As a result, future investments will largely be made in connection with increasing Statkraft's stake in the regional energy utilities in which it already holds shares, acquiring assets outside Norway and constructing environment-friendly power generation facilities both in Norway and other European countries.

#### **New group structure**

With effect from 1 January 2005 Statkraft is organised into three business areas and three key group functions. Each unit is led by an executive vice president who reports to the CEO. Group management comprises the CEO and the six EVPs. The operative business areas are Generation & Markets, New Energy and Regional. The new group structure paves the way for the realisation of the group's strategic priorities. By further developing its existing competence and competitive advantages, the changes will help to increase Statkraft's value creation.

#### **Asset development**



#### **Release of capital**

##### **Sale of assets**

In December Statkraft sold its 20 per cent shareholding in E-CO Vannkraft AS to E-CO Energi AS, which had the right of first refusal with respect to Statkraft's shares. The shares were sold for NOK 2.55 billion, giving Statkraft a net profit of NOK 296 million.

In December Statkraft sold its 50 per cent stake in KØN to Nord-Trøndelag Elektrisitetsverk. The shares were sold for NOK 1,265 million, giving a net profit of NOK 1,010 million before tax.

In the second quarter of the year Statkraft sold its 5 per cent stake in Kvænangen Kraftverk AS to Nord-Troms Kraftlag AS for NOK 36 million, almost all of which was net profit.

In the fourth quarter Statkraft exercised its option to sell its 49 per cent stake in HEAS to Eidsiva energi Holding AS. The shares were sold for NOK 2.2 billion, giving Statkraft a net profit of NOK 259 million. The profits from the sale will be taken to income in 2005.

Statkraft has agreed to lease 65 per cent of the electricity produced by the Rana power plant for a period of 15 years to a Finnish consortium (Etelä-Pohjanmaan Voima Oy and Kymppivoima Tuotanto Oy) for a prepayment of NOK 2.2 billion plus an annual operating fee of NOK 65 million. The prepayment will be taken to income as electricity sales revenues over a period of 15 years. The agreement came into effect on 1 January 2005.

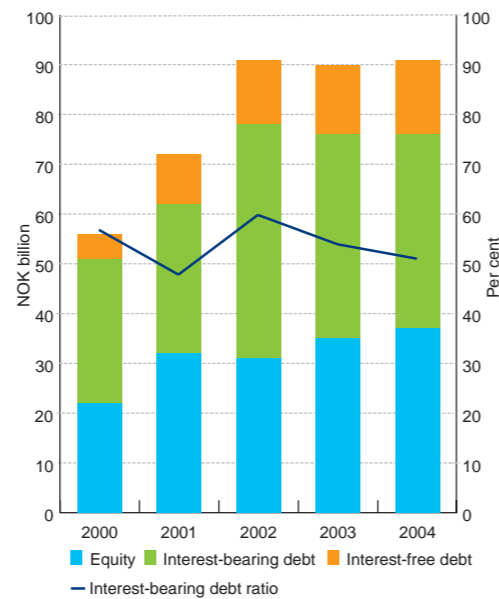
#### Gains on the sale of assets and release of capital

A total of NOK 8.7 billion in capital will be released through the sale of shares and fixed assets generating NOK 6 billion and the sale of rights generating NOK 2.2 billion. A further NOK 0.5 billion in capital will be released through the redemption of loans. Settlement in the amount of NOK 4.3 billion was received in 2004, while the remaining NOK 4.4 billion will be received in the first half of 2005. The sales will generate a net capital gain of NOK 1.6 billion before and after tax, of which NOK 1.3 billion has been recognised in the income statement for 2004.

#### Relations with the Norwegian Competition Authority

With the sale of its shares in E-CO and HEAS, Statkraft has complied with the Norwegian Competition Authority's directive to sell off assets. Moreover, transmission capacity to southern Norway (price area NO1) has increased to the extent that Statkraft is no longer required to sell additional pro-

#### Equity and debt development



duction capacity in this price area. The Authority's requirements in price area NO1 have thereby been met. The Rana, KØN and Kvænangen power plants are located in price area NO2 (central and northern Norway). Statkraft is engaged in a dialogue with the Norwegian Competition Authority regarding these agreements and the directive it has received regarding the sale of assets in price area NO2.

#### Strategic business management

##### Business principles

In 2004 the board of directors adopted a set of overarching business principles for Statkraft AS. The business principles are intended to clarify and unify the company's commercial role and social responsibility. Together with the directives included in its vision, business concept, core values and other governing documents, Statkraft's business principles will guide its strategic decision-making. The business principles are general in nature and form the starting point for more specific guidelines.

Statkraft's business principles reflect the fact that Statkraft views the financial, environmental and social aspects of its business as different facets of a larger whole. The principles also highlight the fact that Statkraft, as a leading player in the energy market, has a responsibility over and above compliance with its

statutory, regulatory and contractual obligations. The business principles emphasise that Statkraft is a value-creating, environment-friendly, socially responsible and competence-driven organisation.

#### Corporate governance

In 2004 Statkraft's board adopted a set of principles for corporate governance that apply to the entire group. As far as possible the principles are built on the Norwegian Recommendation for Corporate Governance, cf. stock market circular no. 8/2004, but with the necessary adjustments for Statkraft's organisational form and ownership. The board places great emphasis on following up the government's focus on corporate governance in the exercise of state ownership.

The purpose of the principles is to clarify the different roles and responsibilities of the company's owner, board and administration. Statkraft wishes to highlight the foundation for its business activities and regulate responsibility and authority between its various governing bodies, and between those governing bodies and the company's administration. Great emphasis is placed on strategic business management, risk management and controlling bodies.

#### Code of conduct for Statkraft's employees

The code of conduct for Statkraft's employees has been updated in accordance with the new business principles and principles for corporate governance. The code of conduct clarifies the attitudes and actions which Statkraft expects of each individual employee with respect to value creation, loyalty, conflict of interest, business practice and respect for the individual. Statkraft has two internal functions – Compliance Officer and Internal Auditor – to whom employees may turn for advice if they are faced with an ethical dilemma.

#### Management model and risk management

Statkraft uses a value-driven management model that focuses on the relationship between strategy, operational management and follow-up. The management model is based on the use of scorecards, forecasts, trend analyses, authorisations and KPIs. Statkraft has established its own systems and routines for risk management which deal with market-related risk, financial risk, operational risk and miscellaneous risk. The group's risk management is discussed in Note 27 to the financial statements.

#### Working environment

##### Competence

The group had the equivalent of 1,877 full-time employees at the end of 2004, down from 1,968 at the start of the year. The reduction is primarily due to efficiency improvement measures implemented by both Skagerak Energi and TEV. Statkraft expects its headcount to stabilise in 2005. Statkraft's average employee is 45 years old and has been with the company for 15 years. The company has a staff turnover of 1.9 per cent, which is low.

When it comes to constructing and operating environment-friendly power plants, trading in energy and associated products and meeting customer requirements for energy and associated services, Statkraft is uniquely competent. When building that competence, emphasis is placed on business acumen, specialist technical knowledge, systems, tools and language skills, cooperation and communication, and good leadership. Statkraft carries out an annual organisation and management survey which covers individual and organisational issues, management, strategic direction and involvement in goal-oriented processes at both the unit and individual level. The average score improved from 2003 to 2004, and the results of the 2004 survey are considered to be very good.

Statkraft wants to be an attractive workplace for newly qualified graduates. According to a 2004 survey Statkraft was ranked 29th among business and engineering graduates. The target is to be included among the 25 most popular employers for graduates as of 2005.

Statkraft has three different management development programmes which emphasise leadership skills and the role of the manager, management and follow-up processes, and strategy development and implementation. Training in project management is also heavily emphasised.

#### Equal opportunities

Statkraft aims to achieve a more equal balance between the genders and recruit more women to management positions. The composition of the workforce should provide a good balance between experience

and personal qualities on the one hand and formal competence on the other. The gender balance is therefore one of several success criteria. The commitment to gender equality is set out in the company's personnel policy, which states: "We will work actively to recruit more women to management positions". It is particularly evident in the areas of recruitment and career development.

Percentage of women in the workforce	22 %
Percentage of women managers	15 %
Percentage of women attending management training programmes	33 %

In recent years there has been a slight increase in the number of women employees. Since the company has a low staff turnover it will take time to achieve a more equal gender balance.

Four out of the nine members of the board of directors are women (44 per cent). Two out of group management's seven members are women (29 per cent). Statkraft also wishes to increase the number of women board members in its subsidiaries and companies in which it has a significant shareholding. Plans for achieving a more equal gender balance have been drawn up, and the board follows them up on a regular basis.

Statkraft aims to achieve equal pay for equal work and equal performance at all levels by means of salary systems which reflect competence, complexity and achievement. Emphasis is also placed on providing flexible working hours which meet the needs of both employer and employee.

#### Health, safety and the environment

Statkraft's HSE vision is for zero lost-time injuries in connection with its operations. That objective has not yet been reached, but the company has initiated a long-term improvement programme to promote local commitment to and management follow-up of health, safety and environmental issues.

	2004	2003
H1 (lost-time injuries per million hours worked)	7.2	7.0
H2 (total injuries per million hours worked)	14.1	18.0
F (no. of days lost through injury per million hours worked)	62	132

The figures show that both the total number of injuries and the seriousness of the injuries fell in 2004. There were no serious injuries in 2004, though there were 24 injuries that resulted in lost time.

Analysis of reported injuries, near-misses and hazardous conditions show that the greatest HSE challenge lies in changing the individual employee's attitudes and actions. Almost all reported incidents occur in connection with day-to-day activities, while incidents are rarely reported in connection with large and complicated tasks. To reduce the number of unplanned incidents Statkraft carried out a wide-ranging safety campaign in 2004 which emphasised the individual's responsibility and promoted the use of personal safety equipment.

Statkraft is also focusing on following up the performance of its suppliers and contractors. Improved reporting routines have led to a rise in the number of incidents being reported. Statkraft has tightened up the HSE requirements specified in RFQs and contracts. All suppliers and contractors working at Statkraft's facilities and construction sites must complete an online safety course.

Sickness absence in the group has remained relatively stable over the past few years. The sickness absence rate in 2004 was 4.2 per cent, compared with 4.1 per cent in 2003. Maintaining a low level of sickness absence is a high priority in all parts of the group, and the following up of existing measures and implementation of new ones will continue in 2005. The target sickness absence level is 4.0 per cent. All group companies have joined the Norwegian "inclusive working life" scheme, and several measures have been implemented to fulfil the scheme's intentions.

#### External environment

Hydropower and wind power are clean and renewable energy sources which provide environment-friendly alternatives to other methods of power generation. Nevertheless, the construction and operation of any power generating facility will have an impact on the environment, and Statkraft strives to limit the environ-

mental consequences of its activities. Environmental considerations are therefore integrated into the company's management systems and are intrinsic to its day-to-day operations. In 2004 additional emphasis was placed on the systematic follow-up of environmental considerations in all types of projects, as well as on a better dialogue with and follow-up of the company's suppliers and contractors.

Statkraft is also keen to reduce its operations' consumption, emission levels and waste production. In 2004 its hazardous waste handling routines were improved. A total of 66 tonnes of hazardous waste and 550 tonnes of other waste were produced in 2004.

Statkraft's environmental management system was certified according to ISO 14001 in 2001. In 2004 ISO 14001 audits were coordinated with inspections by the Norwegian Water Resources and Energy Directorate (NVE). All non-compliances uncovered by the audits have been resolved within the specified time limits.

Statkraft's target is to achieve zero environmental non-compliances. No serious environmental non-compliances or incidents occurred in 2004, but 23 minor environmental non-compliances and two minor environmental incidents did occur. The majority of the minor environmental non-compliances were brief violations of minimum water flow requirements. All environmental non-compliances and incidents are recorded in the units' non-compliance systems and followed up with regard to cause and necessary remediation.

#### Outlook

Efforts to further develop the Statkraft Group will continue in 2005 in line with its strategic objectives and its vision of being a European leader in environment-friendly energy. Statkraft will focus on increasing the value created by its core business in power generation and market activities by further developing its existing competence and competitive advantages. Statkraft will help both group companies and associated companies to improve their efficiency and realise

synergies between them. Other high-priority areas are acquisitions, the development and construction of environment-friendly generating capacity and the strengthening of its shareholdings in Norwegian utilities.

Stamp duty will have to be paid in connection with the transfer of real estate from Statkraft SF to Statkraft Energi AS. Stamp duty will be charged as an expense by Statkraft Energi AS as and when the transfer of title takes place, and the bulk of the duty is expected to accrue in 2005. The basis on which the duty will be calculated is still uncertain. However, estimates indicate that the outstanding stamp duty payable could amount to NOK 1.8 billion.

At the beginning of 2005 the water level in Statkraft's reservoirs was somewhat higher than normal. Relevant nearest-season forward prices indicate a lower price level in 2005 than in 2004. However, the high water levels in Statkraft's reservoirs will permit increased production. Together these form a revenue base for 2005 which is similar to that for 2004. Substantial changes in the group's operating costs are not expected. Based on current price expectations and normal water inflow and market conditions, the company's normal operations are expected to deliver a result in 2005 similar to that achieved in 2004.

The Board of Directors of Statkraft SF  
Oslo, 18 March 2005

  
Arvid Grundekjøn  
Chair

  
Marit Büch-Holm  
Deputy Chair

  
Erik Nygaard

  
Halvor Stenstadvold

Rebecca Selvik\*

  
Aud Mork

  
Astri Botten Larsen

  
Odd Vanvik

  
Thorbjørn Holøs

  
Bård Mikkelsen  
President & CEO

\* Rebecca Selvik was prevented from participating in the preparation of the report from the board of directors and financial statements due to illness.

**2005:**

**Power exchanges**

The European energy sector is changing rapidly, and the power market organises the trade in electricity. Our hydropower-based output is our primary competitive advantage in a market which is increasingly demanding alternatives to highly polluting fossil fuel-based electricity.



**1961:**

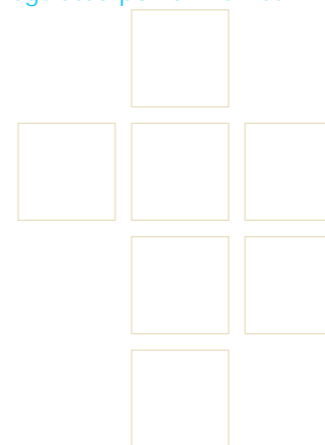
**Building the welfare state**

The construction of the Tokke power plant in Telemark put an end to power shortages in south-eastern Norway. In the front row at the official opening are, from left, Prime Minister Einar Gerhardsen with his wife Werna, Trade and Industry Minister Kjell Holler, Power Plant Manager Sigurd Aalefjær, Construction Manager Kåre Ødegård and the NVE's director general Halvard Roald.



**The European power market**

Statkraft has extensive experience of power trading both in the Nordic region and on the Continent. The price of electricity in Norway and the Nordic region is affected by consumption and production levels on the Continent and vice versa. The EU's electricity directive means that by 2007 all EU countries will have taken important steps towards the establishment of a common, deregulated power market.



While the European power market is gradually becoming more integrated, it remains divided into national and, to a degree, regional markets. Differences in regulatory regimes and power distribution bottlenecks between countries hinder increased integration. The EU is working to create efficient regional markets, which is an important step towards the establishment of a common European power market. The Nordic region and the UK deregulated early and form two natural regional markets. Central and Eastern Europe, the Iberian Peninsula, and Italy are other important regional power markets.

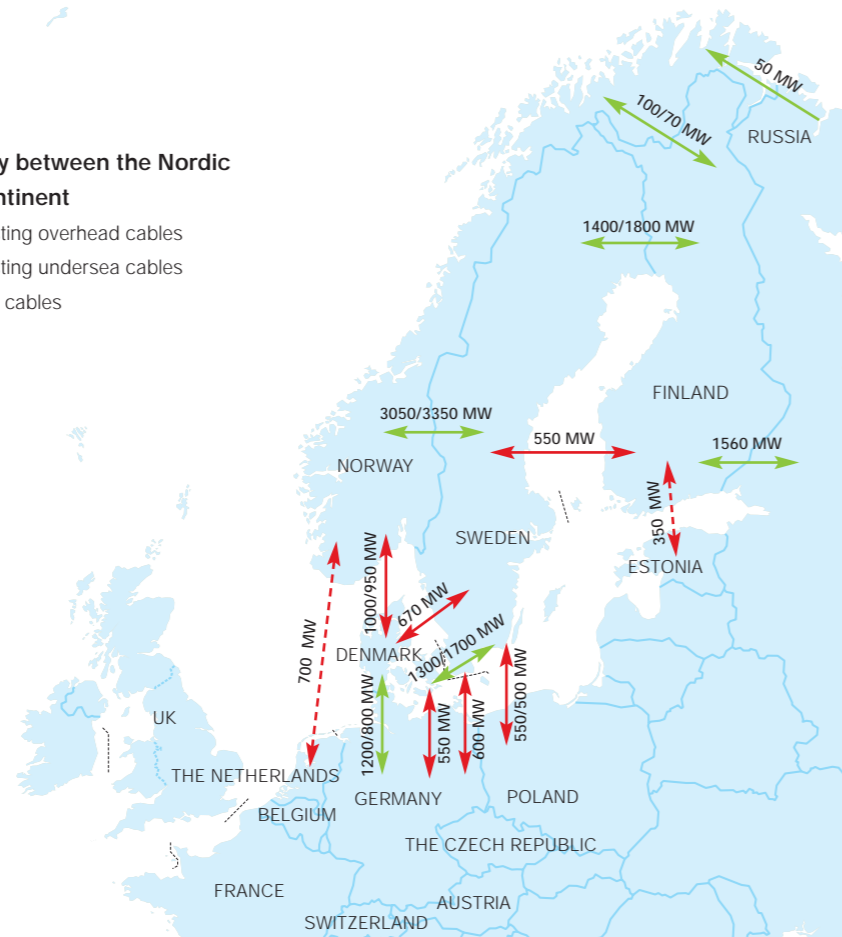
Statkraft expects the trend towards further deregulation of an integrated European power market to continue. The emergence of common energy markets will increase security of supply for the individual country and contribute to more commercially robust environment-protection measures. Environmental improvements and the growing need for renewable energy are important factors in Europe's energy policy. The expected growth in European consumption will have to be met largely by gas-fired power plants and new renewable energy.





### Transmission capacity between the Nordic countries and the Continent

- Total capacity existing overhead cables
- Total capacity existing undersea cables
- Planned undersea cables



(Source: Statnett)

The extent to which such new power generating facilities are built will depend both on construction costs and incentive schemes.

### Production and consumption

In 2003 electricity production in the part of the European market in which Statkraft operates<sup>1)</sup> totalled 2,200 TWh<sup>2)</sup>. Production in the Nordic region in 2003 was 362 TWh, rising to 375 TWh in 2004. Consumption in the Nordic region and the Continent north of the Alps is expected to grow by around one per cent annually. Total annual consumption will have therefore increased by around 300 TWh in 2015. The need for new production capacity is actually greater than this, since many of today's coal-fired power plants will be phased out and replaced by more environment-friendly facilities.

The Nordic market relies heavily on hydropower, while Continental Europe gets its electricity primarily

from coal-fired, gas-fired and nuclear power plants. In the part of the European market in which Statkraft operates<sup>1)</sup> (excluding the Nordic region), only 9 per cent of the electricity is generated from hydropower, compared with around 50 per cent in the Nordic region<sup>2)</sup>. Power production in Norway is almost exclusively based on hydropower.

### Power transmission from the Nordic countries to the Continent

A high-capacity transmission network links together the Nordic countries' electricity generating systems. The Nordic power market is linked to the Continent by means of transmission cables from Denmark to Germany, and from Sweden to Germany and Poland. Finland has a considerable transmission capacity linking it to Russia.

<sup>1)</sup>Includes the Nordic region as well as Germany, the Netherlands, Belgium, France, the UK, Switzerland, Austria and the Czech Republic.

<sup>2)</sup>Source: Eurelectric

By the end of 2004 the available capacity in the cable running between southern Sweden and Germany, the Baltic Cable, had been increased from around 400 to 600 MW. Statkraft is the majority shareholder in this cable. Statnett, the company which operates Norway's national grid, and the Dutch national grid company TenneT have concluded an agreement to lay a 700 MW cable between Norway and the Netherlands. This undersea cable is expected to go into operation in 2008. The cable will improve the efficiency with which the power resources of Norway and the Continent can be exploited. There are also plans to lay a new 350 MW cable between Finland and Estonia.

### Factors affecting electricity prices

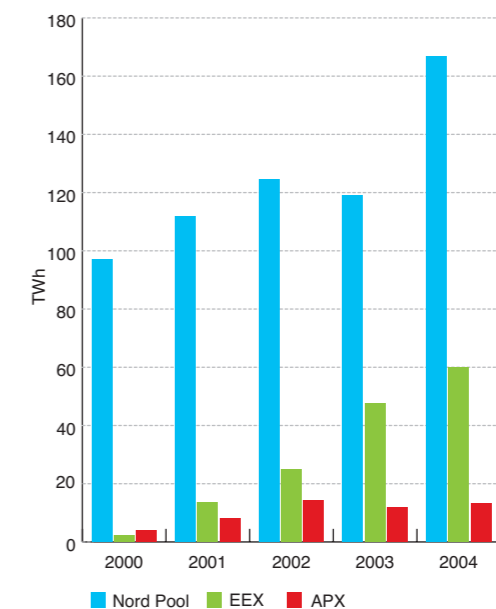
There are a number of factors – both on the supply and the demand side – which affect the price of electricity. In the Nordic power market precipitation levels and winter temperatures have a major impact. Hydropower production in the Nordic region can vary by over 70 TWh between wet and dry years. The price of electricity in the Nordic countries will therefore vary considerably between years with substantial precipitation and years with minimal precipitation. Moreover, the construction of new generating capacity and fluctuations in consumption also affect market prices. Coal and gas are important raw materials for much of Europe's power production. The price of these raw materials therefore has a major influence on Continental electricity prices. The exchange of power and associated trading activities between the Nordic and Continental power markets evens out price differences between them. Consequently, factors influencing the Continental market will have an impact on prices in the Nordic market and vice versa.

### Increased liquidity on Continental power exchanges

While much of Continental Europe's power trading is conducted through bilateral agreements, the liquidity

of key Continental power exchanges is growing. The price set by the German power exchange EEX is increasingly being accepted as a reference price, and liquidity in the German spot market is growing. There is a corresponding growth in the liquidity of the Dutch exchange, APX. This development is expected to continue.

### Spot trading of power on selected exchanges



Source: Nord Pool, EEX, APX

The Nordic power exchange, Nord Pool, was established in 1993. In 2004 it traded 167 TWh on the spot market and around 590 TWh on the financial market, while the volume of clearing services totalled just under 1,800 TWh. In recent years spot market trading has accounted for 30–45 per cent of electricity consumption in the Nordic region.

Statkraft trades actively on Nord Pool, EEX and APX, as well as on other Continental exchanges. Statkraft's offices in Düsseldorf and Amsterdam are vital to its activities on the Continent.

years the company has also built and put into operation wind farms in Norway. There is considerable potential for the construction of wind power facilities in Europe, particularly in coastal areas and offshore. The best available wind resources are found in Norway and the UK. In a 10–15 year perspective, wind power generation in Norway could be expanded to an estimated 10–15 TWh.

#### **The need for more environment-friendly energy**

The Kyoto Protocol came into effect on 16 February 2005. It will help to ensure that international policy-makers place greater emphasis on climate issues and the reduction of greenhouse gases.

A large number of measures have been implemented in Europe to reduce greenhouse gas emissions and promote the construction of power generating facilities based on renewable energy sources. So far the most important measures have been direct financial incentives. There are major national differences in the way such measures are used. In recent years the UK and Sweden have introduced green certificates for renewable power. This means that energy companies are compelled to purchase certificates equivalent to a certain percentage of the electricity they sell to their end-users. The Norwegian authorities plan to establish a green certificates scheme in 2007, primarily as part of a common Norwegian/Swedish certificates market. On 1 January 2005 the EU launched a tradable carbon quota scheme, and carbon quota trading on Nord Pool started on 11 February 2005

In its RES directive (renewable energy sources directive), the EU has set a target increase of 390 TWh in the amount of electricity generated from renewable energy sources within the period 1997–2010. In the longer term, new technologies and methods for power generation will have to be adopted. Several of these are currently at the research stage. The extent to which completely new power generation methods are introduced and how they are phased in will partly depend on the market price of green certificates or other incentive schemes.

Statkraft's production capacity is practically 100 per cent renewable, which is unique. The majority of power production is based on hydropower. In recent

Improving the environment in a European perspective will require replacing today's highly polluting fossil-fired power production with cleaner technologies. The number of gas-fired power plants on the Continent is therefore expected to rise. In Norway, Statkraft and Hydro are intending to build the country's first gas-fired power plant, which would go into operation in 2007.

#### **Distribution grid and end-user markets**

While the European wholesale market for electricity has become more integrated, the distribution grid and end-user markets remain largely national in character. A distribution grid is a natural monopoly, which in most countries is subject to a national regulatory authority – in Norway, the Norwegian Water Resources and Energy Directorate (NVE). The regulatory framework governing distribution grids, including whether one company may own both production facilities and grid operations, varies from country to country. In Germany the national grid is divided into four regional grid companies owned by the largest power producers. An independent regulator is expected to be established in Germany by the end of 2005.

The potential for effective competition in the European sub-markets is affected by how clearly divided the grid activities are from the generation and trading activities, and how efficient the regulator is. The EU has decreed that from 2007 all grid businesses over a certain size must be spun off into separate companies which may not be run as part of an integrated power generating utility. One of the objectives of this move is to prevent cross-subsidising.

*Statkraft trades actively on the Nord Pool, EEX and APX exchanges, as well as on other Continental power exchanges.*



*The bulk of the electricity generated by Statkraft is based on hydropower.*



Statkraft engages in distribution grid activities and end-user sales through the group companies. The group also owns shares in several other Norwegian companies operating within these segments of the value chain. These companies have already spun off their grid activities into separate subsidiaries.

#### **An industry under restructuring**

The European power generation industry has undergone major changes in the past decade, with companies merging both nationally and internationally.

There has also been a great deal of similar activity in the Nordic region and in Norway. The Statkraft Group's share of the total Nordic electricity output is around 11 per cent, or some 14 per cent including its associated companies Agder Energi and BKK. The Nordic region's five largest producers account for around 60 per cent of its total electricity output. The remaining 40 per cent of the Nordic region's electricity output is divided between 350 utilities. Such a large number of companies indicates that the restructuring of the Nordic power market should be expected to continue.

A number of transactions were made public in the Nordic market during 2004. One of these was the agreement in principle that Statkraft signed for the purchase of hydropower plants in Sweden and Finland with a total generating capacity of around 1.6 TWh. The deal will cost around NOK 4 billion and is expected to be completed during the first half of 2005. This will strengthen Statkraft's generation and trading activities.

The power generation industry in many countries has traditionally been owned by the state or local governments. As part of the current restructuring process, several utilities have been privatised or are considering privatisation. Both France and Denmark

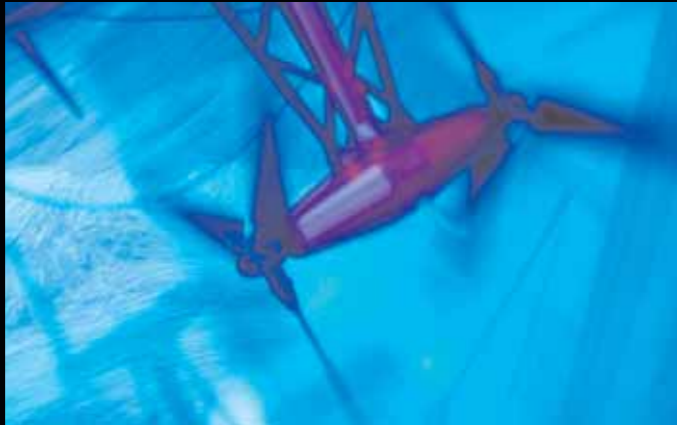
have initiated processes intended to achieve the partial sell-off and public flotation of electricity and energy companies.

#### **Norway set to adopt new licensing regulations**

Norway's hydropower plants have been regulated by means of a reversion scheme which has, up to now, given state and local government-owned power utilities the perpetual control of waterfall rights and production facilities, while privately owned companies must return their rights and facilities to state ownership after 60 years. A process is currently underway to adjust the regulations to treat all companies equally, regardless of who owns them. One outcome could be that all companies which today control waterfall rights, hydropower plants and associated installations will have to hand these back to the state at the end of a preset period. One proposal has been made recommending reversion to the state after 75 years from the introduction of the new regulations. The proposal would allow the power plant operator to keep one-third of the facilities upon reversion and also, as a general rule, retain the right to operate them. The proposal has not received unanimous support. It is therefore difficult to predict how this issue will finally be resolved.

**2005:**

*Engineering skills now  
Statkraft devotes substantial  
resources to researching  
and developing new, renew-  
able forms of energy.  
The company was recently  
granted a licence to  
construct and operate a  
pilot tidal power plant in  
Kvalsundet in Tromsø.  
The objective is to test the  
newly developed technology  
under realistic conditions.  
The concept to be tested is  
based on a floating,  
anchored steel construction  
and produces electricity  
from four large, tide-driven  
turbines.*



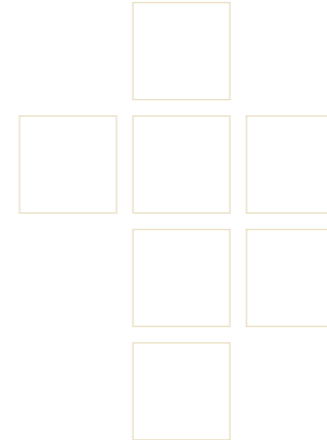
**1959:**

*Engineering skills then  
The Kjeladammen dam  
(Tokke) was built without  
the help of the huge  
tower cranes which are  
so familiar on today's  
building sites. The  
concrete was hoisted up  
using two lifts (the  
towers in the middle of  
the dam), transported  
horizontally and then  
tipped down inside the  
formwork. This was the  
most common method for  
building dams in the first  
decade after the war.*



**Strategy and future direction**

Developments in the European market will influence Statkraft's potential for value creation. The company aims to acquire and construct power generating facilities on the Continent, including gas-fired power plants. Together with continued investment in hydropower, wind power and the commercialisation of new energy technologies, this will support the group's vision of being a European leader in environment-friendly energy. Norway remains Statkraft's main market with respect to distribution grid activities and end-user sales.



Statkraft has unique production assets, which generate electricity at low variable cost. Hydropower plants have a long lifespan and low requirements for maintenance. Furthermore, Statkraft's hydropower plants are highly flexible and have large reservoir capacity. The group's existing generating facilities are nearly all based on renewable resources. Statkraft possesses considerable technical and environmental expertise in the development and construction of hydropower and wind power plants, and has extensive experience of managing complex projects.

Statkraft has a comprehensive system for gathering and analysing hydrological data and other data related to the Nordic power market. This provides a sound basis for price forecasting. The group has long experience in physical and financial power trading in the Nordic market. Statkraft tailors its maintenance plans to the market demand for power, and has developed systems which enable production optimisation and ensure good risk management. The group has also developed specialist competence in the relationship between price setting in the Nordic market and that in the Continental market.



Statkraft has wind farms at Smøla and Hitra.



Statkraft is a co-owner of the company Småkraft AS, whose objective is to build small-scale power plants with minimal impact on the environment.



### Basis for Statkraft's strategy

Together with its vision and business concept, Statkraft's four business principles form the foundation for the company's activities. Statkraft's business principles are:

#### Value creation – "Creating lasting value"

Statkraft is a commercial company and will deliver the rate of return, growth and development expected of a leading European energy company. We have a long-term perspective for our operations and will exercise good business practice in all our activities.

#### Environmental responsibility – "Nature at work"

Statkraft supplies Europe with environment-friendly energy. We will ensure the sustainable utilisation of natural resources and limit the environmental impact of our operations.

#### Social responsibility – "Energy for generations"

Statkraft contributes to sustainable development by offering its customers flexible, environment-friendly energy that is generated and transported according to high safety standards. We will actively participate in the communities in which we have a presence.

#### Building competence – "People first"

Statkraft will promote competence at all levels and will value and further develop its employees. We will provide a healthy workplace and a corporate culture that encourages active employee involvement and commitment.

The company's primary financial goal is to maximise the value it creates for its owner, measured as the return on value adjusted equity. Another long-term goal is to achieve an A-level credit rating.

### Development of the business

To create value for Statkraft's owner, customers and society at large, the business concentrates on enhancing its performance within the areas of power

generation and trading by developing its existing competence and competitive advantages. It also aims to develop new profitable power generating capacity in Norway and the rest of Europe. Moreover, there is a focus on realising synergies between Statkraft and the regional companies, as well as increasing the profitability of these companies.

For this strategy to succeed, Statkraft must strive to continually improve existing operations.

In the years ahead, therefore, Statkraft will continue refining its market-driven operational and maintenance model, and will expand its power plants' long-term production capacity. Sound analysis, better exploitation of its production facilities' inherent flexibility and use of a dynamic hedging strategy will increase the company's value creation. Trading operations must be expanded to include adjoining geographical areas and new products, such as green certificates and greenhouse gas emission quotas.

Statkraft will strengthen its activities and enhance its competence in such areas as production capacity development, project management, renewable energy, incentive schemes and technology development.

### Future growth

Statkraft aims to grow along three axes, all linked to the profitable further development of today's business. The company's investment capability depends, among other things, on future policy decisions on the part of its owner, electricity prices and interest rates. New investments must be seen in light of the group's total asset portfolio.

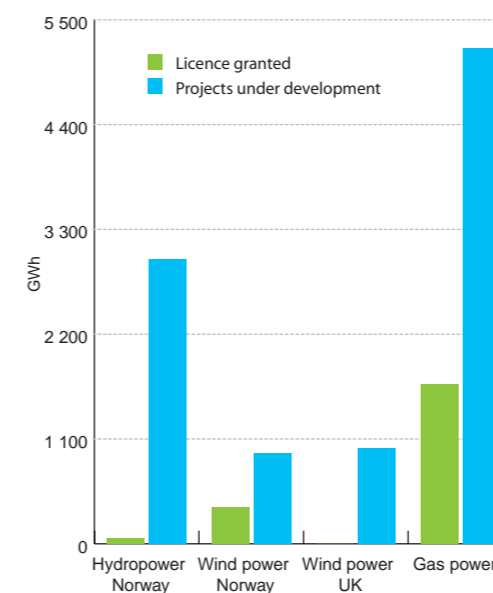
### Acquisition and construction of flexible and environment-friendly production capacity and infrastructure

Participating in physical and financial power trading on the Continent will allow Statkraft to create added value and reduce its risk exposure. Access to Continental production capacity will strengthen its trading activities in this area and position Statkraft to meet a more integrated European power market. Improved information and knowledge of the Continental market will further increase the value of Statkraft's Nordic trading activities. Priority will be given to the construction and acquisition of flexible hydropower and gas power production capacity in Norway and Europe north of the Alps.

### Development of wind power and other renewable energy production

Furthermore, Statkraft wishes to participate in the development of generation capacity based on new, renewable resources to meet the expected growth in the demand for electricity. This includes the development of non-regulable generating capacity such as wind power, small-scale hydropower and other renewable resources in Norway and other parts of Europe. Through its shareholding in SN Power, Statkraft also participates in projects outside Europe.

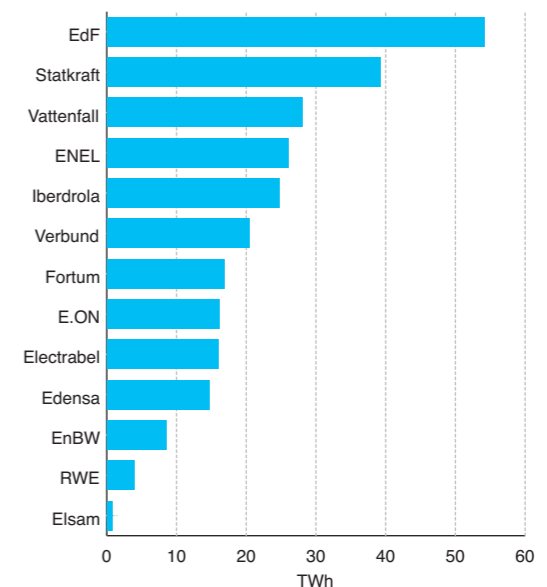
### Licences and development projects



### Investments in Norwegian utilities

Through shareholdings in its regional partners, Statkraft is well positioned to participate in the further restructuring of the Norwegian power market. Statkraft supports profitable regional development and wishes to contribute to further value creation. Statkraft also wishes to achieve a majority shareholding in its regional partner companies, given that the other shareholders are willing to sell their interests to the group.

### Production of renewable energy



Source: The companies' annual reports 2003

### 2005:

#### Entertainment age

Electricity has become a precondition for our modern way of life and the emergence of the entertainment industry.

Traditional toys are losing their appeal in relation to electronic games, television and mobile phones.

According to Statistics Norway, 582,000 homes in Norway have broadband, an increase of 84 per cent compared with 2003.



### 1950:

#### Industrial age

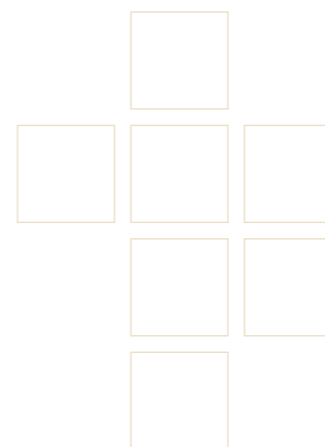
Norway's transformation into an industrialised nation began in the early 1900s.

One of the driving forces behind this development was the power of the country's waterfalls. Power-intensive industry grew up where waterfalls could be harnessed to produce cheap and abundant electricity, such as in Rjukan, Notodden, Sauda, Odda, Årdal, Høyanger, Sunndalsøra and Mo i Rana. The photo is from the Odda smelting works in 1950.



## Business areas

Statkraft changed its organisational structure with effect from 1 January 2005. The group is now divided into three business areas and three key group functions. The new structure is based on Statkraft's business priorities and will increase focus on the development of each of the three core businesses. The structure will contribute to enhanced value creation within generation and trading, the development of new, profitable power generating capacity in Norway and the rest of Europe, and the realisation of synergies and cooperation among the group companies and regional companies.



**Generation & Markets:** This business area is a continuation of Statkraft's core business – the generation and sale of electrical power. It manages the generating facilities and trading activities which were previously organised under Statkraft SF. Generation & Markets manages NOK 31 billion, a third of Statkraft's total capital. It accounts for some NOK 3.4 billion or 46 per cent of the group's income before financial items and taxes, and has a corresponding share of capital employed. Generation & Markets achieved an 18.1 per cent rate of return on average capital employed (ROACE) in 2004, which was the highest of the three business areas.

**New Energy:** The objective of this business area is to secure the future growth of Statkraft's power production through the development and construction of environment-friendly generating facilities, such as those based on wind power and other sources of renewable energy.

New Energy makes a financial loss because it is tasked with managing projects and companies which are still in the development phase and therefore produce only limited returns. The area's capital employed amounts to just under NOK 2 billion.

**Regional:** The third core business area is tasked with managing Statkraft's investments in other energy utilities in Norway. Regional has NOK 18 billion in total capital employed. The book value of its investments in associated companies is just under NOK 11 billion, while total capital amounts to almost NOK 37 billion. Regional is therefore the largest business area in terms of capital, and had an income before financial items and taxes of some NOK 1.6 billion. Its ROACE was 7.5 per cent in 2004.

In addition to the three operative business areas, the Statkraft Group has substantial **financial investments:** primarily a 44.6 per cent shareholding in the Swedish utility Sydkraft. The total book value of these investments is almost NOK 18 billion and they produced an income before financial items and taxes of around NOK 1.4 billion. Financial investments are managed by Statkraft AS.

Statkraft's consolidated accounts also include the group's share of the profit/loss from its shareholdings in power plants in Nepal and Laos as well as revenues from the leasing out of generating facilities under the Norwegian reversion scheme. These shareholdings cannot formally be transferred to Statkraft AS, so they remain in the ownership of Statkraft SF.

The Statkraft Group made an income before financial items and taxes of around NOK 7.5 billion in 2004. This corresponds to a ROACE before tax of 15.7 per cent. After financial items and taxes, the income for the year totalled NOK 4.6 billion, giving a ROACE after tax of 12.4 per cent. The net return on investments in associated companies was 5.3 per cent.

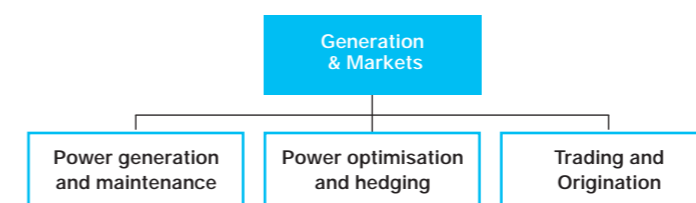
For further information regarding Statkraft's overall financial performance and key figures, please see the report from the board of directors on page 14 and the key figures on fold-out page 2.

KEY FIGURES	Statkraft SF Group	Generation & Markets	New Energy	Regional	Financial investments	International & leased-out power plants	Non-recurring items	Eliminations
<b>Statkraft SF Group</b>								
<b>Pro forma breakdown in NOK million</b>								
<b>From the Income Statement 2004</b>								
Gross operating revenues	11 286	6 628	64	3 302	38	443	1 010	-199
Operating income	5 972	3 452	-70	1 349	159	227	855	-
Income from associated companies	1 529	-	-24	261	1 256	36	-	-
<b>Income before financial items and tax</b>	<b>7 501</b>	<b>3 452</b>	<b>-94</b>	<b>1 610</b>	<b>1 415</b>	<b>263</b>	<b>855</b>	<b>-</b>
Net financial items	-2 274	-	-	-	-	-	332	-
Pre-tax income	5 226	-	-	-	-	-	1 187	-
<b>Net income for the year 2004</b>	<b>4 600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 246</b>	<b>-</b>
<b>From the Balance Sheet 2004</b>								
Capital employed	37 364	17 427	923	18 001	5	1 008	-	-
Investments in associated companies	28 968	-	492	10 757	17 502	217	-	-
Total capital	90 491	31 103	1 786	36 589	17 896	3 117	-	-

In this article and in the subsequent articles about the individual business areas, the accounts for 2003 and 2004 have been recalculated according to the new organisational structure. Pro forma figures for the financial years 2003 and 2004 have been calculated as if the reorganisation has been in effect during the entire accounting period. The pro forma figures for the balance sheet as of 31 December 2003 and 2004 have been prepared on the premise that the reorganisation had taken place on these dates.

Items in the consolidated income statement are allocated to the business areas in descending order until "Income before financial items and tax". Group financing and tax management sort under Statkraft AS, and the business areas are not followed up with respect to these items. Allocations to the business areas are based on normal operations, and non-recurring items associated with gains from the sale of assets, etc, are not included.

## Business area Generation & Markets



### The business

The business area operates 62 hydropower plants in Norway and has control over the production capacity of 22 power plants operated by other utilities. Plant operation and maintenance is administered from four regional centres – Narvik, Gaupne, Sauda and Dalen – while key functions are located at Statkraft's head office in Oslo.

From offices in Oslo, Düsseldorf, Amsterdam and Stockholm, Statkraft engages in power trading and origination, ie supplying customised energy solutions to large-volume customers. The company owns 2/3 of Baltic Cable, an undersea cable between Sweden and Germany, and controls a corresponding proportion of its 600 MW total capacity. The business area is active in the entire Nordic region as well as in a number of other European countries.

As a result of Generation & Markets' wide-ranging power trading activities in Europe, Statkraft has come a long way towards realising its vision of being a European leader in environment-friendly energy. Of importance are production facilities located outside Norway; therefore the acquisition of such facilities will be a priority in the time ahead.

Over many years Statkraft has been developing a business concept in which it creates added value and reduces risk exposure by means of power

optimisation and financial hedging. Operational and maintenance activities are tailored to make the most of the market opportunities identified through analysis of underlying trends. Statkraft creates added value by optimising the output of its well-regulated power plants, and pursues a hedging strategy with a multi-year perspective. Market positions are managed actively on the basis of analysis and comprehensive data collection and exchange. To fully exploit the potential afforded by this concept, it is necessary to have extremely competent employees in a number of professional disciplines and a seamless interface between operational and maintenance activities on the one hand and market-driven evaluations on the other.

The business area employs a total of 675 people of 12 different nationalities. Its staff are highly qualified and have extensive experience within this field.

### Strategy

Statkraft uses business-driven operational and maintenance procedures to ensure that its power plants are operated safely, reliably and efficiently. The company exploits the flexibility and availability afforded by its network of generating facilities to maximise its financial results. Power plants are managed in a way that is financially and environmentally sound and sustains long-term generating capacity. Society sets high standards for hydropower producers with

regard to the management of river systems and the protection of their natural functions. Statkraft will therefore carry out the tasks and obligations related to affected river systems in a professional and trustworthy manner.

We aim to acquire assets outside Norway to create added value and reduce risk exposure through active physical and financial power trading. Furthermore, the company wishes to invest in flexible generating facilities where control over output can provide vital information to its trading operations. An agreement in principle for the purchase of a number of Grange's power plants in Sweden and Finland, which Statkraft signed with E.ON, is an important step towards the acquisition of generating facilities operating outside Norway.

Statkraft's presence in Continental markets and ownership of production capacity provide information that increases the group's value creation in the Nordic region. At the same time, information about the electricity situation in the Nordic region helps to improve Statkraft's trading activities on the Continent. A substantial increase in the amount of trading on the Continent and closer integration between the Nordic region and the Continent are expected. These pave the way for trade based on price differences between countries and between regions.

#### Risk management

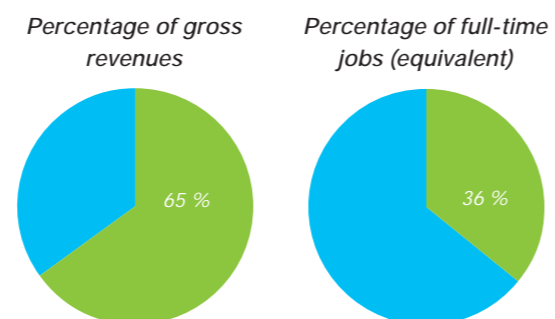
The power generating business uses a reliability-driven maintenance process to mitigate the risk of downtime due to incorrect or insufficient maintenance. The risk of revenue losses due to asset downtime is followed up on a regular basis and an assessment is made of the risks and benefits associated with bringing forward or postponing maintenance operations. The risk of HSE-related incidents occurring is dealt with under each individual work process and is followed up continuously by line management.

#### Key figures Generation & Markets\*

Pro-forma figures	Unit of measurement	2004**	2003
<b>From the Income Statement</b>			
Gross operating revenues	NOK million	6 628	8 519
EBITDA	NOK million	4 183	5 679
Operating income/EBIT	NOK million	3 452	5 055
<b>From the Balance Sheet</b>			
Capital employed <sup>1)</sup>	NOK million	17 427	20 806
Total capital	NOK million	31 103	28 971
<b>Cash flow</b>			
Maintenance investments <sup>2)</sup>	NOK million	233	366
Investments in increased generating capacity <sup>3)</sup>	NOK million	32	20
<b>Key financial ratios</b>			
EBITDA margin <sup>7)</sup>	%	63.1	66.7
ROACE before tax <sup>8)</sup>	%	18.1	24.3
<b>Key figures, business area</b>			
Production cost/MWh <sup>16)</sup>	NOK/MWh	46	45
Utility adjusted availability	%	98.5	98.6
Production, actual	TWh	26.2	32.5
- of which statutory-priced and concessionary sales	TWh	19.3	20.2
<b>Revenues from power sales</b>			
Generated power sold at spot price	NOK million	6 361	9 932
+ value added optimisation and hedging <sup>7)</sup>	NOK million	1 901	1 416
- value lost on statutory-priced contracts <sup>18)</sup>	NOK million	-2 578	-3 917
+ Trading and Origination	NOK million	308	534
+ Other net revenues from power sales	NOK million	-50	304
Total power sales	NOK million	5 942	8 269
<b>Personnel</b>			
Full-time jobs (equivalent)	No.	675	689
- of which outside Norway	No.	57	55

\*Definition of key figures can be found on fold-out page 2, cf. cross-references to notes.

\*\*Normal operations, excl. non-recurring items associated with gains from the sale of assets as well as stamp duty.



With respect to the management of risks associated with power sales, the hedging portfolio must meet specific requirements for minimum and maximum annual forward sales. Given these limitations, the risk is dealt with at the contractual level by analysing the potential change in position's contribution to reducing the portfolio's total risk exposure. The Trading and Origination unit must work within an annual loss ceiling measured in NOK. At the operational level these ceilings are translated into mandates such as Value-at-Risk for Trading and Profit-at-Risk for Origination. The credit risk is dealt with by analysing potential trading partners and placing them in one of three categories. Each category is accompanied by a mandate specifying maximum credit exposure, volume exposure and length of contract term.

#### Financial results 2004

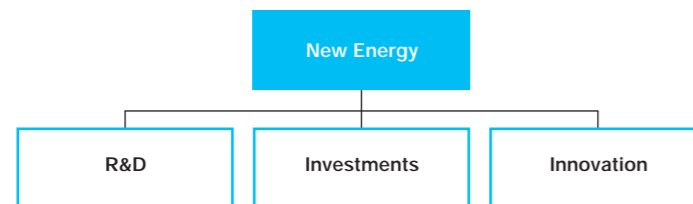
The power generating business had a good year in 2004, and despite several major unplanned incidents, we achieved a satisfactory level of utility adjusted availability. Generator 1 at Vinje was out of commission for six months following a fire, and the turbines at Mauranger were down for six weeks as a result of an error on the part of the supplier. The year was also a very active one with regard to maintenance and projects. The business area had around 300 ongoing renovation and maintenance projects at a total cost of more than NOK 1.6 billion. The projects will be carried out over several years. Production capacity at the upgraded New Bjølvo power plant, which was opened in May, has been increased by 69 GWh to 391 GWh, while the Øvre Berså power plant, with a capacity of 23 GWh, was put into operation in December.

Output was at a record low in 2004 despite a relatively high average spot price of NOK 242/MWh and the fact that it was a hydrologically normal year – reduced inflow in the first half-year being offset by a

wet autumn. The low output was primarily due to the water levels in Statkraft's reservoirs, which were low at the start of the year and which remained low for large parts of the year as well as to expectations of high future prices resulting partly from record-high coal prices. Statkraft is satisfied with its power optimisation performance and achieved an average price of NOK 251/MWh. Hedging again produced good results in 2004. This can be ascribed to the fact that hedging activities in recent years have been based on a careful analysis of underlying trends, and this has allowed the company to exploit periods when the power market has priced products differently to its own price forecasts. Power optimisation and hedging activities related to spot prices provided a total net gain of NOK 1.9 billion.

The Trading and Origination business is operated from offices in Oslo, Amsterdam, Düsseldorf and Stockholm, and includes our two-thirds shareholding in Baltic Cable AB. In 2004 Trading and Origination had power sales revenues of NOK 308 million. Including other revenues, it had gross operating revenues of NOK 583 million. The Baltic Cable was upgraded from 400 to 600 MW during the autumn of 2004. This factor alone will result in higher revenues from 2005.

## Business area New Energy



### The business

The New Energy business area is the Statkraft group's centre of competence for the development of new power generating facilities and the follow-up of Statkraft's investments in non-regulable generating assets. The business area will ensure that the development of new and profitable forms of environment-friendly power generation is given the necessary focus and priority. It will also contribute to the establishment of a dynamic environment for R&D and innovation within the group.

The business area will be responsible for identifying, developing and building all new power generating facilities within the Statkraft Group – irrespective of technology or geographical location. The considerable competence which Statkraft SF had built up in its construction and R&D divisions provides a solid foundation for New Energy's activities in this area. The business area will play an active role in helping Statkraft to realise its vision of being a European leader in environment-friendly energy.

### Strategy

In Norway the main potential for expanding renewable power generation lies in the construction of wind power and small and medium-sized hydropower facilities. The government's target is for wind farms capable of producing 3 TWh per year to have been constructed by 2010 (Report no. 29 [1989–99] to the Storting; On Energy Policy). It is expected that Statkraft's subsidiary Småkraft AS will construct 250 small-scale hydropower plants with a total production capacity of 2.5 TWh by 2015. Statkraft, with its considerable competence in the construction of power generating facilities, wishes to play a leading role in this expansion.

### Key figures New Energy\*

Pro-forma figures	Unit of measurement	2004	2003
<b>From the Income Statement</b>			
Gross operating revenues	NOK million	64	42
EBITDA	NOK million	-52	-15
Operating income (loss)/EBIT	NOK million	-70	-28
Income (loss) from associated companies	NOK million	-24	-17
<b>From the Balance Sheet</b>			
Capital employed <sup>1)</sup>	NOK million	923	360
Investments in associated companies	NOK million	492	482
Total capital	NOK million	1 786	1 190
<b>Cash flow</b>			
Investments in increased generating capacity <sup>3)</sup>	NOK million	610	101
<b>Key figures, upstream business</b>			
Production, actual	TWh	0.1	0.1
– of which green certificates	TWh	0.1	0.1
<b>Personnel</b>			
Full-time jobs (equivalent)	No.	20	22

\*Definition of key figures can be found on fold-out page 2, cf. cross-references to notes.

Statkraft is currently evaluating a number of different gas-fired power projects in Norway and the rest of Europe. Naturkraft AS underwent a change of ownership in 2004 and is now a 50/50 joint venture between Statkraft and Hydro. The company devoted most of 2004 to preparing calls for tenders for a gas-fired power plant at Kårstø. Final decisions regarding the investment are expected to be taken by the summer of 2005.

Statkraft's potential for further expansion in Norway, either through acquisitions or the construction of new generating capacity, is limited. In order to maintain its position as a leading provider of energy based on environment-friendly and renewable resources, Statkraft must invest in new generating facilities outside Norway.

Statkraft aims to be at the forefront of R&D for osmotic power, tidal power and hydrogen production based on environment-friendly, renewable energy sources. Statkraft is currently a global leader in the field of osmotic power technology, and is in the process of establishing an alliance with powerful industrial partners to further develop and commercialise this technology. On 8 February 2005 Statkraft was granted a licence for a pilot tidal power plant. Statkraft spent a total of NOK 46 million on innovation and R&D in 2004.

Through Statkraft Norfund Power Invest (SN Power), the business area follows up Statkraft's investments in new power generating facilities outside Europe. SN Power is a 50/50 joint venture between Statkraft and Norfund, the Norwegian investment fund for developing countries. SN Power's business idea is to construct and acquire profitable hydropower facilities in selected countries. The company is currently engaged in projects in Asia and South America.

### Financial results 2004

During 2004 the New Bjølvo power plant in Ålvik, Hardanger, went into production. The new power plant has a production capacity of 391 GWh, an increase of 69 GWh over its predecessor. Øvre Bersåvatn, also in Hardanger, went into commercial production in 2004, while Nedre Bersåvatn will be completed during the first quarter of 2005. The two power plants have a combined production capacity of 43 GWh and exploit the drop between three existing reservoirs.

The "Helgeland Opportunities" project is working towards the construction of up to 1.5 TWh of hydropower on the Vefsna river. To this end Statkraft is engaged in a dialogue with the affected local communities, the authorities and HelgelandsKraft. The project was prompted by the need to modernise the 50-year-old Røssåga facilities and includes the upgrading and expansion of existing power plants. In addition, there are plans to build new power plants in such a way that the impact on the environment is kept to a minimum, based on the experience gained from the construction of the New Bjølvo and Bersåvatn plants. In February 2005 the Storting passed a resolution exempting the Vefsna from the conservation plan for river systems. For Statkraft this means that the "Helgeland Opportunities" project

can initiate an impact assessment. However, realisation of the project will require the approval of the Storting.

In 2003 Statkraft commenced the construction of a wind farm at Hitra and Phase 2 of the Smøla wind farm. The Hitra wind farm was completed during the autumn of 2004 and comprises 24 windmills with a production capacity of 55 MW. The annual output is calculated at around 150 GWh. Phase 2 of the Smøla wind farm is due for completion during the autumn of 2005.

In 2004 Enova, the Norwegian state-owned enterprise for the promotion of energy efficiency, granted financial support up to a maximum of NOK 216 million for the construction of the Kjøllefjord and Skallhalsen wind farms in Finnmark. This corresponds to 25 per cent of the total investment requirement.

During 2004 Statkraft was active in the UK and is now a shareholder in two British companies whose aim is to construct and operate wind farms in Scotland and Wales.

New Energy had gross operating revenues of NOK 64 million in 2004, an increase of NOK 22 million compared with the year before. This is due to the fact that the first 20 windmills at Smøla were in operation for the whole of 2004, and that an additional 24 windmills at Hitra came on stream during the autumn. The business area had an operating loss of NOK 70 million, which was NOK 42 million weaker than in 2003. The setback is due to previously capitalised costs being charged as expenses and an increase in depreciation on generating facilities. Excluding these items, the business area experienced a NOK 10 million improvement in income.

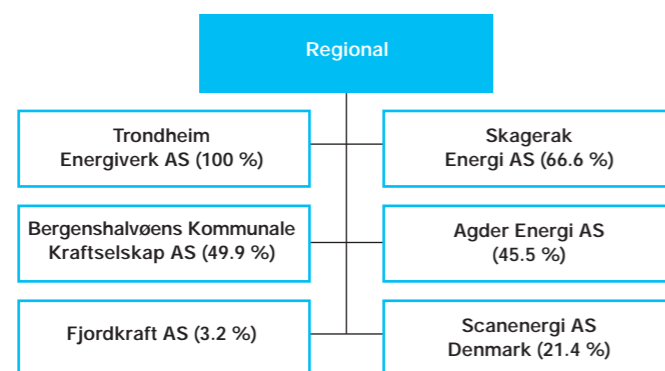
The increase in capital employed is due to the completion of the Hitra wind farm and ongoing investments at Smøla.

### Outlook for 2005

The New Energy business area will complete two power plants with a combined production capacity of 350 GWh during 2005. In addition, decisions are expected with respect to 10 licence applications for power plants with a combined production capacity of almost 900 GWh.



## Business area Regional



### The business

The Regional business area manages Statkraft's investments in regional Norwegian energy utilities. The most important of these are the subsidiaries Trondheim Energiverk (TEV) and Skagerak Energi, of which Statkraft owns 100 per cent and 66.6 per cent, respectively; and the two associated companies Bergenshalvøens Kommunale Kraftselskap (BKK) and Agder Energi, of which Statkraft owns 49.9 per cent and 45.5 per cent, respectively. Statkraft's shareholdings are owned through the company Statkraft Regional Holding AS (formerly Statkraft Holding). Local authorities own the remaining shares in Skagerak Energi, BKK and Agder Energi.

The regional utilities generate and sell electricity, operate power distribution grids and engage in end-user sales. They are also active within related areas such as district heating and broadband. The companies serve customers in both commercial and consumer markets.

The retail sales company Fjordkraft is also part of the business area. Statkraft has a direct ownership share of 3.2 per cent in the company and indirect shares via Skagerak Energi and BKK. The business area also owns shares in the Danish retail sales company Scanenergi.

### Strategy

In the short term Statkraft's main objective is to improve the operating income of its subsidiaries and associated companies. This will require the continuation of Statkraft's efforts to improve efficiency within each company and achieve synergies between them. Previously implemented internal efficiency improvement measures, such as restructuring TEV's and Skagerak Energi's power distribution grid operations, have already begun to give results. Gains have also been made by coordinating Generation & Markets' and TEV's power optimisation activities.

The long-term objective for Statkraft's acquisitions is to maintain a satisfactory rate of return on investments. To ensure the highest possible level of value creation, it is desirable to gain a controlling interest in all the companies in which Statkraft acquires shares. Closer cooperation and inter-company integration will make it possible to achieve even greater gains.

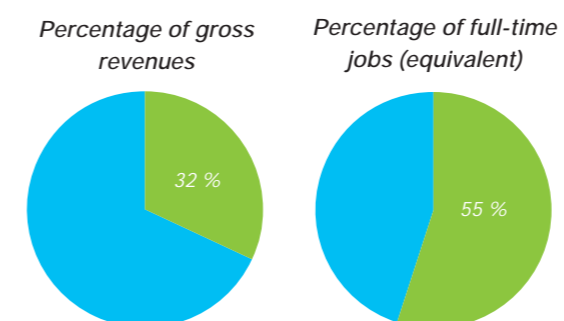
Through its regional shareholdings Statkraft has sizeable operations within the distribution and sale of electricity and heat. Statkraft aims to further develop

### Key figures Regional\*

Pro-forma figures	Unit of measurement	2004	2003
<b>From the Income Statement</b>			
Gross operating revenues	NOK million	3 302	3 044
EBITDA	NOK million	2 013	1 664
Operating income/EBIT	NOK million	1 349	1 013
Income from associated companies	NOK million	261	282
<b>From the Balance Sheet</b>			
Capital employed <sup>1)</sup>	NOK million	18 001	17 923
Investments in associated companies	NOK million	10 757	11 070
Total capital	NOK million	36 589	39 514
<b>Cash flow</b>			
Maintenance investments <sup>2)</sup>	NOK million	234	274
Investments in increased generating capacity <sup>3)</sup>	NOK million	402	398
Investments in shareholdings <sup>4)</sup>	NOK million	84	-
<b>Key financial ratios</b>			
EBITDA margin <sup>7)</sup>	%	61.0	54.7
ROACE before tax <sup>8)</sup>	%	7.5	5.7
Return on investment in associated companies	%	2.4	2.5
<b>Key figures, upstream business**</b>			
Production cost/MWh <sup>16)</sup>	NOK/MWh	79	83
Value added optimisation and hedging <sup>17)</sup>	NOK million	-141	-343
Value lost on statutory-priced contracts <sup>18)</sup>	NOK million	-235	-317
Production, actual	TWh	8.1	6.7
- of which statutory-priced and concessionary sales	TWh	1.3	1.3
<b>Key figures, downstream business**</b>			
No. of end-user customers	1 000	77	75
No. of distribution grid customers	1 000	266	263
Distribution grid	km	22 945	22 500
Grid capital (NVE capital) <sup>19)</sup>	NOK million	3 736	-
<b>Personnel**</b>			
Full-time jobs (equivalent)	No.	1 027	1 093

\*Definition of key figures can be found on fold-out page 2, cf. cross-references to notes.

\*\*Key figures relate to group companies (not associated companies).



and improve the efficiency of all segments of the value chain, and thereby meet its customers' energy requirements in the best possible way. This can be achieved through the development of strong regional companies, whose different business areas are made more efficient in accordance with their individual expertise and business focus.

With the aim of consolidating its shareholdings and creating effective and competitive regional structures, Statkraft has been evaluating various models for the future acquisition of shares in the regional companies. This is being done in cooperation with the other shareholders in Skagerak Energi, BKK and Agder Energi. Among the alternatives being assessed are mergers with settlement being made in cash or shares, and asset swaps between Statkraft and the other shareholders.

### Financial results 2004

On the whole the business area improved its financial performance from 2003 to 2004. Operating income rose by NOK 336 million, while Statkraft's share of the profits from associated companies was slightly weaker. Income before financial items and taxes totalled NOK 1,610 million, a rise of NOK 315 million.

The generation and sale of electricity provided the bulk of the business area's earnings and totalled NOK 1,287 million, or 80 per cent of its income before financial items and taxes in 2004. This is an improvement of NOK 171 million compared with 2003. A fall in prices compared with the year before was more than compensated for by an increase in output. In addition, operating costs were cut and the production cost measured in NOK per MWh of normal production fell significantly. Income before financial items and taxes from distribution grid operations, the second largest business segment, rose by NOK 53 million to NOK 329 million in 2004. The other business segments made only a minor contribution to the business area's overall results.

**KEY FIGURES****Pro forma figures  
in NOK million****From the Income Statement 2004**

	Business area Regional	Generation & hedging	Trading & Origination	Distribution grid operations	End-user sales	District heating	Shared services, misc. & eliminations
Gross operating revenues	3 302	1 691	95	1 296	484	211	-475
Operating income	1 349	982	76	281	-5	41	-26
Income/loss from associated companies	261	305	36	48	-39	-9	-80
<b>Income before financial items and tax 2004</b>	<b>1 610</b>	<b>1 287</b>	<b>112</b>	<b>329</b>	<b>-44</b>	<b>32</b>	<b>-106</b>
<b>Income before financial items and tax 2003</b>	<b>1 295</b>	<b>1 116</b>	<b>13</b>	<b>276</b>	<b>90</b>	<b>29</b>	<b>-229</b>

A substantial fall in income from end-user sales was due to the fact that the 2003 figures were significantly overestimated, and this has been corrected for in 2004. Without this adjustment, the 2004 result would have been practically at break-even.

The subsidiaries produced a ROACE before tax of 7.5 per cent, up 1.8 percentage points from 2003. The ROACE figure is after depreciation of added value, and is deemed satisfactory. The return on Statkraft's investment in associated companies (share of profits as a percentage of invested capital) totalled 2.4 per cent in 2004. This is after depreciation on value added, corrections and taxes, and does not include any appreciation in value of the shareholdings themselves.

**KEY FIGURES****Subsidiaries and associated companies (100 per cent)  
in NOK million****From the Income Statement 2004**

	Trondheim Energiverk	Skagerak Energi	Bergenshalvøens Kommunale Kraftselskap	Agder Energi
Gross operating revenues	1 386	1 947	2 852	2 726
Operating income	641	800	1 162	1 084
Income/loss from associated companies	-31	1	89	-
Net financial items	-140	-55	-454	-343
Pre-tax income	470	746	797	741
<b>Net income for the year 2004</b>	<b>231</b>	<b>434</b>	<b>477</b>	<b>402</b>
<b>Net income for the year 2003</b>	<b>130</b>	<b>308</b>	<b>561</b>	<b>300</b>

**From the Balance Sheet 2004**

Capital employed	4 678	8 160	-	-
Investments in associated companies	315	76	-	-
Total capital	6 002	10 107	15 769	10 419

**Key financial ratios 2004**

ROACE before tax	11.0 %	9.5 %	11.3 %	12.6 %
<b>Statkraft's shareholding</b>	<b>100 %</b>	<b>66.6 %</b>	<b>49.9 %</b>	<b>45.5 %</b>

The Regional business area's total capital was reduced by almost NOK 3 billion in 2004 to NOK 36.6 billion due to the sale of Statkraft's 20 per cent stake in E-CO Vannkraft.

The financial results for the subsidiaries and associated companies are shown as gross figures in the table below, in accordance with their own financial statements before consolidation into Statkraft's group accounts. The table shows that all the companies except BKK have improved their performance. The companies' ROACE before tax as measured in their financial statements lies within the range of 9.5–12.6 per cent.

**The Statkraft Group's Norwegian power plants**

The Statkraft Group's share					The Statkraft Group's share				
Power plant	Owner <sup>1)</sup>	Share-holding %	Installed effect MW	Average annual production GWh	Power plant	Owner <sup>1)</sup>	Share-holding %	Installed effect MW	Average annual production GWh
Nore 1	SK	100	206	1 137	Svorka	SK	50	12	56
Nore 2	SK	100	63	285	Øvre Røssåga	SK	100	160	830
Mår	SK	100	180	1 016	Nedre Røssåga	SK	100	250	1 698
Stegaros	SK	50	1.2	5.2	Rana <sup>2)</sup>	SK	100	500	1 975
Hakavik	SK	100	7	21	Tverrvatn pump	SK	100		-3
Solbergfoss I+II	SK	35.6	73	320	Bjerka	SK	100	20	144
Songa	SK	100	120	575	Langvatn	SK	100	90	242
Kjela	SK	100	60	218	Reinfossen	SK	100	3	28
Vinje	SK	100	300	1 017	Glomfjord	SK	100	20	85
Haukei	SK	100	4	33	Svartisen	SK	70	257	1 517
Tokke	SK	100	430	2 140	Kobbelv	SK	82.5	248	587
Byrte	SK	100	20	112	Båtsvatn	SK	100	30	130
Lio	SK	100	40	225	Norddalen	SK	100	8	32
Hogga	SK	100	17	84	Skjomen	SK	100	313	1 257
Duge plant	SK, SE	46.7	93	175	Innset	SK	100	91	460
Duge pump	SK, SE	46.7		-84	Straumsmo	SK	100	137	678
Hunnevatn pump	SK, SE	46.7		-2	Alta	SK	100	150	655
Tjørhom	SK, SE	46.7	56	237	Adamselv	SK	100	50	199
Roskrepp	SK, SE	46.7	23	46	Smøla wind farm Phase 1	SK	100	40	120
Kvinen	SK, SE	46.7	37	94	Hiltra wind farm	SK	100	55	150
Solhom	SK, SE	46.7	93	304	Svelgen (2 plants)	SK	leased-out		
Tonstad	SK, SE	46.7	448	1 674	Sauda (3 plants)	SK	leased-out		
Åna-Sira	SK, SE	46.7	70	255	Nea plants:	TEV			
Stølsdal plant	SK, SE	73.49	12	45	Nedalsfoss	TEV	100	27	68
Stølsdal pump	SK, SE	73.49		-7	Vessingfoss	TEV	100	40	88
Hjørteland pump	SK, SE	73.49		-11	Nea	TEV	100	175	675
Saurdal plant	SK, SE	73.49	470	944	Tya	TEV	100	42	188
Saurdal pump	SK, SE	73.49		-245	Gresslifoss	TEV	100	20	108
Kvilldal	SK, SE	73.49	911	2 225	Hegsetfoss	TEV	100	34	19
Hyllen	SK, SE	73.49	118	395	Nedre Nea	TEV	100	66	381
Middyr	SK	4.79	0	0	Fossan	TEV	100	3	11
Svandalsfona	SK	4.79	1	1	Nidelv-plants:	TEV			
Novle	SK	4.79	2	10	Bratsberg	TEV	100	124	650
Røldal	SK	4.79	8	37	Løkaunet	TEV	100	9	30
Suldal I	SK	4.79	8	43	Svean	TEV	100	30	106
Kvanndal	SK	4.79	2	7	Fjæremfossen	TEV	100	18	74
Suldal II	SK	4.79	7	28	Øvre Leirfoss	TEV	100	15	85
Jukla plant	SK	100	40	76	Nedre Leirfoss	TEV	100	12	65
Jukla pump	SK	100		-22	KVO (share 48.6 %):	TEV			
Mauranger	SK	100	250	1 150	Ulset	TEV	48.6	17	68
Oksla	SK	33	200	294	Litjefossen	TEV	48.6	36	78
Tysson 2	SK	17.7	32	158	Brattset	TEV	48.6	39	194
Skjeggedal pump	SK	50		-9	Grana	TEV	48.6	36	136
Øvre Bersåvatn	SK	100	5.5	23	Svorkmo	TEV	48.6	27	131
Nedre Bersåvatn	SK	100	4	19.5	Björdalen	SE	100	3	7
Mågeli	SK	24	7	41	Fjone	SE	100	50	126
Høyanger K4	SK	100	1.6	12	Finndøla	SE	50	52	140
Høyanger K3	SK	100	4	23	Holen 1, 2 + 3	SE	31.4	103	279
Høyanger K2	SK	100	25	99	Uvdal 1	SE	90	81	255
Høyanger K5A	SK	100	90	606	Haukrei	SE	100	16	46
Høyanger K5B	SK	100	16	100	Kiste	SE	100	6	20
Langsima	SK	65	325	735	Mydalen	SE	100	7	26
Sysima	SK	65	403	1 115	Sundsbarne	SE	91.5	101	368
Bjølvo	SK	100	98	391	Hjartdøla	SE	100	110	398
Kastdalen pump	SK	100		-4.2	Høiset	SE	100	2	9
Aurland III	SK	7	19	23	Hogstad	SE	100	9	37
Aurland III pump	SK	7		-18	Uvdal 2	SE	90	38	155
Aurland II L	SK	7	4	13	Eidet	SE	100	1	3
Aurland II H	SK	7	5	14	Sagfossen	SE	100	1	3
Aurland V (Reppa)	SK	7	1	1	Toklev	SE	100	4	17
Aurland I	SK	7	47	136	Skollenborg	SE	30.79	27	122
Aurland IV (Vangen)	SK	7	2	7	Bagn	SE	80	51	246
Målset	SK	88	20	64	Hekni	SE	33.33	19	77
Refsdal	SK	88	77	402	Vrenga	SE	100	13	70
Hove	SK	88	54	324	Årlifoss	SE	100	22	131
Leirdøla	SK	65	72	293	Svelgfoss	SE	23.36	23	128
Jostedal	SK	100	290	874	Brøkke	SE	31.4	104	459
Osbu	SK	100	20	80	Åbjøra	SE	100	90	510
Aura	SK	100	290	1 623	Kammerfoss	SE	100	2	12
Mardal pump	SK	88		-20	Grønvollfoss	SE	100	26	160
Monge pump	SK	88		-4	Vafoss	SE	100	2	15
Grytten	SK	88	126	515	Langfoss	SE	100	2	13
Gråsjø	SK	100	15	72	Tveteridfoss	SE	100	3	16
Trollheim	SK	100	130	805	Dalsfoss	SE	100	6	35
<b>Total</b>								<b>10 698</b>	<b>41 251</b>

<sup>1)</sup>SK = Statkraft Energi, TEV = Trondheim Energiverk, SE = Skagerak Energi

<sup>2)</sup>With effect from 1.1.2005, 65 per cent of the plant's generating capacity has been leased out for a period of 15 years.

## Strategic business management

Statkraft's main financial goal is expressed as the rate of return on value adjusted equity required by its owner. To ensure the best possible management of the business, a set of principles for corporate governance has been defined. Statkraft uses a value-driven management model incorporating strategic and operational management and follow-up as well as separate systems and routines for risk management.

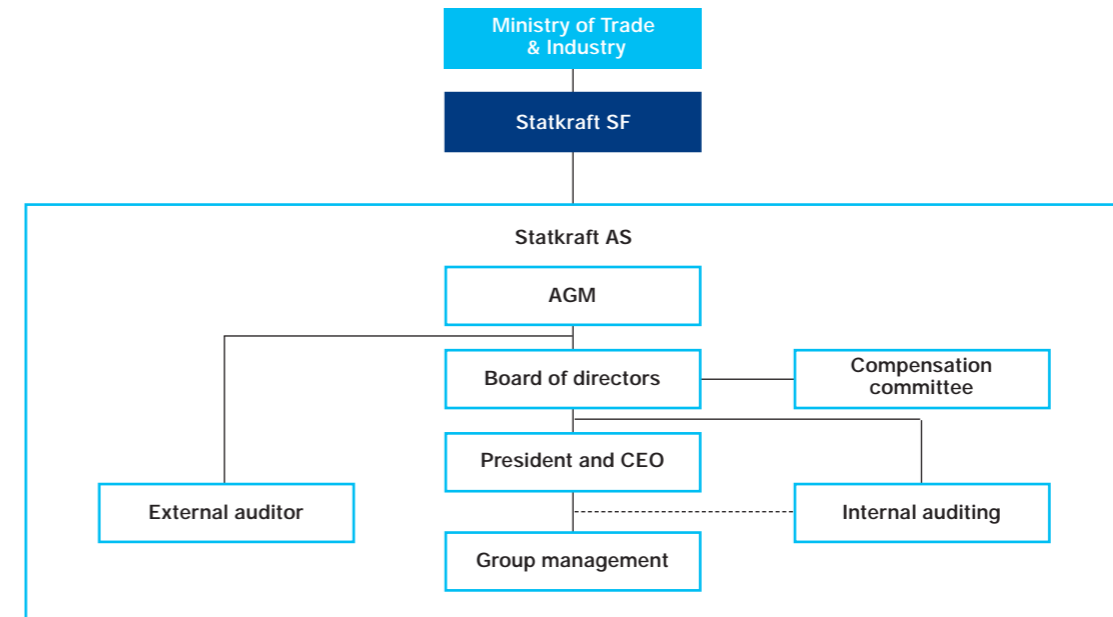
The object of Statkraft AS is, alone or in participation or co-operation with other companies, to plan, design, construct and operate energy production facilities, undertake financial and physical energy trading, and operate businesses which are naturally associated with the same.

### Corporate governance

There follows a description of how responsibility is organised and distributed, and how control is exercised. The description relates to Statkraft AS because it is this company under which operations are organised.

### Ownership and shareholder rights

Statkraft SF (state-owned enterprise) is owned by the Norwegian state through the Ministry of Trade and Industry. The state-owned enterprise owns all the shares in Statkraft AS. The articles of association of both companies ensure that transactions that are of material importance with respect to Statkraft AS's objectives or the nature of its business are laid before Statkraft SF. This is achieved by the two companies having identical boards of directors and the same chief executive. Before the board of directors of Statkraft SF can represent that undertaking's shares at the AGM of Statkraft AS, items must first be dealt with at Statkraft SF's corporate meeting.



The sale of shares in Statkraft AS or transactions which could lead to a change in the state's indirect shareholding in Statkraft AS would require the approval of the Storting (parliament). The owner's dividend is paid by Statkraft SF. The corporate meeting of Statkraft SF can set aside the board's recommendation with respect to dividend payment.

### Board of directors

The board of directors is elected for a term of two years and comprises seven to nine members. Shareholder representatives to the board are evaluated and selected by the Ministry of Trade and Industry, which strives to achieve continuity and diversity with respect to industrial understanding, professional background, geographical representation and gender. The board members' independence and impartiality are also taken into consideration. Three of the sitting board's nine members have been elected by the company's employees. According to an agreement with the employee representatives, no corporate assembly is held.

The board has the ultimate responsibility for the performance of the company and shall ensure that it

is adequately organised to meet its obligations. This also involves supervising management's day-to-day running of the company and its business activities in general. The board shall issue the necessary guidelines with respect to the business and its management, and shall approve the company's strategy, financial plans and annual results. The board has drawn up a mandate which provides guidelines for the board's working practices and decision-making procedures. This mandate also defines the chief executive's duties and obligations with respect to the board. The board evaluates its performance and its competence on an annual basis.

### Chief executive

The chief executive of Statkraft AS holds the same position in Statkraft SF, and is appointed by the board of directors. The chief executive is responsible for the day-to-day running of the company, including its consolidated financial results. The chief executive is responsible for the organisation of the Statkraft Group. Matters of great importance or unusual character must be laid before the board. The board evaluates the chief executive's performance and competence on an annual basis.

**Group management**

In addition to the chief executive, group management comprises six executive vice presidents. Three of these have responsibility for individual business areas, while the other three are responsible for key group functions.

**Compensation committee**

The compensation committee comprises the board chair and two board members. The committee makes a recommendation to the board with regard to the chief executive's terms and conditions, and any questions of principle relating to salary levels, bonus schemes, pension terms, employment contracts, etc, for senior Statkraft executives. The committee deals with questions relating to employee compensation if the committee finds the circumstances to be of particular importance to the company's reputation, competitiveness or attractiveness as an employer.

The remuneration paid to the chief executive and group management is specified in Note 6 to the financial statements. Incentive schemes that cover all employees are described in greater detail on page 112.

**Quality and environment management system**

Statkraft's quality control and environmental management systems are certified in accordance with the ISO 9001:2000 quality standard and the ISO 14001:1996 environmental standard. The systems were recertified in 2005 by Det Norske Veritas. Internal audits are undertaken according to a rolling plan, and external follow-up audits in accordance with the relevant standards. These audits are coordinated by Statkraft's internal auditing department. The group management carries out an annual review, which also includes a risk assessment.

**Internal auditing**

The internal auditing function assists management and the board by providing an independent and impartial evaluation of the company's risk management and control. The internal auditing function contributes towards the continual improvement of internal management and control systems. The board of directors approves the overall guidelines for the company's internal auditing function.

The chief executive is responsible for appointing the head of internal auditing, and for day-to-day administrative contact with the same. Group management approves an annual auditing plan which is laid before the board. The internal auditing function provides group management with half-yearly reports.

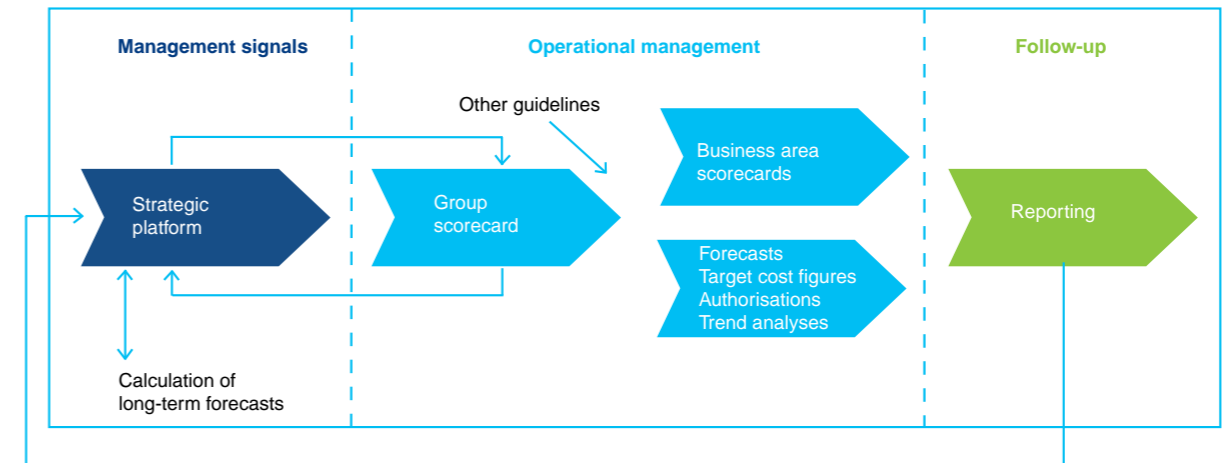
The board reviews the annual internal auditing report and the internal auditing plan for the coming year in the presence of the head of internal auditing. The head of internal auditing has a right and a duty to address the board either in person or in writing if he or she wishes to discuss a particular issue with the board of directors.

**External auditor**

The AGM selects the external auditor, who is responsible for auditing the accounts of the parent company and the group. The external auditing contract should normally be put out to tender every five years. Where practical and where Statkraft has the authority to decide such matters, the same auditing company shall be used for all group companies. With respect to partly owned companies, the auditor is selected in consultation with the other shareholders.

The board of directors meets the auditor to review the year-end accounts and otherwise as required. The auditor reports in writing to the board at least once a year.

The board of directors evaluates the auditor's independence and has defined guidelines for the use of the external auditor for consultancy purposes. The external auditor may be used in connection with



tasks that are related in nature to the auditing process, such as declarations and confirmations with respect to company legislation, understanding accounting and tax regulations, and confirming financial information in various contexts.

**Value-driven management model**

Statkraft has developed a value-driven management model that focuses on the value drivers which influence the company's earnings and net worth. The management model can be illustrated as above.

**Management signals**

A strategy process based on the company's vision provides the framework for operational management decisions. Strategic maps have been drawn up for various parts of the business. The maps form a strategic platform that specifies the priorities and goals that are to be communicated internally. The impact of various strategic choices is simulated and calculated. The strategic platform includes targets, focus areas and a long-term financial forecast.

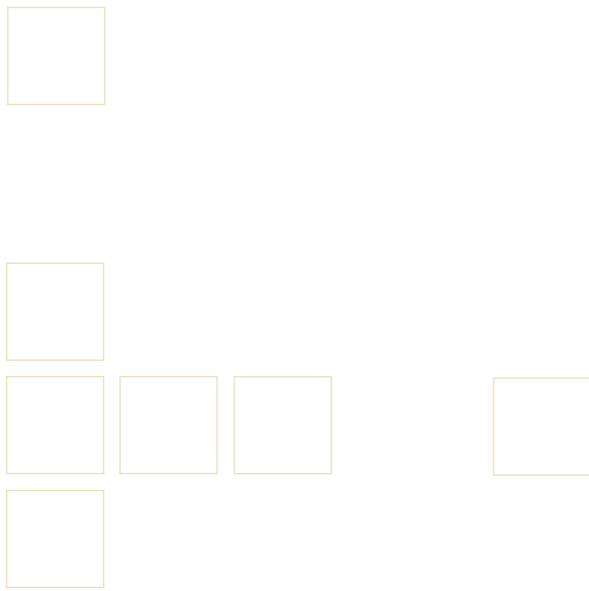
**Operational management**

Scorecards highlight the value drivers that influence the company's earnings and net worth, and set tangible goals for key performance indicators (KPIs) that underpin the value drivers. The scorecards form the core of the company's operational management, but are supplemented by other tools, such as forecasts, target cost figures, authorisations and trend analyses. Group management bases its decisions on the parameters defined in the group scorecard. The

group scorecard's value drivers are broken down into chains of more detailed KPIs which correspond to the business areas' scorecards. These are followed up at a lower level in the organisation.

The strategic platform is an important premise for the scorecards. Great emphasis is placed on achieving a balance between the KPIs with respect to timescale, trends and scope. The scorecards are organised in dimensions: financial, operational, organisational including HSE, and external. If the required performance level is not reached, remedial plans for each KPI are worked out. A hierarchy of responsibility has been defined which lifts the focus and responsibility steadily higher in the organisation in proportion to the size of the non-conformance. Individual KPIs are linked to the compensation system for all employees.

Cost control is ensured through specially developed targets for the costs that are within the company's control. Separate KPIs for line costs and project costs have been drawn up. Other cost components are followed up as accounting trends, while an authorisation system ensures approval and control of the individual transaction. A quality assurance system covering all major investments has been established.



To ensure a sound basis for financial planning and the coordination of resources, Statkraft prepares monthly forecasts for the current calendar year and the coming 12 months. These forecasts are macro in focus and are as realistic as possible.

#### Follow-up

Internal reports for management and the board are prepared each month. The reports cover all the above-mentioned operational management tools and focus on the KPIs that have not been met. The reports form the basis for decisions regarding measures and responsibilities. They also provide useful input for future revisions of targets, KPIs and strategies. Statkraft does not set up budgets since the need for financial planning, targeting, follow-up and control is met by other aspects of the management model.

External reports are prepared quarterly, based on NGAAP and the standards required of a company with bonds listed on the Oslo Stock Exchange. These reports are approved by the board.

#### Risk management

The individual risks facing Statkraft are ranked by probability and potential consequence. The nature of the individual risk determines how the risk exposure is dealt with. Risk has been divided into four categories: market-related, financial, operational and miscellaneous. Operational risk is generally dealt with by means of contingency plans and procedures, while financial and market-related risks are managed through authorisations and a continual evaluation of risk exposure. Interest and exchange rates, price and precipitation uncertainties are described in Note 27 to the financial statements. Only the most important individual risks within each group are described here.

#### Market-related risk

Risk is defined in relation to volume and price uncertainty. Statkraft's core business is the generation and trading of electricity. However, uncertainties with respect to fluctuations in both price and volume are reduced to some extent because prices will generally be lower when production volumes can be kept high. Prices also tend to rise when the available production volume sinks. If the company were to sell electricity only on the spot market its revenues would fluctuate greatly. To reduce such revenue fluctuations Statkraft also trades in the futures market. Before a new contract is signed, it is assessed in light of the company's other contracts. The contract portfolio is continuously adjusted in relation to the general view of future price trends and the company's own generating capacity.

The trading portfolio is followed up on a daily basis by reporting Value-at-Risk (VaR) figures. This business is governed by a narrowly defined set of trading rules. The origination portfolio is based largely on the buying and selling of customised contracts. These are hedged with standard contracts such that the balance between expected profits and risk profile complies with the authorisation regulations for trading.

#### Financial risk

*Foreign exchange:* Foreign exchange risk consists largely of uncertainties relating to electricity sales in foreign currencies. The hedging strategy is included in the company's overall finance strategy.

*The framework conditions for Statkraft's operations are on the whole politically determined.*



*Statkraft's corporate reputation is important for achieving its business objectives.*



*Interest rates:* The group has a high level of debt and is vulnerable to changes in interest rates. Interest rate swaps are used to achieve the desired interest rate structure on the company's borrowing portfolio. In addition, future rate agreements (FRA) are used to manage the rate fixing risk.

*Liquidity and credit:* Statkraft assumes a liquidity risk when the term of its financial commitments is different from the cash flow generated by its assets. With respect to credit risk, the terms granted shall be determined on the basis of a formal credit rating of the individual debtor or an analysis of their key financial figures. Credit risk relating to physical and financial electricity contracts is calculated and monitored on a weekly basis.

#### Operational risk

*Production facilities:* Operational risk is mainly linked to the company's production facilities. Statkraft has extensive experience of managing operational risk through procedures and contingency plans.

*IT:* IT risk is included in the overall contingency plan. Important elements in this area are the availability of IT tools and security in relation to the misuse of information from the company's databases and analytical tools.

*HSE:* Risk relating to health, safety and the environment (HSE) is managed by means of detailed procedures covering the activities of all operative units. The company maintains a constant focus on HSE matters affecting both its own employees and the general public.

*External environment:* All operative units carry out an annual audit of their environmental impact in accordance with the requirements of ISO 14001:1996 certification. Incidents are recorded and followed up on an ongoing basis, which provides statistical data and highlights the company's risk management

performance both for internal purposes and as documentation for the regulatory authorities, such as the Norwegian Water Resources and Energy Directorate (NVE). Licensing conditions and river management regulations are entered into the process systems and any non-conformances are recorded and can be used as the basis for remedial measures and changes in risk assessments.

#### Miscellaneous risk

*Political:* The business framework within which Statkraft operates is influenced by political decisions, ie tax regulations (including environmental taxes), the reversion scheme, changes in the minimum water flow regulations and instructions from the NVE, as well as the general conditions for Norwegian industry. Statkraft is also exposed to political risk in terms of the size of the dividend which its owner requires from the company.

*Reputation:* To a large extent Statkraft's business conditions are determined by the political and regulatory authorities. Statkraft's corporate reputation influences the confidence which these authorities have in the company. For this reason Statkraft strives hard to communicate with important stakeholders who may influence the company's reputation.

## Statkraft's borrowing profile

At the end of 2004 the Statkraft Group had NOK 38.7 billion in interest-bearing debt, of which some 60 per cent has been raised in the Norwegian market and is listed on the Oslo Stock Exchange. Around 30 per cent has been raised in the international market, partly as loans listed on stock exchanges outside Norway. Statkraft has also made use of the private placement market.

### Important events in 2004

On 1 October 2004 the state-owned enterprise Statkraft SF transferred the bulk of its business activities to a newly created limited company. After this reorganisation Statkraft AS is the parent company of the new group. Statkraft AS remains wholly owned by Statkraft SF.

All debt issued prior to 1 January 2003 is guaranteed by the Norwegian state. The guarantee premium which is paid to the state in respect of these loans is on average 0.6 per cent per annum. Statkraft SF remains the issuer of the state-guaranteed debt, while Statkraft AS is the issuer of the debt raised since 1 January 2003. On 31 December 2004 the company's state-guaranteed debt amounted to NOK 28.2 billion, while loans not guaranteed by the state totalled NOK 8.1 billion. The subsidiaries had additional debt of NOK 2.4 billion.

During the year a total of NOK 8.3 billion was repaid as it fell due or under a buyback operation completed in November. In June three new bonds totalled NOK 3 billion and maturing in 2009 and 2011

were issued. At the same time as the bonds were bought back in November, Statkraft AS made two new bond issues totalling NOK 4 billion and maturing in November 2014.

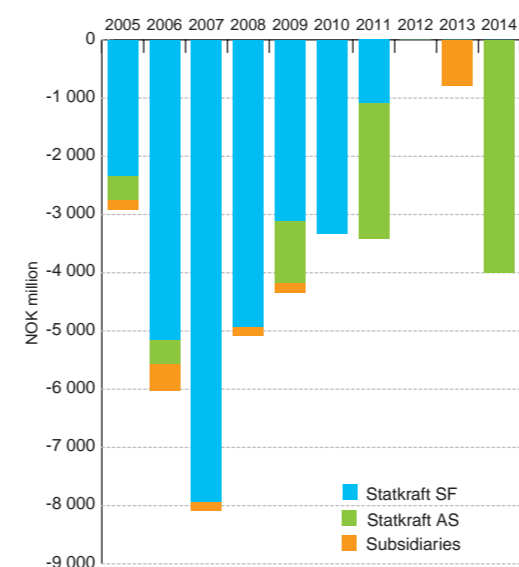
### Financing strategy

Statkraft AS will be the issuer of any new bonds. As a group, Statkraft AS aims to have a liquidity reserve which is large enough to keep the business in operation for more than six months without the need for new borrowing. The group has committed drawing rights totalling NOK 5.7 billion. The duration of any new bonds issued shall meet the need for long-term financing and ensure that debt maturity is spread over a reasonable period of time.

With the debt placed in the parent company, Statkraft AS, lenders have the security afforded by the entire group's total balance sheet. All lenders are treated equally through *pari passu* clauses and negative pledge agreements in the loan contracts. Severe restrictions have been imposed on the subsidiaries' capacity to borrow in their own right.

To meet its need for financing, Statkraft may issue bonds both in the Norwegian and in the international markets.

Debt redemption profile by maturity date



In addition, NOK 0.7 billion will fall due in the period 2015–2019.

During 2005 a substantial part of the group's total debt is due for interest adjustments. As opposed to former practice, the group will now allow a greater percentage of its total debt to be subject to floating interest rates.

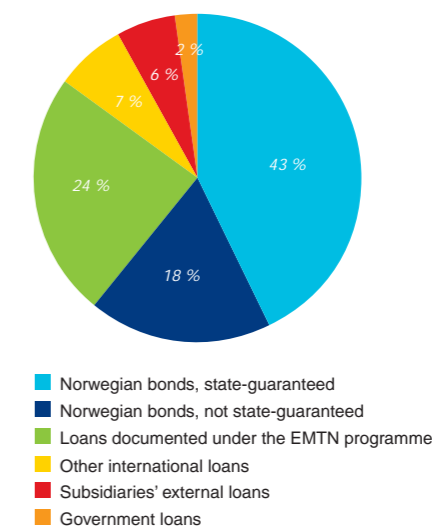
For a more detailed description of the company's commitments and risk management see the notes to the financial statements and the article on strategic business management.

### Rating

Both Standard & Poor's (S&P) and Moody's have rated Statkraft. In the autumn of 2004, both companies published rating reports on Statkraft AS giving it a long-term credit rating identical to that which Statkraft SF had for loans without state guarantees.

	Statkraft AS's corporate credit rating	Statkraft SF's guaranteed loans
S&P	BBB+	AA+
Moody's	Baa2	Aaa

Distribution of loans by source of financing



Total interest-bearing debt NOK 38.7 billion

### Investor relations

Statkraft strives for open and honest communications with all its stakeholders. The group's financial reports shall be transparent and provide the reader with a broad, relevant and reliable overview of its strategies, targets and results, as well as its consolidated financial performance.

The information provided to Statkraft's owner, lenders and the financial markets in general shall permit an evaluation of its underlying value and risk exposure. To maintain impartiality, the company's owner and the financial markets shall be treated equally, and information shall be communicated in a timely manner. Statkraft strives to meet regularly with its owner and interested parties in the financial markets.


Important information is distributed to the stock exchanges. Press releases and company disclosures can be found under the STAKR01 (Statkraft SF) and STAKR07 (Statkraft AS) tickers on the Oslo Stock Exchange. All pertinent information is also published at [www.statkraft.com](http://www.statkraft.com).

## Income statement


Statkraft SF			Figures in NOK million	Note	Group		
2004	2003	2002			2004	2003	2002
4 138	7 730	6 423	Power sales revenues	3	7 287	9 324	7 979
639	417	527	Other operating revenues	5	3 999	2 796	2 910
4 777	8 147	6 951	Gross operating revenues		11 286	12 120	10 889
-249	-542	-503	Transmission costs		-651	-927	-840
4 528	7 605	6 448	Net operating revenues		10 635	11 193	10 048
322	613	476	Salaries and payroll costs	6, 7	1 246	1 536	1 379
219	284	257	Compensation and licence fees	8	359	334	303
614	1 092	936	Other operating costs	9	1 594	1 713	1 400
429	621	778	Depreciation and amortisation	14, 15	1 464	1 347	1 490
1 584	2 610	2 448	Operating costs		4 663	4 929	4 572
2 944	4 995	4 000	Operating income		5 972	6 264	5 476
-	-	-	Income from associated companies	16	1 529	1 114	871
1 384	2 290	1 908	Financial income	11	733	474	535
-2 212	-2 732	-2 221	Financial expenses	11	-3 007	-3 098	-2 783
-828	-442	-313	Net financial items		-2 274	-2 625	-2 249
2 116	4 554	3 687	Pre-tax income		5 226	4 754	4 098
-355	-1 694	-1 557	Taxes	12	-626	-1 887	-1 620
1 761	2 859	2 130	Net income for the year		4 600	2 867	2 478
			Of which minority interests		114	125	171
			Of which majority interests		4 486	2 742	2 307
			Allocation of net income for the year				
3 402	2 605	2 192	Dividend				
-1 641	254	-62	To/from other equity				
			Group contribution				
641	1 580	1 803	Group contribution paid (before tax)				

The Board of Directors of Statkraft  
Oslo, 18 March 2005

  
Arvid Grundekjøn  
Chair

  
Marit Büch-Holm  
Deputy chair

  
Erik Nygaard

  
Halvor Stenstadvold

Rebecca Selvik\*

## Balance sheet

Statkraft SF			Figures in NOK million	Note	Group		
31.12.04	31.12.03	31.12.02			31.12.04	31.12.03	31.12.02
			ASSETS				
391	2 265	2 108	Intangible assets	14	2 836	3 247	
419	22 657	22 908	Property, plant and equipment	15	46 337	45 464	
32 301	19 933	10 878	Investments in subsidiaries and associated companies	16	28 968	28 550	
28 443	27 467	36 326	Other financial fixed assets	17	2 562	5 293	
61 554	72 323	72 220	Fixed assets		80 703	82 554	
-	37	39	Inventories		45	41	
611	2 876	7 809	Receivables	18	3 130	3 854	
-	-	-	Short-term financial investments	19	330	254	
867	1 473	724	Cash and cash equivalents	20	6 283	3 214	
1 478	4 386	8 571	Current assets		9 788	7 363	
63 032	76 709	80 792	Assets		90 491	89 917	
			EQUITY AND LIABILITIES				
29 250	29 250	25 250	Paid-in capital	21	29 250	29 250	
276	1 917	1 663	Retained earnings	21	3 623	2 050	
-	-	-	Minority interests	21	3 966	3 724	
29 526	31 167	26 913	Total equity		36 839	35 024	
145	1 938	1 738	Provisions	22	7 028	6 701	
-	-	-	Subordinated loans		54	64	
28 236	36 058	44 544	Interest-bearing long-term liabilities	23	38 668	40 385	
28 381	37 996	46 282	Long-term liabilities		45 750	47 150	
18	516	729	Interest-bearing current liabilities		-	776	
452	1 168	826	Taxes payable		883	1 483	
4 655	5 862	6 042	Other interest-free liabilities	24	7 019	5 484	
5 125	7 546	7 597	Current liabilities		7 902	7 743	
63 032	76 709	80 792	Equity and liabilities		90 491	89 917	
-	2 094	2 095	Pledges		2 249	3 436	
956	3 316	3 583	Guarantees		4 496	4 240	

\* Rebecca Selvik was prevented from participating in the preparation of the report from the board of directors and financial statements due to illness.

  
Aud Mork

  
Astri Botten Larsen

  
Odd Vanvik

  
Thorbjørn Holøs

  
Bård Mikkelsen  
President & CEO

## Statement of cash flow

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
2 116	4 554	3 687	Pre-tax income	5 226	4 754	4 098
-	7	-208	Gain/loss on sales of fixed assets	-1 311	-2	-187
429	621	778	Depreciations and write-downs	1 484	1 347	1 490
-	-	-	Income from associated companies	-1 529	-1 114	-871
-1 044	-1 839	-1 472	Taxes paid	-1 603	-1 895	-1 786
1 501	3 343	2 785	<b>Cash flow from operating activities</b>	2 267	3 090	2 744
-166	1 632	-1 489	Change in inventories, receivables and payables	60	1 411	-1 354
-	-	-	Dividend from associated companies	953	742	905
6 151	1 533	-1 511	Change in other current assets and liabilities	579	2 917	-2 273
7 486	6 508	-215	<b>Net cash flow from operating activities</b>	A	3 859	8 160
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
-241	-389	-672	Investments in property, plant and equipment	-1 548	-1 277	-1 387
-	8	697	Proceeds from the sale of fixed assets	1 416	50	856
-982	-334	-16 819	Loans to third parties	-98	-45	-31
-	2 447	408	Repayment of loans to third parties	569	430	140
-	-935	-	Investments in other companies	-287	-424	-15 598
-	-	-	Proceeds from the sale of other companies	2 764	-	-
-1 223	797	-16 386	<b>Net cash flow from investing activities</b>	B	-1 266	-16 020
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>						
3 000	408	19 616	New long-term borrowings	7 016	1 141	21 097
-6 023	-8 572	-4 560	Repayment of long-term liabilities and subordinated loans	-8 295	-8 466	-6 663
-188	-200	-28	Change in other long-term receivables and payables	442	319	-179
-	4 000	-	Payment of new equity	-	4 000	-
-2 605	-2 192	-3 640	Dividend paid to owner	-2 769	-2 192	-3 640
-5 816	-6 556	11 388	<b>Net cash flow from financing activities</b>	C	-3 606	10 615
447	749	-5 213	<b>Net change in cash and cash equivalents</b>	A+B+C	3 069	1 696
1 473	724	5 937	Cash and cash equivalents as at 1 January	3 214	1 518	6 901
-1 053	-	-	Cash paid in respect of contributions in kind	-	-	-
867	1 473	724	Cash and cash equivalents as at 31 December	6 283	3 214	1 518

## Accounting principles

### Accounting regulations

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 business activities are regulated by the act relating to 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 shareholdings in other companies, presented as though they were a single financial entity. Intra-company turnover and balances have been eliminated, as have gains and losses resulting from inter-company transactions.

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. In the event of an acquisition, it is the date on which the contract was entered into that determines the cost price and assessments of over/undervaluation. Retained earnings and other changes in equity, as well as interest on the consideration, in the period from the contract date until completion are taken directly to equity. The cost price of shares in subsidiaries is offset against equity at the date of acquisition. Value in excess of book equity is ascribed to those of the company's assets and liabilities whose value differs from that recorded on the balance sheet. Provisions are made for deferred tax on over/undervaluations. Any over/undervaluations that cannot be ascribed to identifiable assets or liabilities are treated as goodwill. No provisions are made for deferred tax on goodwill.

Foreign subsidiaries are accounted for using the daily rate method. This means that balance sheet items are translated to NOK at the exchange rate in effect on 31 December, while the income statement is translated at the average exchange rate for the year. Translation differences are recorded directly against equity.

**Partly owned power plants.** Co-owned power plants, ie those power plants in which Statkraft has an ownership interest, regardless of whether they are operated by Statkraft or one of the other shareholders, are accounted for using the gross method. The electricity generated by such power plants is, with the exception of concessionary power, at the direct disposal of the co-owners.

Power drawn from partly owned limited companies is included in the figure for gross power sales revenues. Statkraft's share of other operating revenues and operating costs is included in accordance with the specific shareholders' agreements. The shares are recorded at cost.

**Leased power plants.** Power plants that are leased to others are recorded according to the gross method. Gross leasing revenues are included in operating revenues, and operating costs are recorded under the relevant cost item.

**Associated companies and joint ventures.** Shares in companies in which Statkraft has a significant, but not controlling, influence and shares in companies with joint control (not partly owned power plants) are treated in accordance with the equity method. The group's share of the companies' profit/loss after tax, adjusted for amortisation of excess value and any deviations from the accounting principles, is shown on a separate line in the group's income statement. Such investments are classified in the balance sheet as fixed assets and are recorded at cost adjusted for accumulated net income, dividends received and any currency adjustments.

The accounting principles for the acquisition of associated companies and joint ventures are the same as for the acquisition of subsidiaries.

### Valuation and classification principles

#### Uncertainty relating to estimates

The accounts are based on assumptions and estimates which affect the book value of assets, liabilities, revenues and expenses. The best estimates available at the time the accounts were closed have been used, but actual figures may differ from the original estimates.

#### Principles for revenue and cost accounting

Revenues derived from the sale of goods and services are recognised when they are earned, while costs are recorded in accordance with the matching principle. Revenues from power trading are recorded as net values. Income from subsidiaries is recognised in the year it is earned, while dividends from other companies are recognised in accordance with the cash principle. Gains/losses on the sale of ordinary fixed assets are treated as operating revenues or costs.



### Power trading revenues

**Power generation.** Power generation within the group is taken to income as the volume generated multiplied by the sales price. Statkraft hedges its power generation by entering into physical and financial contracts. Financial instruments used in power trading are bilateral financial contracts, forward contracts and futures, and options. The prerequisite for classification as a hedging instrument is that the level of hedging is within the company's generating capacity. Generating capacity is defined as the volume of power that the company is 80 per cent certain to produce. Losses/gains on hedging contracts, calculated as the margin between the contract price and spot price, are recorded on delivery and are included under power sales revenues. No valuation is made during the intervening period.

Paid and received option premiums for future power deliveries on fixed terms are recorded in the balance sheet according to the lowest value principle. If the total value of the options in the portfolio is lower than the book value of the option premiums, it is written down to fair value.

**Trading and Origination.** The company has separate portfolios for trading and origination which are managed independently of its expected power generation. The trading portfolio consists of financial power contracts and is used in the market with a view to exploiting short and long-term changes in market prices for electricity. The portfolio mainly comprises products traded on the Nord Pool exchange or bilateral standard products. The portfolio is recorded at fair value pursuant to Section 5-8 of the Norwegian Accounting Act. The origination portfolio comprises customised bilateral power contracts that are offered to customers as required. Since there is no market listing that can provide a satisfactory pricing of such non-standard contracts, the portfolio does not meet the requirements of generally accepted accounting principles in Norway for recording at fair value. 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 regulatory regime for distribution grid operations. Each year the NVE sets an income ceiling for the individual distribution grid owner. This ceiling is reduced annually by a general efficiency enhancement requirement of 1.5 per cent. In addition, specific efficiency requirements may be imposed on the individual distribution grid owner.

Each year an income excess/shortfall, the difference between the actual tariff revenues and the permitted revenue ceiling, is calculated. The accumulated income excess/shortfall is recorded as a payable to or receivable from distribution grid customers. Interest is calculated on the accumulated income excess/shortfall in accordance with the interest rate stipulated by the NVE. The regulatory scheme also includes a maximum and minimum return on the book value of distribution grid

equity. The limits apply for a regulatory period of five years and any discrepancies are adjusted at the end of the regulatory period.

The "Quality Adjusted Income Ceiling" (KILE) was introduced in 2001. The scheme allows the income ceiling to be adjusted in the event of changes in delivery quality. Adjustments under the scheme are treated as changes in income excess/shortfall.

Income excess/shortfall is recorded as an adjustment in distribution grid revenues. The net income recorded after deducting transmission costs from the overlying grid will therefore correspond to the income ceiling stipulated by the NVE adjusted for the impact of corrections under the KILE scheme.

### Public subsidies

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

### 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, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensatory power. Non-recurring compensation payments relating to new power generating facilities are capitalised as part of the investment in the plant, while recurring payments are charged as expenses as they accrue. The net present value of future compensation payments has been calculated and is stated in Note 1 to the financial statements.

### Licence fees

Licence fees are paid annually to central and local government authorities for the increase in generating capacity that is obtained from regulating watercourses and catchment transfers. These licence fees are charged as expenses as they accrue. The net present value of future licence fees has been calculated and is stated in Note 1 to the financial statements.

### Pension costs

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 under salaries and other payroll costs, and is made up of the pension benefits accrued during the period, the interest on the estimated obligation and the projected yield on pension fund assets. The effect of plan changes is spread over the remaining average accrual period. Deviations in estimates 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 on the balance sheet as long-term assets and are made up of the difference between the fair value of pension fund assets and the net 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.

### Development and feasibility study costs

Project development and feasibility study costs are charged as expenses until the necessary board resolutions have been passed and licence approval has been granted.

### Maintenance costs

The cost of ongoing maintenance is charged as expenses as it accrues.

### Taxes

Group companies that are engaged in power generation are subject to special rules for the taxation of energy companies. The group must therefore pay income tax, natural resource tax, resource rent tax and property 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 liabilities/assets. The taxes payable are calculated on the basis of the year's taxable income. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the values for accounting and taxation purposes and the effect of forwardable losses on taxes. Deferred tax assets are only recorded on the balance sheet 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.

**Natural resource tax** is an income-independent tax that is calculated on the basis of the individual power plant's average production over the past seven years. The tax rate is NOK 13/MWh. Income tax can be offset against the natural resource tax paid. Any natural resource tax that exceeds income tax can be carried forward with interest to subsequent years, and is recorded as prepaid tax.

**Resource rent tax** is an income-dependent tax and is calculated at a rate of 27 per cent of the net resource rent revenue generated by each power plant. Resource rent revenue is calculated on the basis of the individual power plant's output hour by hour, multiplied by the spot price for the corresponding hour. With respect to deliveries of concessionary power and power subject to contracts with a term exceeding seven years, the actual contract price is applied. Actual operating costs, depreciation and a tax-free allowance are deducted from the calculated revenue in order to arrive at a taxable resource rent revenue. The tax-free allowance is set each year on the basis of the taxable value of the power plant's operating assets, multiplied by a norma-

tive interest rate set by the Ministry of Finance. The normative interest rate for 2004 was set at 9.7 per cent.

If a power plant's calculated resource rent revenue is negative, the amount can be carried forward with interest and offset against future positive resource rent revenues from the same power plant. Deferred tax assets linked to tax loss carryforwards and deferred tax liabilities linked to other temporary changes are calculated on the basis of power plants where it is probable that there will be positive resource rent revenues in the foreseeable future. An estimated actual resource rent tax rate has been used, with the calculation based on all the power plants that are likely to produce positive resource rent revenues taken together.

**Property tax** on power plants is calculated on the basis of actual output, less deductions for the individual facility's actual operating costs and resource rent tax paid. With respect to property tax, the revenue side is calculated in the same way as the resource rent tax, taking as its starting point the plant's output hour by hour, multiplied by the spot price for the hour in question. Actual contract prices are used with respect to deliveries of concessionary power.

The property tax base is arrived at by discounting the previous five years' net operating revenues for the power plant at a fixed rate of interest in perpetuity, less the net present value of the power plant's calculated costs for the replacement of operating assets. Property tax is charged at a rate ranging from 0.2 per cent to 0.7 per cent and is paid to the individual local authority.

### 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. The same 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 impairment 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 on the balance sheet at the nominal amount, adjusted for any unamortised premium or discount. Current assets are valued at the lower of acquisition cost or fair value. Current liabilities are recorded on the balance sheet at the nominal amount received at the time the liability was incurred.

**Intangible assets.** Costs relating to intangible assets are recorded on the balance sheet to the extent to which the requirements for doing so have been met.

**Property, plant and equipment.** Investments in production facilities and other property, plant and equipment are recorded on the balance sheet and depreciated in a

straight line over the expected useful economic life of the assets from the date on which the asset went into ordinary operation. Investments in facilities that are 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 on the balance sheet as facilities under construction. Interest on building loans in connection with major investments is calculated and capitalised. Waterfall rights and rights to take over power plants that revert to state ownership are capitalised at cost and are not depreciated. Power plants that will revert to state ownership in the future will be depreciated from the takeover date to the reversion date.

**Long-term shareholdings.** All long-term investments are accounted for using the cost method. Dividends received are treated as financial income.

**Inventories/spare parts.** Standard inventories and spare parts that have been purchased for the operation of the power plants are classified as current assets and are valued in accordance with the lower value principle. Non-standard spare parts that are related to particular fixed assets or groups of fixed assets are capitalised and depreciated over the economic life of the underlying asset.

**Reservoirs.** Water held in reservoirs is not recorded as an item of inventory. Information relating to reservoir water levels is stated in the notes to the financial statements. The purchase of water is capitalised until the point of 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 have been classified as current assets are grouped into portfolios of like assets which are then valued in accordance with the lower value principle. The insurance company values short-term investments at fair value.

**Cash and cash equivalents.** Cash and cash equivalents also include certificates with a term of less than three months.

**Prepayments received** are classified as long-term liabilities. The amount prepaid is taken to income at the same rate as the product it is intended to cover is delivered.

An annual interest cost is calculated and recorded as a financial expense.

**Restructuring provisions.** Once it has been decided to implement restructuring measures, provisions are made with respect to expected costs associated with the realisation of the measure. The size of each provision is based on a best estimate and is revised at the close of

each period. Expenses accruing during the realisation of restructuring measures are charged directly against the provision.

#### Financial instruments

The treatment of financial instruments is dependent on the purpose of the specific agreement. When it is entered into, each agreement is defined either as a hedging transaction or a commercial transaction.

Where an agreement is treated in the accounts as a hedging transaction, revenues and costs are prepaid and classified in the same way as the underlying position.

If cash flow hedging is undertaken, unrealised gains/losses on the hedging instrument are not capitalised.

#### Foreign currencies

Balance sheet items in foreign currencies are valued at the exchange rate in effect on the balance sheet day. Translation differences are recorded as financial costs or income.

Gains/losses resulting from changes in exchange rates on debt intended to hedge net investments in non-Norwegian subsidiaries is taken to group equity together with any translation differences arising from the translation of the subsidiary's accounts.

#### Interest

Interest instruments are recorded in the accounts corresponding to interest on interest-bearing debt and receivables. Unrealised gains/losses on fixed interest rate positions which are linked to interest-bearing balance sheet items are not taken to income since they are considered to be part of the hedging position.

In the event that loans are repaid before the end of their fixed term (buyback) the gain/loss is taken to income. Swaps associated with repaid loans are normally cancelled. Gains/losses on such swaps are taken to income together with the underlying loan.

#### Reclassification

Individual items from previous years have been reclassified to make them comparable with this year's accounts.

#### Principles for cash flow statement

The cash flow statement has been 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 flow generated by operating activities, investing activities and financing activities, respectively.

## NOTE 1 IMPORTANT INDIVIDUAL TRANSACTIONS

### 2004

#### Reorganisation

Statkraft was reorganised with effect from 1 October 2004. The reorganisation has been undertaken such that accounting continuity has been maintained. The consolidated accounts are not affected by the reorganisation.

The reorganisation was undertaken thus: Statkraft SF transferred its business activities, with certain exceptions, to its subsidiary Statkraft Energi AS. Thereafter Statkraft SF transferred its shares in Statkraft Energi AS to Statkraft AS. Following the reorganisation Statkraft SF owns all the shares in Statkraft AS, which in turn owns all the shares in Statkraft Energi AS.

Statkraft SF transferred its business to Statkraft Energi AS with effect from 1 September 2004. Statkraft SF's accounts for 2004 will therefore not be comparable with those for previous years.

#### Major sales transactions

Statkraft sold its 20 per cent shareholding in E-CO Vannkraft AS in December for the sum of NOK 2,550 million, which gave a net profit before tax of NOK 296 million. The gain is included under financial income.

Statkraft sold its 50 per cent shareholding in Kraftverkene i Øvre Namsen in December for NOK 1,265 million, which gave a net profit before tax of NOK 1,010 million. The gain is included under other operating revenues.

#### Acquisitions

In 2004 Statkraft increased its shareholding in Baltic Cable AB from 33.33 to 66.67 per cent. The company is consolidated with effect from 1 January 2004. Statkraft paid NOK 184 million to acquire its additional shareholding.

#### New wind farm

Norway's largest wind farm opened at Hitra in October. The wind farm has 24 windmills and an annual output of 150 GWh. NOK 450 million has been invested in the project.

### 2003

#### Sale of businesses

With effect from September 2003 Statkraft SF pulled out of the consulting business with the sale of its 92 per cent shareholding in Statkraft Grøner AS to the Swedish company SWECO AB. Statkraft Grøner had consolidated book equity of NOK 64 million and its sale produced a limited net gain.

#### New equity

In December 2003 Statkraft received an injection of NOK 4 billion in new equity following a resolution to that effect passed by the Norwegian Storting (parliament).

### 2002

#### Acquisitions

In 2002 Statkraft acquired 100 per cent of the shares in Trondheim Energiverk AS 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 stake in Bergenshalvøens Kommunale Kraftselskap (BKK) from 26 to 49.9 per cent, and its stake 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 the two shareholdings.

#### Other

Statkraft and Norfund, the Norwegian investment fund for developing countries, formed the 50/50 joint venture Statkraft Norfund Power Invest AS.

## NOTE 2 SEGMENT INFORMATION

The Statkraft Group reported the following figures for its most important business segments.

Around 96 per cent of the group's operating revenues are generated in Norway. Transactions between business segments are entered into on commercial terms.

### Figures for the Statkraft Group

Figures in NOK million	Group	Generation & hedging activities	Trading & Origination	Distribution grid	End-user sales	Other	Shared services & eliminations
<b>2004</b>							
Gross operating revenues	11 286	9 019	729	1 495	484	350	-791
Depreciation	1 464	991	5	379	15	47	27
Other operating costs	3 850	2 882	363	830	474	76	-775
Operating costs	5 972	5 416	361	286	-5	227	-43
Income from associated companies	1 529	941	39	475	56	181	-164
<b>Income before financial items and tax</b>	<b>7 501</b>	<b>6 087</b>	<b>400</b>	<b>761</b>	<b>51</b>	<b>408</b>	<b>-207</b>
<b>2003</b>							
Gross operating revenues	12 120	9 944	575	1 364	574	534	-872
Depreciation	1 347	956	7	297	15	45	28
Other operating costs	4 509	3 024	468	901	523	427	-832
Operating income	6 264	5 964	101	167	37	63	-67
Income from associated companies	1 114	632	30	486	79	106	-217
<b>Income before financial items and tax</b>	<b>7 379</b>	<b>6 595</b>	<b>131</b>	<b>652</b>	<b>116</b>	<b>168</b>	<b>-285</b>
<b>Balance sheet 31.12.2004</b>							
Investments in associated companies	28 968	22 966	18	4 100	380	1 428	76
Other assets	61 523	49 572	1 029	7 072	277	2 337	1 236
<b>Assets</b>	<b>90 491</b>	<b>72 538</b>	<b>1 047</b>	<b>11 172</b>	<b>657</b>	<b>3 765</b>	<b>1 312</b>
Current liabilities	7 902	7 046	238	449	116	446	-393
Long-term interest-free liabilities	7 082	6 312	22	727	31	42	-52
Long-term interest-bearing liabilities	38 668	-	-	-	-	-	-
<b>Liabilities</b>	<b>53 652</b>	<b>13 358</b>	<b>260</b>	<b>1 176</b>	<b>147</b>	<b>488</b>	<b>-445</b>

Long-term interest-bearing liabilities have not been broken down in terms of the various segments since financial items are not broken down.

## NOTE 3 POWER SALES

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

Statkraft SF			Group			
2004	2003	2002	Figures in NOK million	2004	2003	2002
4 375	9 932	8 766	Production sold at spot price	7 829	11 443	10 111
-1 718	-3 917	-2 128	Difference between spot price and statutory-priced contracts <sup>1)</sup>	-2 817	-4 234	-2 296
1 336	1 416	-539	Revenues from commercial contracts <sup>2)</sup>	1 844	1 008	-719
145	299	324	Other net power sales revenues <sup>3)</sup>	431	1 107	884
<b>4 138</b>	<b>7 730</b>	<b>6 423</b>	<b>Total</b>	<b>7 287</b>	<b>9 324</b>	<b>7 979</b>

<sup>1)</sup>Industrial contracts as well as concessionary power supplied to local authorities at prices determined by the Storting. In 2004 these were NOK 116 and NOK 78/MWh, respectively. The majority of statutory-priced industrial contracts are due to expire in the years to 2011.

<sup>2)</sup>Includes a financial export contract for 652 GWh which runs until 30.06.2020.

<sup>3)</sup>Includes gains/losses on trading, margin on production optimisation, international power exchange contracts and third-party concessionary power.

Statkraft Energi AS has the following long-term physical sales contracts with power-intensive industrial customers and the wood processing industry at prices set by the Storting, as well as obligations to supply power to local authorities at concessionary prices:

Figures in TWh	2005	2006	2007	2008	2009	2010	2011	2012	2013
Statutory-priced industrial contracts	14.3	13.0	10.9	8.9	8.8	8.6	1.1	0.1	0.1
Concessionary power sales	1.9	2.0	2.0	2.0	2.2	2.2	2.2	2.2	2.2
<b>Total fixed-price contracts</b>	<b>16.2</b>	<b>15.0</b>	<b>12.9</b>	<b>10.9</b>	<b>11.0</b>	<b>10.8</b>	<b>3.3</b>	<b>2.3</b>	<b>2.3</b>

As a result of agreements on accelerated reversion that were entered into from 1957 to 1966, Statkraft owns the following power plants: Saudefaldene, Tyssefaldene, Bjølvo, Høyanger and Svelgen. Bjølvo and Høyanger are operated by Statkraft. The others are leased out on terms set by the Storting in accordance with Proposition no. 52 (1998-99) to the Storting. Up until 2006 this applies to Saudefaldene, Tyssefaldene and Svelgen. The Tysso II and Sauda IV power plants revert to Statkraft in 2007 and 2010, respectively. They have a combined mean output and leased volume of 1.1 TWh. Of the power plants leased to AS Tyssefaldene, only Tysso II has a leasing contract extending beyond 2011. The contract relating to the other plants expires on 31.12.2010. The remaining leasing contracts run until 31.12.2030.

According to the current regulations, Statkraft's power plants are not subject to reversion to state ownership.

According to Proposition no. 53 (2003-2004) to the Storting, the power plants leased to third parties will temporarily remain in the ownership of Statkraft SF until the licensing regulations allow Statkraft Energi AS to become their owner. This applies to the Saudefaldene, Svelgen and Tyssefaldene (but not Oksla) power plants. The other plants (Bjølvo and Høyanger) have been transferred to Statkraft Energi AS.

Figures in TWh	2005	2006	2007	2008	2009	2010	2011-2030
Volume from plants leased to third parties	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 international customers. Statkraft has no significant long-term physical purchasing obligations. The energy volume traded refers in its entirety to the Nordic home market.

#### NOTE 4 RESERVOIR WATER LEVELS AND POWER GENERATION (unaudited)

Figures in TWh	Reservoir water levels as at 31.12			Maximum capacity	Power generation <sup>1)</sup>			Mean <sup>2)</sup>
	2004	2003	2002		2004	2003	2002	
Statkraft SF	-	18.4	18.8	-	19.4	32.5	40.4	33.0
Group	30.1	21.9	21.7	39.1	34.8	39.3	48.8	41.3

<sup>1)</sup>After losses.

<sup>2)</sup>The power plants in Øvre Namsen, which were sold in December 2004, have not been deducted.

In a normal year reservoir water levels will vary in relation to a mean, with a -11 TWh minimum in April and a +5 TWh maximum in October. The inflow of water in 2004 was practically normal. Despite this, reservoir water levels rose sharply throughout the year because the level of power generation remained low for the entire year.

#### NOTE 5 OTHER OPERATING REVENUES

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
247	249	249	Power plant leasing revenues	261	215	315
-	-	-13	Net revenues from distribution grid operations	1 348	1 263	1 285
-	-	-	End-user sales revenues	494	574	430
-	-	-	District heating revenues	211	184	177
109	114	83	Other leasing and service sales revenues	326	525	523
8	54	208	Gains/losses on sale of property, plant & equipment	1 007	35	180
275	-	-	Compensation payments	352	-	-
639	417	527	Total	3 999	2 796	2 910

In 2004 gains on the sale of fixed assets relate largely to the sale of Statkraft's shareholding in Kraftverkene i Øvre Namsen. Compensation payments relate largely to terminated contracts.

#### NOTE 6 SALARIES AND OTHER PAYROLL COSTS

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
231	401	343	Salaries	836	1 047	900
58	70	65	Employers' national insurance contributions	161	156	145
30	142	66	Pension costs	181	288	178
3	-	2	Other benefits	68	45	155
322	613	476	Total	1 246	1 536	1 379

Remuneration to the group management has been charged to Statkraft SF throughout the year.

The CEO received a salary of NOK 2,300,000 in 2004. Other benefits amounted to NOK 166,305. The CEO may retire at the age of 65 with a pension amounting to 66 per cent of annual salary. At 62 the CEO may step down either voluntarily or at the request of the company. If this right is exercised, the CEO will be offered the position of consultant to the company with a 66 per cent salary until the official retirement age. The net pension provision for the year amounted to NOK 2,068,027.

Members of group management may retire at the age of 65 with a pension amounting to 66 per cent of annual salary. During the period between 60 and 65, members of group management have agreements providing a mutual right to gradually scale back their workload and compensation. Members of group management, with the exception of the CEO, may qualify for an annual bonus of up to NOK 200,000. Payment of the bonus depends on the achievement of specific individual goals. The CEO and group management do not have any severance pay agreements in addition to those mentioned above. Nor have any loans or pledges been granted.

The board of directors has no remuneration agreements other than the directors' fee, nor have any loans or pledges with respect to board members been granted. NOK 1,370,000 has been paid in directors' fees, of which NOK 230,000 to the board chair.

On average the group had the equivalent of 1,924 full-time employees in 2004. On average the parent company had the equivalent of 807 full-time employees up until 1 September 2004 when the employees were transferred to Statkraft Energi AS in connection with Statkraft's reorganisation.

#### NOTE 7 PENSIONS

##### Group pension schemes

Statkraft and Trondheim Energiverk (TEV) have group pension schemes for their employees through the National Pension Fund. The benefits include retirement, disability, surviving spouse's and child's pensions. For individuals qualifying for the full entitlement, the scheme provides pension benefits amounting to 66 per cent of pensionable income, up to a maximum of 12G (12 times the National Insurance Scheme's basic amount). Skagerak Energi has the same benefits plan in its own pension scheme. Pension scheme benefits are coordinated with the benefits provided by the National Insurance Scheme. All the schemes are members of the transfer agreement. Moreover, all the companies offer early retirement at the age of 62 under the AFP pension scheme.

The National Pension Fund scheme is not asset-based. The pension benefits are guaranteed by the Norwegian state (Section 1 of the Pension Act). Management of the pension fund 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.

##### 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 equivalent to 44 per cent of pensionable income in the interval from 8 to 12G. The scheme was terminated 1 May 2002, and the employees' benefits have been converted to free paid-up policies. The scheme also provides a surviving spouse's pension in excess of the National Pension Fund's benefits for employees who joined the pension scheme after 1976. Efforts are being made to close the scheme for staff employed after 1 July 2002.

###### Uncovered pension obligations

In addition to the above, Statkraft SF has entered into pension agreements that provide all employees whose pensionable incomes exceeds 12G with a retirement and disability pension equivalent to 66 per cent of that portion of their pensionable income exceeding 12G. This scheme also provides the members of group management with a surviving spouse's and child's pension. These pensions are funded out of the company's current income.

##### Transfer of pension schemes from Statkraft SF

Statkraft SF's pension schemes were transferred to Statkraft Energi AS on 1 September 2004 along with its other assets. The transfer of pension obligations and assets has been undertaken such that accounting continuity has been assured and based on actuarial calculations as at 1 September 2004.

##### Overview of investment of pension fund assets

The investment strategies and yields for the various group pension schemes in 2004 are described in the table below.

Portfolio	Percentage	Description of investment strategy	Yield in 2004
National Pension Fund – Statkraft	33 %	Fictive funds that yield interest corresponding to the yield of 10-year government bonds at the time of investment.	5.7 % <sup>1)</sup>
National Pension Fund – TEV (from 01.01.2004)	1 %	Fictive funds that yield interest corresponding to the yield of 10-year government bonds at the time of investment.	5.7 % <sup>1)</sup>
Trondheim Municipal Pension Fund on behalf of TEV	20 %	Interest-bearing Norwegian and foreign securities and loans to members.	5.8 %
Statkraft Pension Fund	8 %	Interest-bearing Norwegian securities through an external manager.	5.4 %
Skagerak Pension Fund	38 %	Diversified portfolio of Norwegian and foreign interest-bearing securities, secured loans to members, shares (max. 20 %), hedge funds (max. 7 %) and real property (max. 8 %) through external managers.	6.3 %
Total	100 %		

<sup>1)</sup>Estimate

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

	2004	2003	2002
Annual discount rate	5.1 %	5.5 %	6.0 %
Salary adjustment	3.3 %	3.3 %	3.4 %
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 %
Forecast voluntary exit			
• Up to age 45	2.5 %	2.5 %	2.5 %
• Between age 45 and 60	0.5 %	0.5 %	0.5 %
• Over age 60	0.0 %	0.0 %	0.0 %
Projected yield	5.7 %	6.5 %	7.0 %
Rate of inflation	2.5 %	2.5 %	2.5 %
Tendency to take early retirement (AFP)	20–25 %	20–50 %	20–25 %

#### Pension cost breakdown

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
23	39	30	Net present value of accrued pension entitlements for the year	69	83	141
29	37	32	Interest costs on pension obligations	109	102	76
52	76	62	Gross pension cost for the year	178	185	217
-24	-34	-32	Projected yield on pension fund assets	-95	-87	-78
1	89	1	Recognised effect of estimate deviations	96	179	3
1	11	35	Recognised effect of plan changes	2	11	36
30	142	66	Net pension cost for the year	181	288	178

#### Reconciliation of pension obligations and pension fund assets

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
17	750	555	Gross pension obligations	2 155	1 921	1 456
5	582	499	Pension fund assets	1 807	1 478	1 240
-12	-168	-56	Net pension fund obligations	-348	-443	-216
2	65	54	Unamortised estimate deviations	180	182	117
1	20	-	Unrecognised plan changes	18	20	22
-1	-12	-3	Employers' national insurance contributions	-30	-34	-15
-10	-95	-5	Net pension obligations on the balance sheet	-180	-275	-92
10	-139	-46	Pension obligations	-270	-356	-258
-	44	41	Pension assets	90	81	166

#### NOTE 8 COMPENSATION AND LICENCE FEES

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
145	210	201	Licence fees	247	248	236
73	74	56	Compensation payments	112	85	67
219	284	257	Total	359	334	303

Licence fees are adjusted in line with the Consumer Price Index, with the first adjustment taking place on the 1 January five years after the licence was granted and every fifth year thereafter. Permanent annual compensation payments for damage or inconvenience arising from the construction of hydropower facilities are adjusted in accordance with the same rules as for licence fees. The net present value of permanent current licence fee and compensation obligations related to the group's generating facilities is estimated at NOK 6,100 million and NOK 1,000 million, respectively, discounted at an interest rate of 4 per cent in accordance with the regulations relating to licence fees, annual compensation, funds, etc.

#### NOTE 9 OTHER OPERATING COSTS

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
43	37	44	Materials	204	118	97
332	400	472	External services	727	606	663
103	98	96	Costs, power plants leased to third parties	103	98	95
59	69	59	Costs, power plants operated by third parties	180	135	128
77	488	265	Other operating costs	380	756	417
614	1 092	936	Total	1 594	1 713	1 400

#### NOTE 10 FEES PAID TO EXTERNAL AUDITORS

Deloitte Statsautoriseret Revisorer became the Statkraft Group's auditor with effect from 2004. Ernst & Young was the group's auditor up to and including the 2003 financial year.

The fees paid to the group auditor in 2004 for auditing and other services break down as follows:

Figures in NOK	Statkraft SF	Subsidiaries	Group
Auditing fees	1 170 000	2 105 400	3 275 400
Audit-related assistance	318 700	1 693 100	2 011 800
Total	1 488 700	3 798 500	5 287 200

NOK 1,327,000 of audit-related assistance is associated with the transition from SF to AS.

The auditor has not provided any other services in 2004.

#### NOTE 11 FINANCIAL INCOME AND EXPENSES

##### Financial income

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
1 010	1 890	1 479	Interest received from group companies	-	-	-
317	314	381	Other interest received	247	396	487
57	86	48	Other financial income	486	78	48
1 384	2 290	1 908	Total	733	474	535

Other financial income for the group in 2004 include NOK 296 million in gains on the sale of shares in E-CO Vannkraft.

##### Financial expenses

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
-	-	39	Interest paid to group companies	-	-	-
2 181	2 646	2 115	Other interest paid	2 611	2 949	2 637
31	86	67	Other financial expenses	396	149	146
2 212	2 732	2 221	Total	3 007	3 098	2 783

Other financial expenses for the group in 2004 include NOK 239 million in realised losses in connection with the buyback of bonds and underlying interest rate swaps.

## NOTE 12 TAXES

The total tax expense is calculated as follows:

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
203	280	270	Property tax	375	348	334
385	1 067	901	Income tax	516	944	602
312	466	470	Natural resource tax	575	581	580
-285	-615	-570	Offset natural resource tax <sup>1)</sup>	-352	-787	-510
-27	149	100	Natural resource tax carried forward/refunded <sup>2)</sup>	-223	206	-70
125	334	339	Resource rent tax	289	445	386
-72	-34	-38	Changes applying to previous years/adjustments	-74	-34	-41
641	1 647	1 472	Taxes payable <sup>3)</sup>	1 106	1 703	1 281
-94	-145	85	Changes in deferred tax	-288	-8	339
-192	192	-	Adjustment tax <sup>4)</sup>	-192	192	-
<b>355</b>	<b>1 694</b>	<b>1 557</b>	<b>Total tax expense</b>	<b>626</b>	<b>1 887</b>	<b>1 620</b>

<sup>1)</sup>Income tax to the state is offset against the natural resource tax.

<sup>2)</sup>If the natural resource tax cannot be fully offset against income tax the excess portion of the natural resource tax may be carried forward with interest and used to offset income tax in subsequent years.

<sup>3)</sup>With respect to Statkraft SF, taxes payable are presented before the effect of group contribution.

<sup>4)</sup>Adjustment tax is due to the fact that dividend to the state and group contribution exceed ordinary income for the year.

### Reconciliation of nominal tax rates and effective tax rates

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
2 116	4 554	3 687	Pre-tax income	5 227	4 754	4 098
592	1 275	1 032	Expected tax expense at a nominal rate of 28 %	1 464	1 331	1 147
			<b>Effect on taxes of:</b>			
146	201	194	Property tax	270	251	241
127	140	372	Resource rent tax	463	299	411
-192	192	-	Adjustment tax	-192	192	-
-	-	-	Tax rate differences outside Norway	-26	-18	-12
-	-	-	Income from associated companies	-428	-83	-64
-	-	-	Effect of abolition of dividend tax	-399	-	-
-13	-	-	Tax-free income	-377	-	-
-72	-34	-38	Changes relating to previous years	-74	-34	-41
-233	-80	-3	Other permanent differences – net	-75	-51	-62
<b>355</b>	<b>1 694</b>	<b>1 557</b>	<b>Total tax expense</b>	<b>626</b>	<b>1 887</b>	<b>1 620</b>
17 %	37 %	42 %	Effective tax rate	12 %	40 %	40 %

The low effective tax rate in 2004 is mainly due to the non-recurring effect of the realisation of tax-exempt assets and the abolition of dividend tax, including the fact that income from non-Norwegian companies is treated as a permanent difference.

### Specification of temporary differences and tax loss carryforwards

The following table specifies temporary differences and the tax loss carried forward as well as a calculation of deferred tax assets, cf. Note 14. Deferred tax assets are recorded on the balance sheet to the extent that it is probable that they will be utilised. Deferred tax assets relating to property, plant and equipment include temporary differences in both income tax and resource rent tax. Net deferred tax assets presented as an intangible asset relate to companies which, according to tax regulations, are treated as a single taxable entity. Due to the reorganisation of Statkraft SF in 2004, the change in Statkraft SF's deferred tax liabilities/assets from 2003 to 2004 does not correspond with the change in temporary differences since temporary differences in Statkraft SF were distributed among several legal entities. Deferred tax in acquired companies also means that the change in deferred the group's tax liabilities/assets from 2003 to 2004 does not correspond with the change in temporary differences.

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
-	-250	-407	Current assets/current liabilities	207	-25	-186
231	-1 527	-1 684	Property, plant and equipment	-1 209	-1 377	-1 377
-10	-96	-6	Pension obligations	-281	-284	-88
155	193	241	Other long-term items	53	-145	-256
-	-	-	Tax loss carryforward/credit	-120	-37	-76
376	-1 680	-1 856	Sum of temporary differences and tax loss carryforward	-1 350	-1 868	-1 983
105	-470	-519	Deferred tax assets/liabilities	-380	-524	-564
-	-577	72	Temporary differences, resource rent tax	128	-577	386
-	-116	14	Deferred tax on temporary differences, resource rent tax	25	-116	35
-	-248	-184	Negative resource rent carryforward	-306	-248	-184
-	-364	-170	Deferred tax asset, resource rent tax	-281	-364	-149
<b>105</b>	<b>-834</b>	<b>-689</b>	<b>Total deferred tax</b>	<b>-660</b>	<b>-887</b>	<b>-713</b>
28/20 %	28/20 %	28/20 %	Tax rates	40/28/20 %	40/28/20 %	40/28/20 %

At the end of 2004 the group had a total tax loss carryforward of NOK 120 million, of which NOK 30 million expires in 2013 and the rest in 2014. The tax rate of 40 per cent applies in Germany.

The following is a specification of temporary differences and deferred tax within the group that is not offset against deferred tax assets, cf. Note 22. For the group, deferred tax assets and liabilities relating to different tax entities/regimes are presented separately. For the years 2002 and 2003 deferred tax has been calculated on income from non-Norwegian associated companies. Following a change in the tax legislation effective from 2004 (abolition of dividend tax), deferred tax is not longer calculated on income from non-Norwegian associated companies.

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
-	-	-	Income from associated companies	-	1 438	1 024
-	-	-	Excess value, acquired companies	8 337	8 379	8 428
-	-	-	Other long-term items	1 002	-	-
-	-	-	Total temporary differences	9 339	9 817	9 452
-	-	-	Deferred tax	2 614	2 749	2 647
-	-	-	Deferred resource rent tax, excess value	1 173	1 176	1 171
231	-	-	Temporary differences, resource rent tax	1 275	1 100	637
46	-	-	Deferred tax on temporary differences, resource rent tax	218	182	127
-17	-	-	Resource rent tax carryforward	-60	-48	-62
29	-	-	Deferred tax, resource rent tax	158	134	65
<b>29</b>	<b>-</b>	<b>-</b>	<b>Total deferred tax</b>	<b>3 945</b>	<b>4 059</b>	<b>3 883</b>
28/20 %			Tax rates	28/20/15 %	28/20/15 %	28/20/15 %

The 15 per cent tax rate is applied to excess value on power generating assets in acquired companies. The figures for 2002 and 2003 are correspondingly presented gross, cf. Note 22.

#### NOTE 13 SHARE OF REVENUES AND COSTS IN POWER PLANTS OPERATED BY THIRD PARTIES

With respect to power utilities in which Statkraft SF (Statkraft Energi AS as of 1 September 2004) has shares but no operating responsibility, cf. Note 15, the company appropriates for its own use a proportion of the power utility's output corresponding to its shareholding. This electricity is included in Statkraft SF's ordinary power sales in the same way as electricity produced by power plants operated by the company itself. Exception is made for mandatory sales of concessionary power which are handled by the power utility concerned, and where the sales revenues are distributed among the shareholders.

Where such co-ownership exists, the operating costs and revenues associated with the power plant's sale of concessionary power, etc. are distributed among the shareholders on an ongoing basis. The following is a summary of Statkraft SF's share of revenues and costs related to these power utilities. The calculated revenues are Statkraft SF's actual power appropriation, multiplied by the average price for saleable electricity, as well as Statkraft's share of concessionary power sales revenues. The figures are included on separate lines in the income statement.

Figures in NOK million	Statkraft SF / Statkraft Energi AS		
	2004	2003	2002
Power sales revenues	609	903	759
Other operating revenues	12	10	10
Transmission costs	-36	-55	-52
Net operating revenues	585	858	717
Compensation and licence fees	23	23	23
Other operating costs	113	90	85
Depreciation	80	80	80
Net operating costs	216	193	188
Operating income	369	665	529

#### NOTE 14 INTANGIBLE ASSETS

Statkraft SF			Group		
2004	2003	2002	2004	2003	2002
391	1 431	1 419	2 040	2 093	2 039
-	834	689	660	887	713
-	-	-	136	267	245
391	2 265	2 108	2 836	3 247	2 997

Deferred tax assets are discussed in greater detail in Note 12.

Figures in NOK million	Rights	Goodwill	Total
Group			
Acquisition cost 01.01.2004	2 153	382	2 535
Consolidation of new companies	-	-118	-118
Additions 2004	4	-	4
Disposals 2004	-15	-	-15
Accumulated depreciation 31.12.2004	-102	-128	-230
Book value 31.12.2004	2 040	136	2 176
Depreciation for the year	22	14	36
Statkraft SF			
Acquisition cost 01.01.2004	1 508	-	1 508
Additions 2004	4	-	4
Disposals 2004	-1 121	-	-1 121
Accumulated depreciation 31.12.2004	-	-	-
Book value 31.12.2004	391	-	391
Depreciation for the year	13	-	13
Estimated useful economic life	7 years to perpetuity	5-25 years	

The consolidation of new companies relates to Baltic Cable AB.

#### NOTE 15 PROPERTY, PLANT AND EQUIPMENT

Figures in NOK million	Water regulation facilities	Turbines, generators etc.	Distribution networks	Shares in power plants operated by third parties	Underground facilities, buildings, roads, bridges and quays	Plants under construction	Other <sup>1)</sup>	Total
Group								
Acquisition cost 01.01.2004	24 661	17 588	7 461	3 543	5 967	546	2 232	61 998
Consolidation of new companies	-	-	1 893	-	18	-	-	1 911
Additions 2004	73	528	298	19	101	417	254	1 690
Disposals 2004	-	-22	-91	-371	-78	-217	-86	-865
Capitalised interest on building loans	-	-	-	-	-	40	-	40
Foreign exchange effects	-	-27	-12	-	-45	-	-	-84
Acc. depreciation and write-downs								
31.12.2004	-4 142	-6 853	-3 965	-766	-1 436	-	-1 191	-18 353
Book value 31.12.2004	20 592	11 214	5 584	2 425	4 527	786	1 209	46 337
Depreciation for the year	261	413	332	91	120	-	210	1 428
Statkraft SF								
Acquisition cost 01.01.2004	16 237	6 100	-	2 805	4 823	291	976	31 232
Additions 2004	21	13	-	9	3	160	31	237
Disposals 2004 <sup>2)</sup>	-15 572	-6 022	-	-2 771	-4 786	-472	-1 008	-30 631
Capitalised interest on building loans	-	-	-	-	-	27	-	27
Acc. depreciation and write-downs								
31.12.2004	-336	-53	-	-43	-14	-	-	-446
Book value 31.12.2004	350	38	-	-	26	6	-1	419
Depreciation for the year	157	101	-	41	48	-	70	417
Depreciation period (years)	30-75	15-40	25-35	5-50	50-75	-	3-40	

<sup>1)</sup>Comprises mainly district heating facilities, buildings, office and computer equipment, electrical installations and vehicles.

<sup>2)</sup>Relates mainly to the transfer of property, plant and equipment to Statkraft Energi AS in connection with the reorganisation.

The following is a more detailed specification of the various assets' useful economic life:

	Depreciation period (years)	Depreciation period (years)
Waterfall rights	perpetual	Distribution networks
Dams		- transformers
- riprap dams, concrete dams	75	- switchgear (high voltage)
- other dams	30	Buildings (admin., etc)
Tunnel systems	75	Other fixed installations
Mechanical installations		- permanent
- pipe trenches	40	- less permanent
- generators (turbines, valves)	40	Miscellaneous moveables
- other mechanical installations	15	Land
Underground facilities	75	Office and computer equipment
Roads, bridges and quays	75	Furnishings and equipment
Electrical installations		Vehicles
- transformers/generators	40	Construction equipment
- switchgear (high voltage)	35	Small craft
- control gear	15	
- operating centres	15	
- communications equipment	10	

The figures given for power plants under co-ownership or where other parties have the right to appropriate a proportion of output in return for a share of the costs represent the group's relative shareholding.

County authorities and publicly owned energy companies have the following appropriation rights with respect to the output of power plants operated by Statkraft Energi AS:

Power plant	Third-party shares
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 %

The group has the following shareholdings in power plants operated by third parties:

Figures in NOK million	Shareholding	Share of property, plant & equipment
Aurlandsverkene <sup>1)</sup>	7.00 %	363
Mørkfoss-Solbergfoss <sup>1)</sup>	33.33 %	54
Røldal-Suldal Kraft AS <sup>1, 2)</sup>	8.74 %	-
I/S Sira-Kvina kraftselskap <sup>1)</sup>	32.10 %	1 292
Tyssefaldene <sup>4)</sup>	20.29 %	1
Kraftverkene i Orkla <sup>3)</sup>	48.60 %	715
<b>Total</b>		<b>2 425</b>

<sup>1)</sup>Owned by Statkraft Energi AS.

<sup>2)</sup>Statkraft Energi AS owns 8.74 per cent of Røldal-Suldal Kraft AS, which in turn owns 54.79 per cent of the IS Røldal-Suldal Kraft power plant. Statkraft's indirect shareholding in the company is therefore 4.79 per cent.

<sup>3)</sup>Owned by Trondheim Energiverk AS.

<sup>4)</sup>Owned by Statkraft SF.

## NOTE 16 SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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

### Shares owned by the parent company

Figures in NOK million	Registered office	Shareholding and voting rights	Book value
<i>Subsidiaries</i>			
Statkraft AS	Oslo	100 %	32 016
Nordic Hydropower AB	Stockholm	100 %	166
Himal Power Limited	Kathmandu	51 %	119
<b>Total</b>			<b>32 301</b>

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

Name	Registered office	Parent company	Shareholding and voting rights
Statkraft Energi AS	Oslo	Statkraft AS	100 %
Statkraft Carbon Invest AS	Oslo	Statkraft AS	100 %
Statkraft Holding AS	Oslo	Statkraft Energi AS	100 %
Statkraft Energy Enterprise AS	Oslo	Statkraft Energi AS	100 %
Statkraft Energy Europe AS	Oslo	Statkraft Energi AS	100 %
Statkraft Vind AS	Oslo	Statkraft Energi AS	100 %
Statkraft Forsikring AS	Oslo	Statkraft Energi AS	100 %
Finnmark Energiverk AS	Alta	Statkraft Energi AS	100 %
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 %
Baltic Cable AB	Malmö	Statkraft Energy Europe AS	66.67 %
Statkraft Financial Energy AB	Stockholm	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	Vienna	Statkraft Markets GmbH	100 %
Statkraft Markets BV	Amsterdam	Statkraft Markets GmbH	100 %
Statkraft Markets FS GmbH	Düsseldorf	Statkraft Markets GmbH	100 %
Enita AS	Trondheim	Trondheim Energiverk AS	100 %
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 %
Grunnåi Kraftverk AS	Porsgrunn	Skagerak Energi AS	55 %
Småkraft AS	Bergen	<sup>1)</sup>	

<sup>1)</sup>Statkraft Holding, Skagerak Energi and Trondheim Energiverk each have a 16.67 per cent shareholding in Småkraft. Statkraft has a controlling influence in the company by means of the composition of the board of directors. In connection with Statkraft Holding's sale in 2005 of its shareholding in Eidsiva energi Holding AS, Eidsiva's 16.67 per cent shareholding will be distributed among the other shareholders such that each shareholder will, thereafter, own 20 per cent.



## Shares in associated companies and joint ventures

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

Name	Registered office	Shareholding	Voting rights
BKK AS	Bergen	49.9 %	49.9 %
Agder Energi AS	Kristiansand	45.5 %	45.5 %
Fjordkraft AS <sup>1)</sup>	Bergen	3.2 %	3.2 %
Theun Hinboun Power Company Ltd. (THPC)	Laos	20.0 %	20.0 %
Sydkraft AB <sup>2)</sup>	Malmö	44.6 %	43.4 %
Statkraft Norfund Power Invest AS (SN Power)	Oslo	50.0 %	50.0 %
Naturkraft AS	Bærum	50.0 %	50.0 %
Istad AS	Molde	49.0 %	49.0 %

<sup>1)</sup> Fjordkraft AS is jointly owned by Statkraft Holding AS (3.15 per cent), BKK AS (48.85 per cent) and Skagerak Energi AS (48 per cent), and is considered to be a joint venture for the Statkraft Group. The company is dealt with in accordance with the equity method in the consolidated accounts.

<sup>2)</sup> Statkraft has an option to sell its shares in Sydkraft to the majority owner E.ON by 2007.

Figures in NOK million	BKK	Agder	Fjordkraft	THPC	Sydkraft
Opening balance	5 887	4 430	335	253	16 493
Share of income	232	150	1	44	1 437
Amortisation of excess value	-18	-44	-29	-9	-181
Investments/asset sales	-	-	-	-	-
Dividend	-210	-182	-8	-43	-508
Translation differences	-	-	-	-29	262
Other	-	-130	-	-	-
<b>Closing balance</b>	<b>5 891</b>	<b>4 224</b>	<b>299</b>	<b>216</b>	<b>17 503</b>

Excess value 31.12.2004	2 433	2 696	230	225	5 240
of which unamortised waterfall rights	1 818	333	-	-	1 729

Figures in NOK million	SN Power	Naturkraft	Istad	Other	Total
Opening balance	480	-	356	33	28 267
Share of income	-19	-	7	-	1 852
Amortisation of excess value	-	-	-13	-	-294
Write-downs	-	-	-25	-4	-29
Investments/asset sales	-	17	-	13	30
Dividend	-	-	-10	-	-961
Translation differences	-	-	-	-	233
Other	-	-	-	-	-130
<b>Closing balance</b>	<b>461</b>	<b>17</b>	<b>315</b>	<b>42</b>	<b>28 968</b>

Excess value 31.12.2004	-	-	158	-	10 982
of which unamortised waterfall rights	-	-	-	-	3 880

## Associated companies – 100 per cent basis

The following key figures relate to Statkraft's investments in associated companies on a 100 per cent basis.

Income statement (unaudited)	Sydkraft (figures in SEK)			Agder Energi			BKK		
Figures in NOK million	2004	2003	2002	2004	2003	2002	2004	2003	2002
Operating revenues	24 578	19 901	19 383	2 726	2 548	2 352	2 852	2 722	2 478
Operating income	6 232	4 810	4 214	1 084	1 069	819	1 162	955	871
Pre-tax income before minority interests	4 815	3 578	3 251	741	591	500	797	720	474
Net income for the year	3 479	2 554	2 410	402	300	301	477	553	351

Balance sheet (unaudited)	2004			2003			2002		
Figures in NOK million	2004	2003	2002	2004	2003	2002	2004	2003	2002
Fixed assets	73 129	71 885	60 749	9 621	9 518	9 428	14 929	15 068	14 888
Current assets	9 045	9 926	12 307	798	1 131	1 560	840	1 403	1 947
<b>Assets</b>	<b>82 174</b>	<b>81 811</b>	<b>73 056</b>	<b>10 419</b>	<b>10 649</b>	<b>10 988</b>	<b>15 769</b>	<b>16 471</b>	<b>16 835</b>
Equity	29 784	27 543	26 054	3 455	3 457	3 557	7 665	7 486	7 369
Minority interests	2 036	3 219	1 717	-	-	-	26	38	25
Long-term liabilities	42 038	43 427	39 002	4 361	4 489	4 515	6 832	7 734	7 916
Current liabilities	8 316	7 622	6 283	2 603	2 703	2 916	1 246	1 213	1 525
<b>Equity and liabilities</b>	<b>82 174</b>	<b>81 811</b>	<b>73 056</b>	<b>10 419</b>	<b>10 649</b>	<b>10 988</b>	<b>15 769</b>	<b>16 471</b>	<b>16 835</b>

## NOTE 17 OTHER FINANCIAL FIXED ASSETS

Statkraft SF			Group			
2004	2003	2002	Figures in NOK million	2004	2003	2002
-	569	999	Loans to associated companies	-	618	1 003
28 236	26 569	35 106	Loans to group companies	-	-	-
207	258	173	Bonds and other long-term receivables	626	390	346
-	44	41	Pension fund assets	90	81	166
-	27	7	Other shares and securities	1 846	4 204	17
<b>28 443</b>	<b>27 467</b>	<b>36 326</b>	<b>Total</b>	<b>2 562</b>	<b>5 293</b>	<b>1 532</b>

For the group, bonds and other long-term receivables include paid natural resource tax which may subsequently be offset against payable income tax.

For the group, the item "Other shares and securities" largely comprises the shareholding in Eidsiva energi Holding AS. For 2003 the item also includes Statkraft's shareholding in E-CO Vannkraft AS, which was sold during 2004.

## NOTE 18 RECEIVABLES

Statkraft SF			Group			
2004	2003	2002	Figures in NOK million	2004	2003	2002
9	227	1 890	Accounts receivable	536	966	2 960
1	280	266	Prepaid revenues, etc	1 248	1 228	889
-	1 260	3 931	Interest-bearing restricted funds	441	1 260	3 931
2	179	698	Other receivables	905	400	1 461
599	930	1 024	Current receivables from group companies	-	-	-
<b>611</b>	<b>2 876</b>	<b>7 809</b>	<b>Total</b>	<b>3 130</b>	<b>3 854</b>	<b>9 241</b>

Accounts receivable are net of provisions for bad debts.

Interest-bearing restricted funds largely consist of collateral pledged in respect of the negative market value of derivative contracts (see Note 20) and payments into the margin account at the Nord Pool power exchange.

Prepaid revenues include NOK 562 million in prepaid distribution grid revenues, NOK 288 million in prepaid electricity sales revenues and NOK 96 million in prepayments by end-user customers.

**NOTE 19 SHORT-TERM FINANCIAL INVESTMENTS**

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
-	-	-	Money market funds	11	11	20
-	-	-	Shares and financial investments	16	18	40
-	-	-	Bonds	303	225	157
-	-	-	<b>Total</b>	<b>330</b>	<b>254</b>	<b>217</b>

**Bonds by debtor category:**

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
-	-	-	Commercial/savings banks	85	54	36
-	-	-	Credit institutions	-	15	7
-	-	-	Industrial sector	19	12	28
-	-	-	Public sector	200	144	86
-	-	-	<b>Total</b>	<b>303</b>	<b>225</b>	<b>157</b>

All bonds are in NOK.

**NOTE 20 CASH AND CASH EQUIVALENTS**

Statkraft SF				Group		
2004	2003	2002	Figures in NOK million	2004	2003	2002
420	295	300	Certificates and promissory notes	2 420	295	300
447	1 178	424	Cash in hand and bank deposits	3 812	2 919	1 218
-	-	-	Foreign certificates	51	-	-
<b>867</b>	<b>1 473</b>	<b>724</b>	<b>Total</b>	<b>6 283</b>	<b>3 214</b>	<b>1 518</b>

Cash in hand and bank deposits for 2004 includes NOK 1,064 million in cash collateral and NOK 332 million in collateral accounts related to power trading on the power exchange. Cash collateral represents payments made by contractual parties as security for net unrealised gains Statkraft has on interest rate derivatives. Since such gains are not taken to income, a contra entry in the amount of NOK 1,559 million has been recorded under other interest-free debt, while NOK 495 million has been recorded under receivables.

The Statkraft Group had unused long-term committed credit lines in the amount of NOK 5,700 million as at 31.12.2004.

**NOTE 21 EQUITY**

Statkraft SF	Paid-in capital	Retained earnings	Total equity
Figures in NOK million			
Equity as at 31.12.2001	25 250	2 722	27 972
Income 2002	-	2 130	2 130
Extraordinary dividend for 2001	-	-950	-950
Allocated to dividend for 2002	-	-2 192	-2 192
Changes in accounting principles	-	-47	-47
Equity as at 31.12.2002	25 250	1 663	26 913
Capital increase	4 000	-	4 000
Income 2003	-	2 859	2 859
Allocated to dividend for 2003	-	-2 605	-2 605
Equity as at 31.12.2003	29 250	1 917	31 167
Income 2004	-	1 761	1 761
Allocated to dividend for 2004	-	-3 402	-3 402
Equity as at 31.12.2004	29 250	276	29 526

Group	Paid-in capital	Retained earnings	Minority interests	Total equity
Figures in NOK million				
Equity as at 31.12.2001	25 250	3 378	3 698	32 326
Income 2002	-	2 307	171	2 478
Extraordinary dividend for 2001	-	-950	-	-950
Allocated to dividend for 2002	-	-2 192	-77	-2 269
Change due to acquisitions	-	-	20	20
Change in translation differences	-	-343	-	-343
Changes in accounting principles	-	-44	-	-44
Other changes in equity <sup>1)</sup>	-	-336	-38	-374
Equity as at 31.12.2002	25 250	1 820	3 774	30 844
Capital increase	4 000	-	-	4 000
Income 2003	-	2 742	125	2 867
Allocated to dividend for 2003	-	-2 605	-164	-2 769
Change in translation difference	-	221	-11	210
Other changes in equity <sup>2)</sup>	-	-128	-	-128
Equity as at 31.12.2003	29 250	2 050	3 724	35 024
Income 2004	-	4 486	114	4 600
Allocated to dividend for 2004	-	-3 402	-93	-3 495
Change in translation difference	-	547	-2	545
Change due to acquisitions	-	-57	223	166
Equity as at 31.12.2004	29 250	3 623	3 966	36 839

<sup>1)</sup>Relates to the net effect of retained earnings, changes in equity and interest on the consideration accruing between the contract date and the date of completion of the acquisition of shares in Agder Energi AS.

<sup>2)</sup>Relates to the write-back of the tax effect of interest on the consideration in connection with the acquisition of shares in Agder Energi AS.

The minority interest in Skagerak Energi accounted for NOK 3,534 million of the minority interests' equity as at 31.12.2004.

## NOTE 22 PROVISIONS

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
10	139	46	Pension obligations	270	356	258
134	-	-	Deferred tax	3 945	4 059	3 883
1	1 799	1 692	Other provisions	2 813	2 286	1 687
145	1 938	1 738	Total	7 028	6 701	5 828

Pension obligations are described in more detail in Note 7, while deferred tax is covered in Note 12.

Deferred tax for 2003 and 2002 has been adjusted by NOK 1,640 million to reflect deferred tax linked to resource rent tax on excess value in acquired subsidiaries' generating facilities.

Other provisions for 2004 include NOK 1,857 million in advance payments received in connection with power sales contracts. This was previously classified together with long-term interest-bearing debt. The corresponding reclassified figures for 2003 and 2002 are NOK 1,835 million and NOK 1,457 million, respectively.

A gain of NOK 422 million linked to terminated foreign currency exchange contracts which are amortised in the period to 2010 has been recorded in the balance sheet. A provision of NOK 177 million has also been made to cover restructuring expenses, largely with respect to downsizing.

## NOTE 23 INTEREST-BEARING LONG-TERM LIABILITIES

Figures in NOK million	Group		
	2004	2003	2002
Bond issues in the Norwegian market, Statkraft SF	16 665	20 447	26 764
Bond issues in the Norwegian market, Statkraft AS	7 000	-	-
Debt in non-Norwegian markets, Statkraft SF	11 571	14 393	14 367
Other debt, Statkraft SF	-	1 275	2 425
Other debt, Statkraft AS	1 063	-	-
External debt in other subsidiaries	2 369	4 270	2 801
Total for the group	38 668	40 385	46 357

The figures include the effect of underlying interest rate swaps.

Statkraft SF is debtor with respect to state-guaranteed loans totalling NOK 28.2 billion. This debt comprises loans under the EMTN-programme with a counter-value of NOK 9.4 billion, bond issues in the Norwegian market totalling NOK 16.7 billion and other debt in non-Norwegian markets totalling NOK 2.2 billion. Statkraft SF has identical receivables with respect to Statkraft AS through back-to-back agreements and therefore has no net exposure associated with these loans. Since Statkraft SF will act purely as a flow-through company, gross exposure is not specified.

## Breakdown of debt by currency:

Figures in NOK million	Group		
	2004	2003	2002
Debt in NOK	22 319	28 495	34 445
Debt in SEK	16 349	11 890	11 912
Total for the group	38 668	40 385	46 357
Nominal average interest rate NOK	6.88 %	6.64 %	6.47 %
Nominal average interest rate SEK	2.53 %	3.45 %	3.57 %

The currency breakdown above takes into account underlying cross currency swaps.

Debt with SEK as the effective currency has been raised in connection with Statkraft's investment in Sydkraft AB. This debt is regarded as hedging for this investment. Unrealised gains/losses resulting from changes in exchange rates on loans and investments are recorded as translation differences against equity.

Figures in NOK million	Future regulation period of interest rates			
	2005 <sup>1)</sup>	1-3 years	3-5 years	5 years or later
Debt in NOK	-10 535	2 755	-4 798	-3 014
Debt in SEK	-16 349	-	-	-
Debt in other currencies	-72	-240	-253	-
Total for the group	-26 956	2 516	-5 052	-3 014

<sup>1)</sup> The interest rate exposure takes into account a cash reserve of NOK 4,950 million which reduces the interest rate exposure in 2005 correspondingly.

The above breakdown takes into account underlying cross currency and interest rate swaps.

Figures in NOK million	Instalment schedule					
	2005	2006	2007	2008	2009	After 2009
Bond issues in the Norwegian market, Statkraft SF	2 325	1 540	5 456	2 745	3 100	1 499
Debt in non-Norwegian markets, Statkraft SF	-	3 603	2 472	2 178	-	3 318
Total Statkraft SF	2 325	5 143	7 928	4 923	3 100	4 817
Subsidiaries						
Bond issues in the Norwegian market	97	386	78	80	1 148	7 015
Other debt	497	501	80	84	89	576
Exchange rate regulation, currency and interest rate swaps	-199	-	-	-	-	-
Total for the group	2 720	6 030	8 086	5 088	4 337	13 408

## NOTE 24 OTHER INTEREST-FREE LIABILITIES

Statkraft SF			Figures in NOK million	Group		
2004	2003	2002		2004	2003	2002
6	175	160	Accounts payable	404	640	879
17	277	504	Public charges payable	320	397	707
541	933	923	Prepaid costs	1 142	1 266	1 272
17	292	460	Other interest-free liabilities	1 677	525	1 015
3 402	2 605	2 192	Dividend payable	3 476	2 656	2 243
672	1 580	1 803	Current liabilities to group companies	-	-	-
4 655	5 862	6 042	Total	7 019	5 484	6 116

Under the item "Other interest-free liabilities", NOK 1,559 million relates to cash collateral (see Note 20).

## NOTE 25 PLEDGES, OBLIGATIONS AND GUARANTEES

### Pledges

Under certain circumstances county authorities and publicly owned energy utilities are entitled to a share of the output from power plants belonging to Statkraft Energi AS in return for paying a share of the construction costs, cf. Note 13. To finance the acquisition of such rights, the county authorities/companies have been granted permission to pledge the power plant as security. The mortgage debt raised by the county authorities under this scheme totals NOK 2,090 million. As at 31.12.2004, the book value of the pledged assets in Statkraft Energi AS totals NOK 6,394 million. Other subsidiaries have a total of NOK 159 million in correspondingly pledged assets.

### Obligations and guarantees

The Statkraft Group has off-balance-sheet obligations and guarantees totalling NOK 4,496 million. Of this NOK 1,489 million are parent company guarantees, NOK 1,801 million power swap agreements, NOK 935 million property rental obligations, NOK 173 million bank guarantees, NOK 35 million security for employee taxes, while NOK 63 million relate to other guarantees.

Included under property rental obligations is Statkraft's office building at Lilleakerveien 6 in Oslo. The lessor is Mustad Eiendom AS. The rental agreement runs for a period of 20 years with an option to renew for a further 10 years. The annual rent totals NOK 55.4 million.

Statkraft SF has also guarantees totalling NOK 956 million for tax obligations relating to internal group transfers linked to its reorganisation.

## NOTE 26 FINANCIAL INSTRUMENTS

Statkraft trades in financial instruments for various purposes. Their treatment in the accounts will depend on their purpose as described in the note on accounting principles. At the end of the year the parent company, Statkraft SF, had no outstanding financial instruments since all previously entered into contracts had been transferred to Statkraft AS and Statkraft Energi AS. The figures below therefore apply to the Statkraft SF Group.

### Currency and interest rate agreements

#### Book value and fair value of interest rate and currency instruments

Figures in NOK million	31.12.2004		31.12.2003	
	Book value	Fair value	Book value	Fair value
Interest rate swaps	-	570	-	9
Interest rate and currency swaps	198	855	-	808
Currency forward contracts	-26	39	-	288
<b>Total for the group</b>	<b>172</b>	<b>1 464</b>	<b>-</b>	<b>1 105</b>

Fair value is calculated on the basis of relevant market prices and forward curves, since the bulk of the instruments are not traded in organised marketplaces.

Currency instruments act primarily as fair value hedging instruments, and currency forward contracts and the currency portion of interest rate and currency swaps are therefore recorded on the balance sheet at the rate effective on the balance sheet day. These are then recorded at fair value on the balance sheet. Interest rate derivatives act as cash-flow hedging instruments and are recorded at acquisition cost, zero, on the balance sheet. This is the reason for the difference between book value and fair value for interest rate swaps and currency and interest rate swaps. Unrealised gains on these contracts are largely offset against unrealised losses on fixed-interest loans, which are also recorded on the balance sheet at nominal value. The fair value stated in the table does not include accrued interest.

The difference between book value and fair value for currency forward contracts is due to currency forward contracts that have been entered into as cash-flow hedging instruments where unrealised gains/losses are not recorded in the accounts.

### Power contracts

#### Derivatives recorded at fair value

Figures in NOK million	Fair value	Recognised change in value	Fair value
	31.12.2003	2004	31.12.2004
Trading portfolio	229	-183	46

With respect to power trading, it is the trading portfolios that are valued at fair value in accordance with Section 5-8. The portfolios comprise financial forward and option contracts traded over Nord Pool, as well as bilateral financial contracts with terms otherwise identical to standardised contracts traded over Nord Pool. With respect to the trading portfolios, acquisition cost relates solely to the net of paid and received option premiums. At the end of 2004 this amounted to a net of NOK 12 million in received premiums.

With respect to the trading portfolios, contracts are traded within a three-year timeframe. As at 31.12.2004 fair value was broken down as follows per future time period:

#### Figures in NOK million

2005	40
2006	6
2007	0
<b>Total fair value 31.12.2004</b>	<b>46</b>

#### Derivatives not recorded at fair value

The majority of the group's power contracts not recorded at fair value are handled by Statkraft Energi AS and Statkraft Markets Continental (Statkraft Markets GmbH and Statkraft Markets BV).

#### Statkraft Energi AS

Statkraft Energi AS has three power portfolios whose financial instruments are not recorded at fair value in the accounts. All these portfolios consist of both physical and financial contracts. When assessing the risks and value attached to each portfolio, the physical and financial contracts are taken together. Fair value on financial power contracts will therefore not be representative of the value of the entire portfolio.

Portfolio	Accounting treatment	
Hedge portfolio	Hedging	Section 4-1, paragraph 1, no. 5
Origination	Lower value principle	Section 5-2
Statkraft Financial Energy	Lower value principle	Section 5-2

There follows a brief description of the portfolios:

#### Hedge portfolio

Net exposure in this portfolio is derived from updated production forecasts, buying and selling commitments pursuant to long-term physical contracts, as well as contracts traded over Nord Pool and bilateral financial contracts. A net financial short position is deemed to hedge future cash flows from power generated, while a net financial long position is deemed to hedge the fair value of future supply commitments. As at 31.12.2004, the trading portfolio had a net financial long position.

The physical sales commitments consist of statutory-priced industrial contracts, commercial sales contracts, concessionary power commitments, as well as miscellaneous free power and compensation power contracts. The majority of the statutory-priced industrial contracts will expire in the period to 2011. The commercial contracts have varying terms, but the longest runs until 31.12.2020. Concessionary power agreements run in perpetuity. For some of these non-financial sales obligations the price is indexed against other market risk such as aluminium, paper, zink and foreign exchange (USD, EUR and GBP).

Financial contracts in the hedging portfolio are both contracts traded over Nord Pool and bilateral contracts. They generally have terms of less than five years, but some bilateral financial contracts run until 2012 (see the Elsam agreement on the following page). To some extent the perpetual concessionary power agreements have been renegotiated to provide financial settlement for shorter periods of time.

In 2000 Statkraft and Elsam signed a contract converting a physical power exchange agreement signed in 1994 into a financial net settlement between the contract price (indexed against coal, etc) and a market-based reference price (area spot). The contract runs until 30.06.2020 and has an annual volume of 1,462.5 GWh. The Elsam agreement is built on a partnership agreement between several Norwegian energy companies. Statkraft Energi AS has a 44.64 per cent share of the above-mentioned volume.

#### Origination

This portfolio consists of customised bilateral physical and financial contracts. As a rule efforts are made to offset the bulk of the volume exposure against corresponding standardised financial contracts, such that the portfolio's total net exposure remains relatively moderate. The majority of contracts in the portfolio have terms of up to five years, but certain contracts run until 2015.

The risk associated with the portfolio is therefore primarily derived from the area price risk, time discrepancies (user time vs. flat volume) and foreign exchange (mainly EUR). Foreign exchange risk is partially hedged by means of currency forward contracts.

As at 31.12.2004, fair value was higher than acquisition cost.

#### Statkraft Financial Energy

This portfolio consists of bilateral physical and financial as well as cleared contracts to the Norwegian, Danish, Swedish and Finnish markets, in addition to currency contracts in SEK and EUR. As a rule efforts are made to offset the bulk of the volume exposure against corresponding standardised financial contracts, such that the portfolio's total net exposure remains relatively moderate. As at 31.12.2004, none of the contracts in the portfolio runs beyond 2008.

The risk associated with the portfolio is primarily derived from the area price risk (Helsinki, Stockholm and Norwegian price areas), spread risk and foreign exchange (mainly SEK and EUR). Foreign exchange risk is largely hedged by means of currency forward contracts.

As at 31.12.2004, fair value was higher than acquisition cost.

#### Statkraft Markets Continental

Statkraft Markets Continental has organised its derivative trading activities in three main portfolios: power trading, origination (electricity) and gas trading. All the portfolios are treated in the accounts in accordance with the lower value principle.

The power trading portfolio consists largely of contracts in the Scandinavian, German and Dutch markets. Despite the development of organised financial marketplaces such as the EEX and APX, contracts for physical deliveries still dominate the bilateral market in Continental Europe.

The origination portfolio consists of structured power contracts. These are power contracts with terms and conditions such as user time, appropriation profile, peak/off peak, etc. The origination portfolio also includes trading in international transport capacity in order to profit from international price differences. A separate sub-portfolio has been created for virtual power plant contracts. The most important of these contracts is an agreement with a Swiss hydropower producer which runs until 2008.

Gas trading relates largely to physical contracts traded on the most liquid marketplaces, such as the NBP (National Balancing Point) in the UK and Zeebrugge in Belgium.

#### Other trading in derivatives in the group not recorded at fair value

Trondheim Energiverk and Skagerak Energi also trade in derivatives which are not recorded at fair value in the accounts. This is almost exclusively associated with portfolios which for accounting purposes are treated as hedging instruments.

## NOTE 27 MARKET-RELATED RISK, FINANCIAL RISK AND INSURED RISK

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

#### Market-related risk

Statkraft's main activities include the generation and trading of electrical power. In a market in which hydropower plays an important role and where the supply of water varies a great deal from year to year, price and generating capacity will also vary considerably. This may have a marked impact on Statkraft's results. However, since power generation and price are often negatively correlated, ie high water levels and a high level of output resulting in lower prices and vice versa, the range of possible financial outcomes is naturally restricted. In addition, Statkraft actively manages its risk in relation to the actual market situation. In so doing Statkraft endeavours to realise the maximum long-term earnings potential from its generating facilities, given the company's risk criteria.

*Risk management.* Statkraft makes considerable use of forward contracts and other financial instruments to hedge its revenues. 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 are 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 or via brokers, and 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 new contracts are advantageous in relation to existing power contracts, optimising the outcome of Statkraft's own production and spot prices. The company continually adjusts the contract portfolio to maximise expected earnings within the given risk criteria. Internal guidelines for market exposure have been adopted for both hedging and trading activities. An organisationally independent unit is responsible for the continual monitoring of authorisations and limits.

*Use of derivatives for hedging purposes.* Statkraft trades in various physical and financial instruments to hedge revenues. This hedging, which also takes into consideration the company's present and future generating capacity, is intended to ensure an optimal contract position in relation to recognised risk criteria. Statkraft is exposed to both price and volume risks because future prices and water inflow are unknown. At the end of 2004 the company had sold more than 40 per cent of its mean production up to and including 2014.

*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.

*Origination.* Statkraft offers customised bilateral contracts to its customers. By adapting the contract terms and conditions to individual customer needs, added value is generated in relation to standard 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 Value-at-Risk and Profit-at-Risk. Internal restrictions on these performance indicators are used to ensure that exposure remains within company guidelines.

#### Financial risk

Statkraft focuses primarily on cash flow in connection with its follow-up of financial performance and risk management. This is because cash flow is considered to be decisive for value creation. However, the introduction of new accounting regulations could result in a situation in which the annual financial statements do not necessarily reflect the actual value created by the company.

*Use of interest rate and currency instruments.* Statkraft uses interest rate and currency instruments in its management of the company's interest rate and foreign exchange exposure. Interest rate swaps and forward contracts are used to achieve the desired interest rate profile on the company's borrowing portfolio. Interest rate and cross currency swaps are used to achieve the desired currency for the company's borrowing portfolio. For example, Statkraft has raised loans in foreign currencies to achieve the lowest possible credit margin on its borrowings, but has simultaneously converted the loan commitments to NOK or SEK through interest rate and currency swaps. Currency forward contracts are used to hedge cash flows in foreign currencies and occasionally to establish currency commitments as part of the hedging of foreign currency investments.

*Foreign exchange risk.* Statkraft's foreign exchange risk is primarily linked to power sales revenues in foreign currencies, as well as its shareholding in Sydkraft. Statkraft's markets division will convert to EUR as its operational currency ahead of Nord Pool's conversion to EUR in 2006. Expected future cash flows in foreign currencies over the next three years are gradually being hedged. The degree of hedging is highest for the most immediate cash flows. Financial investments in foreign currencies are fully hedged. Exposure is hedged by means of both financial instruments and loans in foreign currencies.

**Interest rate risk.** An interest rate management framework has been adopted based on a spread between fixed and floating interest rates. The objective is to ensure that the bulk of the interest rate exposure on the net borrowing portfolio should be at floating interest rates. As a rule fixed interest rates shall apply for a period of more than five years. With the exception of the financing of the Sydkraft shares, which is in SEK, interest rate management will be subject to the same risk framework as each individual currency. The Sydkraft investment is financed entirely at a floating interest rate.

In addition to interest rate agreements linked to the respective loans, financial instruments are widely used to keep the individual portfolio within the given risk limits.

**Liquidity risk.** Statkraft assumes a liquidity risk because the term of its financial obligations is not matched to the cash flow generated by its assets, and because of variations in collateral requirements linked to financial contracts in the forward market (Nord Pool). Statkraft has long-term credit ratings from Standard & Poor's and Moody's Investor Service of BBB+ and Baa2, respectively. Statkraft has good opportunities for borrowing in the Norwegian money market and in the banking market. Drawing rights are used to secure access to short-term financing. Statkraft's drawing rights are large enough to cope with a significant increase in the collateral required for financial contracts in the forward market (Nord Pool). It is the company's policy to limit short-term borrowing to the sum of its cash and cash equivalents and its committed lines of credit. Short-term financing is primarily used for bridging purposes.

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

**Credit risk.** Statkraft assumes a credit risk by investing its surplus liquidity, and by trading in financial instruments. The limits for each debtor are determined by a formal credit rating or an analysis of key financial figures. Credit risk associated with physical and financial power contracts is calculated, monitored and reported on a weekly basis. Bilateral contracts are subject to limits for each debtor, with regard to volume, amount and duration. Quantification of the investment risk is based on the principal amount of Statkraft's receivables. Credit and debtor risk associated with investments is largely spread between issuers with A-ratings or better. For financial instruments a loss potential is calculated in the event the debtor should fail to fulfil his obligations. Statkraft has entered into agreements on periodical settlement of the market value of the financial instruments with the majority of its debtors. Credit exposure associated with such agreements is therefore substantially reduced.

#### **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 inundations following damage to or breaches in dams. Statkraft's insurance coverage is primarily channelled through the 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 reinsured. All of Statkraft's assets are insured at their replacement value. Following an overall risk assessment, however, a maximum compensation level per claim relating to dams and tunnels has been set at NOK 400 million and NOK 50 million, respectively.

#### **NOTE 28 CLOSELY RELATED PARTIES**

An agreement has been signed for the purchase of transport services from the company Helikopterdrift AS. The CEO is a shareholder in a company which leases a helicopter to Helikopterdrift AS. The agreement relating to the purchase of transport services has been entered into on commercial terms and conditions. NOK 63,000 was paid under the contract in 2004.

#### **NOTE 29 OTHER ISSUES**

##### **Disputes**

AS Saudefaldene has filed suit against Statkraft SF in connection with the construction of new power generating facilities in Sauda. This is an extension of a previously settled dispute relating to liability for the costs of phasing out welded pipes in the power plants leased to third parties in Sauda. Saudefaldene claims that Statkraft should pay a sum corresponding to the calculated cost of phasing out the pipes, even though construction of new facilities in Sauda means that it will not be necessary to install new waterways to the old power plants.

##### **Divestment directives**

As a result of the Norwegian Competition Authority's directive that Statkraft must sell off assets following its acquisition of Agder Energi AS, E-CO Vannkraft AS was sold in 2004. An agreement was also entered into in 2004 regarding the sale of shares in Eidsiva energi Holding AS. This transaction is expected to be completed during the first half of 2005. The agreed sales price is approx. NOK 2.2 billion. The sale will give a profit before tax of around NOK 260 million. These divestments fulfil the Authority's divestment directive. The Authority had further directed Statkraft to sell off assets unless the power transmission capacity in southern Norway was increased. However, transmission capacity has now increased, and the Competition Authority's requirement regarding price area NO1 has thereby been met.

Statkraft has also been ordered to implement certain measures following its acquisition of shares in Trondheim Energiverk (TEV). Statkraft must either divest all its shares in TEV, divest TEV's power generating capacity, or divest other generating capacity. In 2004, therefore, Statkraft's shareholding in Kraftverkene i Øvre Namsen was sold. Furthermore, an agreement has been entered into for the sale of rights to 65 per cent of the electricity generated at the Rana power plant for the next 15 years (from 01.01.2005). In return Statkraft will receive a consideration in the amount of NOK 2.2 billion, plus an annual fee of NOK 65 million. Discussions are currently underway with the Competition Authority to determine if these transactions fulfil the divestment directive relating to price area NO2.

##### **Other**

###### **Acquisition of power plants in Sweden and Finland**

In 2004 Statkraft and E.ON, the largest shareholder in Sydkraft AB, signed an agreement in principle giving Statkraft the right to acquire power plants from Sydkraft's subsidiary Graninge corresponding to a mean output of around 1.6 TWh for approx. NOK 4 billion. The transaction is expected to be completed during the first half of 2005.

###### **Sydkraft hit by bad weather in southern Sweden in January 2005**

The hurricane which hit southern Sweden in January 2005 inflicted major damage on Statkraft's associated company Sydkraft. Sydkraft estimates repairs will cost around SEK 1.5 billion.

#### **NOTE 30 TRANSITION TO IFRS**

The EU has adopted a directive that requires all listed enterprises in the EU and EEA 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 has the option to postpone implementation of the IFRS until 2007. Statkraft will avail itself of its right to postpone implementation.

For Statkraft the greatest changes in connection with the implementation of the IFRS derive from the IAS 39 standard relating to financial investments and hedging.



**New legal status**

Statkraft AS was incorporated on 25 June 2004. All its shares are owned by the state-owned enterprise Statkraft SF, which in turn is owned by the Norwegian state embodied in the Ministry of Trade and Industry. The formation of the company was part of Statkraft's transition to a limited company, in line with the resolution passed by the Storting on 14 June 2004 and the Reorganisation of Statkraft Act, which came into effect 10 September 2004. The resulting Statkraft AS Group is a continuation of the majority of business activities previously organised under Statkraft SF.

**Transfer of assets**

The reorganisation was accomplished thus: Statkraft SF first transferred its business assets, with certain exceptions, to its subsidiary Statkraft Energi AS. Then Statkraft SF transferred its shares in Statkraft Energi AS to Statkraft AS. Since the reorganisation, Statkraft SF owns all the shares in Statkraft AS, which in turn owns all the shares in Statkraft Energi AS. For its part, Statkraft Energi AS owns all the shares in the other group subsidiaries. The transfer of assets between the relevant companies has been recorded in the company accounts with effect from 1 September 2004.

At the time of the reorganisation 96.4 per cent of Statkraft SF's assets were transferred to Statkraft Energi AS. The assets which have been retained by Statkraft SF consist of the title to power plants that have reverted to state ownership, and which are leased out to third parties, or which will revert to Statkraft's ownership (Sauda I, II, III, IV, Tysso II, Svelgen I, II and Mågeli). Furthermore, foreign investments which for formal reasons cannot be transferred, have also been retained (Himal Power Limited, Asian Power Invest AB, Nordic Hydropower AB and Empresa de Generación Eléctrica Cheves SA).

During the spring of 2005 Statkraft Energi AS will transfer its shares in several group companies to Statkraft AS. Statkraft Energi AS's assets will thereafter consist largely of waterfall rights, hydropower plants and associated assets.

**Capital increases**

The transactions and capital increases which were necessary to accomplish the reorganisation took place on 1 October 2004. The transfer of assets from Statkraft SF to Statkraft Energi AS was undertaken as a capital transfer in kind by means of a share capital increase in Statkraft Energi AS. Correspondingly, the transfer of shares in Statkraft Energi AS from Statkraft SF to Statkraft AS was undertaken as a capital transfer in kind by means of a share capital increase in Statkraft AS. As a result, Statkraft AS and Statkraft Energi AS both have share capital of NOK 20 billion. The shares entitle the holder to dividend payments with effect from 2004.

**Tax and accounting consequences**

The transactions amount to a reorganisation with unchanged ownership, and are not real transactions between autonomous parties. All transactions were therefore undertaken such that accounting continuity has been maintained. Both the capital increases therefore correspond to the book value of the assets transferred from Statkraft SF to Statkraft Energi AS. The transactions have not resulted in any tax liability for Statkraft SF, Statkraft Energi AS or Statkraft AS.

**Group financing**

Responsibility for group financing lies with the parent company Statkraft AS. The finance function was transferred from Statkraft Energi AS to Statkraft AS at the same time as the reorganisation was effected on 1 October. Loans not guaranteed by the state have been transferred to Statkraft AS. As at 31 December 2004 the balance of non-state-guaranteed external loans totalled NOK 8.1 billion.

Statkraft SF will continue to be the contracting party with respect to state-guaranteed loans entered into before 1 January 2003 until these are repaid. As at 31 December 2004 state-guaranteed loans totalled NOK 28.2 billion. However, the obligations associated with state-guaranteed loans are included in the financing activities which have been transferred to Statkraft AS. Following the transfer of financial obligations associated with these loans Statkraft SF has recorded a corresponding receivable from Statkraft AS.

The placing of debt liabilities in the parent company, Statkraft AS, means that creditors will have the security of the entire group's balance sheet. All creditors are treated equally through *pari passu* and negative pledge clauses in the loan agreements. Borrowing at subsidiary level will be severely limited by means of group restrictions on these companies to raise loans. As at 31 December group subsidiaries' external debts totalled NOK 2.4 billion.

### Governing bodies

The Norwegian state, embodied in the Ministry of Trade and Industry, exercises its shareholder's rights through Statkraft SF's annual corporate meeting. Statkraft SF exercises its shareholder's rights through Statkraft AS's annual general meeting, but votes in accordance with the instructions given by Statkraft SF's annual corporate meeting.

The chair of Statkraft SF's board of directors and the company's other directors hold the same offices in Statkraft AS. The two companies' boards of directors are therefore identical. The CEO of Statkraft SF is also the CEO of Statkraft AS.

### Statkraft AS Group – pro forma figures

Following the reorganisation, the financial statements for the Statkraft AS Group cover all business activities with the exception of those assets retained under the ownership of Statkraft SF. Pro forma financial statements for the Statkraft AS Group are presented below to show the impact of the reorganisation on the group's accounts. The pro forma figures for 2003 and 2004 have been prepared on the assumption that the reorganisation was effective for the entire accounting period. The pro forma balance sheet as at 31 December 2003 and 2004 has been prepared on the assumption that the reorganisation had taken place on these dates. The pro forma balance sheet for the Statkraft AS Group has been calculated on the basis of the Statkraft SF Group's balance sheet, with deductions for the book value of those assets not transferred. The net effect has been taken to equity.

As the pro forma figures show, the financial consequences of the reorganisation are relatively modest. The Statkraft AS Group has NOK 1,464 million less in equity than the Statkraft SF Group. This corresponds approximately to the book value of the power plants leased out to third parties and the foreign investments which have not been transferred. Furthermore, cash and cash equivalents are NOK 545 million less. These are funds that have been held back in Statkraft SF to cover current liabilities which could not be transferred.

Pro forma income after tax is NOK 206 million lower in 2003 and NOK 185 million lower in 2004 for the Statkraft AS Group compared with the Statkraft SF Group.

Please also see the annual report for the Statkraft AS Group which can be found online at [www.statkraft.no](http://www.statkraft.no) and [www.statkraft.com](http://www.statkraft.com).

### Pro forma financial statements for the Statkraft AS Group for 2004

#### INCOME STATEMENT

Figures in NOK million	2004	2003
Power sales revenues	7 110	9 122
Other operating revenues	3 732	2 303
<b>Gross operating revenues</b>	<b>10 842</b>	<b>11 425</b>
Transmission costs	-651	-927
<b>Net operating revenues</b>	<b>10 192</b>	<b>10 498</b>
Salaries and other payroll costs	1 236	1 402
Compensation and licence fees	354	328
Other operating costs	1 443	1 504
Depreciation and amortisation	1 414	1 290
<b>Operating costs</b>	<b>4 447</b>	<b>4 523</b>
<b>Operating income</b>	<b>5 744</b>	<b>5 975</b>
<b>Income from associated companies</b>	<b>1 493</b>	<b>1 086</b>
Financial income	714	469
Financial expenses	-2 954	-3 033
<b>Net financial items</b>	<b>-2 240</b>	<b>-2 564</b>
<b>Pre-tax income</b>	<b>4 996</b>	<b>4 497</b>
Tax	-581	-1 836
<b>Net income for the year</b>	<b>4 415</b>	<b>2 661</b>
Of which minority interests	118	78
Of which majority interests	4 297	2 583

### BALANCE SHEET

Figures in NOK million	31.12.04	31.12.03
<b>ASSETS</b>		
Intangible assets	2 509	2 887
Property, plant and equipment	45 236	44 249
Investments in subsidiaries and associated companies	28 751	28 297
Other financial fixed assets	2 562	5 277
<b>Fixed assets</b>	<b>79 058</b>	<b>80 710</b>
Inventories	44	41
Receivables	3 038	3 792
Short-term financial investments	330	254
Cash and cash equivalents	5 738	1 815
<b>Current assets</b>	<b>9 150</b>	<b>5 902</b>
<b>Assets</b>	<b>88 208</b>	<b>86 612</b>
<b>EQUITY AND LIABILITIES</b>		
Majority's equity	31 586	30 090
Minority interests	3 789	3 498
<b>Total equity</b>	<b>35 375</b>	<b>33 588</b>
Provisions	7 022	6 694
Interest-bearing long-term liabilities	38 268	39 895
<b>Long-term liabilities</b>	<b>45 290</b>	<b>46 589</b>
Interest-bearing current liabilities	-	776
Taxes payable	609	312
Other interest-free liabilities	6 934	5 347
<b>Current liabilities</b>	<b>7 543</b>	<b>6 435</b>
<b>Equity and liabilities</b>	<b>88 208</b>	<b>86 612</b>

### STATEMENT OF CASH FLOW

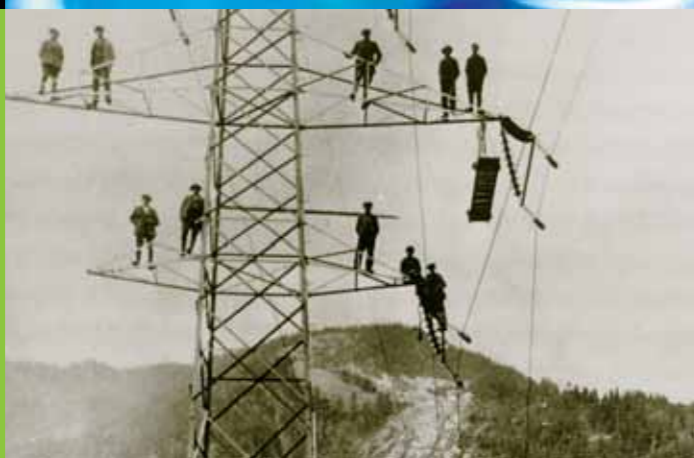
Figures in NOK million	2004	2003
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Pre-tax income	4 996	4 497
Gain/loss on the sale of fixed assets	-1 311	-2
Ordinary depreciation	1 414	1 290
Write-downs on fixed assets	20	-
Income from associated companies	-1 494	-1 086
Taxes paid	-1 603	-1 895
<b>Cash flow from operating activities</b>	<b>2 022</b>	<b>2 804</b>
Change in inventories, receivables and payables	59	1 411
Dividend from associated companies	910	742
Change in other current assets and liabilities	579	2 911
<b>Net cash flow from operating activities</b>	<b>3 570</b>	<b>7 868</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in property, plant and equipment	-1 548	-1 277
Proceeds from the sale of fixed assets	1 416	50
Loans to third parties	-98	-45
Repayment of loans to third parties	569	430
Investments in other companies	-287	-424
Proceeds from the sale of other companies	2 764	-
<b>Net cash flow from investing activities</b>	<b>2 816</b>	<b>-1 266</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
New long-term borrowings	7 016	1 141
Repayment of long-term liabilities and subordinated loans	-8 269	-8 466
Change in other long-term receivables and payables	442	319
Payment of new equity	-	4 000
Dividend paid to owner	-2 769	-2 192
<b>Net cash flow from financing activities</b>	<b>-3 580</b>	<b>-5 198</b>
<b>Net change in cash and cash equivalents</b>	<b>2 807</b>	<b>1 404</b>



**2005:**

**HSE now**

The objective is to get through a working day, a working year, a working life without getting injured. Statkraft's HSE activities are intended to prevent injuries, promote safety awareness and create a good working environment.



**1910:**

**HSE then**

Constructing the huge hydropower schemes of the last century could be a risky business. The lives of many workers could have been saved with today's requirements for health, safety and the environment (HSE). Nevertheless, this arranged photo of workers in a high-voltage tower is not really representative of how power lines were built back then.

**Business principles**

In 2004 Statkraft adopted a set of business principles which reflect the group's view that the financial, environmental and social dimensions of its business are closely interwoven. The principles also highlight the fact that Statkraft, as a leading player in the energy market, has a responsibility which extends beyond compliance with the legislative and regulatory framework and its contractual obligations.

Statkraft's governing documents are structured as follows:

Articles of association	
Business principles	
Principles for corporate governance	Code of conduct
Regulations	

The business principles adopted by the board of directors of Statkraft AS are elaborated below.

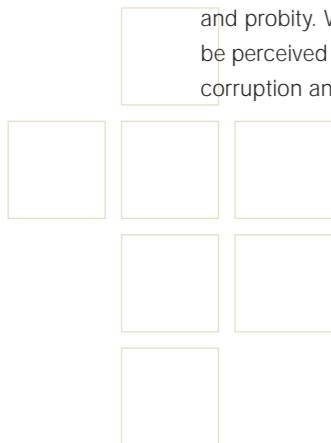
**VALUE CREATION – "Creating lasting value"**  
 Statkraft is a commercial company and will deliver the rate of return, growth and development expected of a leading European energy company. We have a long-term perspective for our operations and will exercise good business practice in all our activities.

**This means that:**

- we will provide our owner with a return on investment that is competitive in comparison with alternative financial placements.
- we will maximise the value created within the company through cost-effective power generation and optimisation, and profitable energy trading, power distribution and development of new energy sources.



- we will be at the forefront of market developments and will adapt our business to the needs and requirements of wholesale customers, industrial enterprises, distribution grid companies and end-users. We will regularly assess commercial opportunities that may strengthen our market position.
- we will enter into agreements and relationships with suppliers that secure Statkraft's interests and reflect our view that our suppliers are valuable external resources. At the same time we will ensure that all suppliers are treated equally and that our evaluation criteria are unambiguous and objective.
- we will further develop the businesses of the companies in which we hold shares in order to maximise profitability. We will encourage these companies to adopt our business principles.
- we will use management systems that secure profitable and professional operations, and ensure that we conduct our business activities in accordance with our owner's expectations and the demands of important stakeholders. We will maintain a clear division of responsibilities between our owner, the board of directors and group management.
- we will follow good business practice and will base our external relations on respect, openness and probity. We will reject any practice which may be perceived as unethical, including all forms of corruption and bribery.



### ENVIRONMENTAL RESPONSIBILITY

#### – “Nature at work”

*Statkraft supplies Europe with environment-friendly energy. We will ensure the sustainable utilisation of natural resources and limit the environmental impact of our operations.*

#### This means that:

- we will supply environment-friendly energy based on renewable energy sources and natural gas. We will also invest in other energy businesses which have the potential to enhance environmental performance.
- we will play an active role in international markets for green certificates and quotas, thereby helping to reduce greenhouse gas emissions.
- we will constantly strive to improve our technology and our processes to benefit the environment and contribute to the efficient use of energy, also where our involvement is restricted to a financial interest.
- we will limit our impact on the environment as best we can. We will take into consideration biodiversity, climate change and pollution when making decisions that may affect the environment.
- we will offer our customers products which contribute to sustainable energy consumption at competitive prices.
- we will communicate the environmental consequences of our business in an open and honest manner, and will take the initiative to engage in a dialogue with stakeholder groups.
- we will ensure that our employees whose day-to-day activities may have an impact on the environment possess a high level of environmental competence.



### SOCIAL RESPONSIBILITY

#### – “Energy for generations”

*Statkraft contributes to sustainable development by offering its customers flexible, environment-friendly energy that is generated and transported according to high safety standards. We will actively participate in the communities in which we have a presence.*

#### This means that:

- we will strive to understand the social consequences of our business activities and ensure that they are systematically taken into account in our decision-making. We will take particular care where our business could have a potentially major impact on society.
- we will ensure our activities are conducted to high standards of safety, and that our facilities are operated, maintained and manned securely.
- we will be a driving force behind energy and environmental innovations, on our own and in cooperation with our partners.
- we will cultivate a high degree of interaction with local stakeholders and a high degree of stability for local authorities and local communities through inclusive, predictable and transparent processes.
- we will communicate the social consequences of our business activities in an open and honest manner. We will strive to ensure that relationships with important stakeholders are based on dialogue and a long-term perspective.



- we will contribute to positive social change through good corporate citizenship.
- in all business ventures outside Norway we will act in accordance with Statkraft's business principles. We will comply with our host countries' laws and regulations, the human rights conventions to which Norway is a signatory and generally accepted international conventions for business conduct.

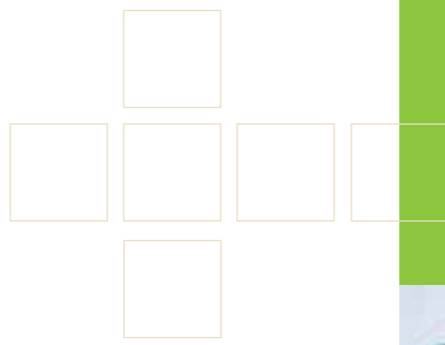
### BUILDING COMPETENCE – “People first”

*Statkraft will promote competence at all levels and will value and further develop its employees. We will provide a healthy workplace and a corporate culture that encourages active employee involvement and commitment.*

#### This means that:

- we will, as an outstanding representative of Norway as an energy-producing nation, set ambitious competence-building goals. We will manage our knowledge and skills for the benefit of both the company and the individual employee.
- we will strive to understand the risks to which our employees are exposed and seek to minimise them for both our permanent employees and those under contract to us. We will focus on preventive measures and will work to prevent lost-time injuries resulting from our business activities.





- we will create a dynamic group-wide corporate culture which promotes diversity and tolerance. We will organise our activities to enhance employee satisfaction and inclusion and to help to cut sickness absence to a minimum.
- we will treat our employees equally, irrespective of religion, gender, sexual orientation, age, nationality, ethnicity, marital status, physical disability or other characteristic, and will ensure that freedom of speech and employee rights are upheld.
- we will make all our employees aware of our vision, business concept, core values, business principles and strategies, and will help them to put the intentions behind these provisions into practice.
- we will support our managers to develop their skills, with a focus on leadership, business development, performance management and management.
- we will work in close cooperation with our employees and will ensure that our processes are inclusive, predictable and transparent. We will take the initiative to engage in a dialogue with employees and will involve employee representatives in making important decisions.
- we will work to extend the intentions behind our competence building principles and the way we perform our duties as an employer to encompass employees outside Norway, but will adapt our practices to local conditions and the highest standards in the countries concerned. We will also strive to follow up the compliance of our primary business partners with these intentions.
- we will make it plain to each employee what is expected of him or her, and will ensure that our principles and procedures are complied with in practice.



*Security is a high priority at Statkraft.*



*Statkraft aims to promote competence at all levels.*

## Code of conduct

Statkraft's employee code of conduct was updated in 2004 and has now been adopted by the board. The code sets out how the company's business principles translate into specific behaviours and prescribe the conduct expected of the individual employee in many situations. The code is also a resource which can help employees resolve any ethical dilemmas they may be faced with. The code of conduct applies to all personnel representing Statkraft.

Managerial staff have a particular responsibility to ensure that their subordinates are familiar with the code of conduct, promote compliance with it and model the required behaviours. The following priorities apply:

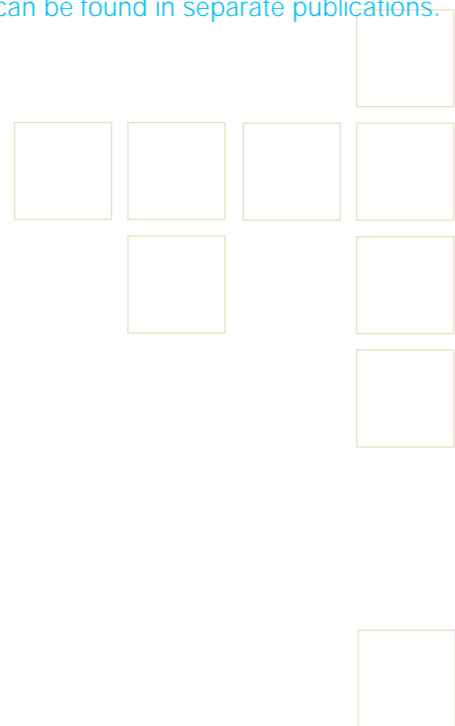
1. Protect life and health
2. Protect the environment
3. Protect against loss of confidence in the market or society
4. Protect against financial loss
5. Protect business-critical systems

The code of conduct describes the attitudes and actions with respect to value creation, loyalty, independence, business practice and respect for the individual which we expect from our representatives. In addition, there are a number of quality assurance procedures and other formal instructions which regulate activities in such areas as procurement, authorisations and HSE.

Statkraft's compliance officer is the EVP Generation & Markets. The function's most important role is to communicate the code of conduct and be available to offer advice. However, each individual employee and line manager is responsible for ensuring that the code of conduct is complied with. All employees have an obligation to speak out if they discover unethical or illegal practices, and to ask for advice if they find themselves facing an ethical dilemma. Notification of or requests for advice in relation to such circumstances may be made anonymously and without fear of reprisal.

## Reporting principles

This year Statkraft has chosen to integrate its presentation of the company's sustainability performance in its annual report. Statkraft's sustainability reporting encompasses an assessment of the company's environmental responsibility, social responsibility and competence building. In practice these aspects of Statkraft's business are integrated into its strategic business management. They also play an important role in determining Statkraft's competitiveness. This year's sustainability reporting is quantitative in focus; more detailed presentations of Statkraft's technologies, environmental protection measures, corporate citizenship and corporate culture can be found in separate publications.



The reporting of Statkraft's environmental responsibility, social responsibility and competence building performance is based on data recorded in various reporting systems, not least of which is the group scorecard (page 53). However, data from external sources is also presented, and all sources are given. In general, data is collected and analysed with the aim of presenting it as uniformly and relevantly as possible. However, though a great effort has been made to ensure that the information is complete and correct, there may be a degree of uncertainty associated with some of the underlying data.

This year's report follows up the focus areas for 2004–2007, which were elaborated in Statkraft's sustainability report for 2003. The report addresses factors that are vital to the sustainability of Statkraft's operations.

Statkraft wishes to ensure that the information is transparent, relevant and reliable. We have therefore asked an external auditor to review our routines for data collection and analysis. The auditor has also assessed whether the data presented is consistent with the underlying documentation (page 115).

## Environmental responsibility

Statkraft produces practically 100 per cent renewable energy with no CO<sub>2</sub> emissions. Environmental concern is integrated into Statkraft's strategic business management systems and forms a natural part of its day-to-day operations. In 2004 the company focused particularly on the establishment of environmental follow-up routines for all types of projects and a more effective dialogue with and closer monitoring of its suppliers.

Statkraft's objective is to achieve zero serious environmental non-compliances and incidents. And in 2004 it did just that. The group works systematically to make sure that Statkraft meets the environmental standards set both by the regulatory authorities and the group itself. A KPI for environmental non-compliances has been included in the group scorecard, and is followed up on a monthly basis by group management. Statkraft's environmental management systems are certified in accordance with the environmental standard ISO 14001:1996.

The environmental impact of hydropower generation is primarily local. Biodiversity is affected by changes in water flow and temperature. The impact varies from power plant to power plant, depending on where the plant is located and how it is constructed and operated. To continually improve the environmental performance of each individual power plant, the company implements measures such as biotope adjustments, restocking and environment-driven water flow regulation.

Statkraft works consistently to reduce consumption, emissions and waste from its operations. Material

flow accounting figures detail the consumption of various substances and the amount of waste generated. In 2004 the company focused particularly on improving its hazardous substance handling routines. Improved reporting will help to ensure that corrective measures can be implemented at an early stage.

Statkraft is also investing in the development of new environment-friendly energy, and is concentrating particularly on the exploitation of tidal energy, osmotic power, and hydrogen as an energy carrier. The generation of electricity using tidal energy does not produce greenhouse gas emissions, and the turbine will probably not affect marine life, while the tidal power plant itself will have little visual impact on the landscape. Osmotic power is also a renewable energy source with no CO<sub>2</sub> emissions. Osmotic power plants are size efficient, and the electricity production process can be easily adapted to local conditions, such as natural and cultivated environments and infrastructure. The development of hydrogen as an energy carrier is also an environment-friendly concept as hydrogen production is based on renewable energy. All that is emitted by a hydrogen fuel-cell vehicle is water vapour. Hydrogen therefore represents a unique opportunity to introduce renewable energy into the transport sector, which today uses almost exclusively fossil fuels.

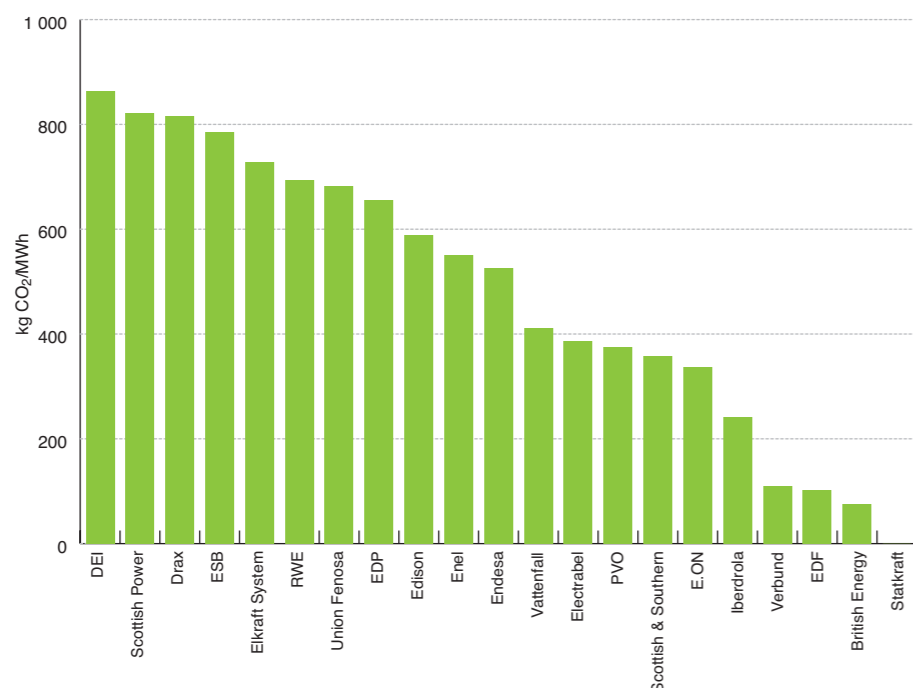
### KEY FIGURES – environmental responsibility

Unit of measurement	2004	2003	2002	2001	2000
Power generation					
– hydropower TWh	34.2	39.1	48.8	35.1	40.2
– wind power TWh	0.1	0.1	0.02	-	-
District heating production* TWh	0.37	0.35	0.35	-	-
Proportion of renewable energy %	99	99	99	100	100
Serious environmental non-compliances No.	0	4	11	8**	3**

\*Figures for district heating produced by TEV, which became part of the group with effect from 2002.

\*\*Includes both environmental non-compliances and environmental incidents. TEV and Skagerak Energi not included.

### European energy companies' emissions of kg CO<sub>2</sub>/MWh



Statkraft has the lowest emissions of CO<sub>2</sub>/MWh of the 21 largest energy utilities in the EU15. Together, these companies produce approx. 75 per cent of the CO<sub>2</sub> emissions and 76 per cent of the energy in the European power and heating industry. They produced approx. 693 million tonnes of CO<sub>2</sub> emissions in 2002.

Source: European Carbon Factor – November 2003, PricewaterhouseCoopers/Enerpresse

### Environmental non-compliances and incidents

A serious environmental non-compliance is defined as any violation of licence conditions, river management regulations, statutory provisions, conservation plans or self-imposed standards which has serious consequences for the environment and/or the company's reputation. A serious environmental incident is defined as an incident which has potentially serious consequences for the environment and/or the company's reputation and which cannot be categorised as a non-compliance. Minor environ-

mental non-compliances and incidents are also recorded to provide us with a better overview of the environmental risks that are dealt with.

23 minor environmental non-compliances and two minor environmental incidents were recorded in 2004. The majority of the minor environmental non-compliances were related to brief violations of the minimum water flow regulations. There were also some minor emissions of oil and SF<sub>6</sub> gas. All environmental non-compliances and incidents are followed up in the units' reporting systems with regard to cause and necessary remedial measures.

### Examples of logged minor environmental non-compliances

Place	Date	Description	Response
Vikfalli power plant	19.02.2004	Defective light fitment, possibly containing PCB, is thrown in the refuse container. Minor environmental consequences. Incident was pointed out during an environmental review.	Waste shall henceforward be handled/sorted separately. This is in line with the H60/106 (waste management) procedure.
Mauranger power plant	14.05.2004	Around 700 litres of oil leaked into the tailwater as a result of a turbine bearing failure. Minor environmental consequences.	After the machine failure, additional oil collection booms were laid with the help of the Sauda and Odda fire service. Around 99 per cent of the oil was collected near the turbine casings. Oil collection booms had already been laid around the mouth of the run-off channel. The power plant's generators have been repaired and upgraded.
Høyanger power plant	06.09.2004	Violation of minimum water flow regulations for 5 hours and 56 minutes. During the violation period the water flow was around 3.1 m <sup>3</sup> /s, instead of the required 5 m <sup>3</sup> /s. The violation was due to a technical error in the supply grid, which caused a generator to shut down. The signal indicating the shutdown was not discovered quickly enough by the system control centre and there were technical problems when the generator was started up again. Evidence of stranded juvenile fish in the river was recorded. Nevertheless, the incident is deemed to have had minor environmental consequences.	The Norwegian Institute for Nature Research will assess and quantify the impact of the incident with regard to the death of juvenile fish and its consequences. A meeting was held with the Høyanger Hunting and Fishing Association to discuss relevant measures and notification routines in the event of a generator shutdown.
Nedre Bersåvatn reservoir	11.11.2004	In connection with an environmental inspection of the Øvre and Nedre Bersåvatn reservoirs, several patches of oil residue from the earlier removal of construction equipment were recorded. The scale is unknown, but the oil patches are expected to disappear over the winter. Minor environmental consequences.	The incident has been recorded. Remedial measures do not seem necessary since the oil was spilled a long time ago.

### Restocking

Statkraft aims to promote the natural recruitment of fish in the river systems where this is possible. In 2004 around 660,000 juvenile fish and smolt of

various sizes were released into lakes and river stretches under its management, compared with 605,000 in 2003. In addition around 62,000 salmon eggs were released.

### Substance consumption and loss

Substance	Data type	Unit of measurement	2004	2003	2002	2001	2000
Oil products	Losses	litre	1 700	2 300	1 700	1 900	4 100
Fuel	Consumption	litre	327 400	297 000	160 000	270 000	280 000
Chemicals	Consumption	litre	4 100	3 700	13 100	*	1 400
Gases	Losses	kg	73	78	60	90	240

\* No available data

Losses include evaporation during operations, leaks during maintenance and any emissions. Losses of oil have been reduced by around 25 per cent compared with 2003. The recorded increase in fuel consumption is due to more complete reporting. Higher chemical consumption is due primarily to an increase in the amount of paint used. In 2004 the proportion of Exxol to white spirit increased in line with Statkraft's objective of switching to less harmful solvents. We report on all gases which are harmful to the environment and/or climate and which are used at Statkraft's facilities. In 2004 losses of the greenhouse gas SF<sub>6</sub>, corresponded to 0.4 per cent of total stocks. Data applies only to the business area Generation & Markets.

### Waste

Type of waste	Unit of measurement	2004	2003	2002
Hazardous waste	tonnes	66	65	126
Other waste	tonnes	550	313**	*
Percentage of waste recycled	%	60	50	*

\* No available data

\*\* Reporting partially incomplete

The amount of hazardous waste remained stable in relation to the previous year. The reduction from 2002 to 2003 was due to the phasing out of hazardous waste in 2002. The amount of other waste increased by around 75 per cent due to more complete reporting in 2004. A substance database was set up in 2002. Data applies only to the business area Generation & Markets.

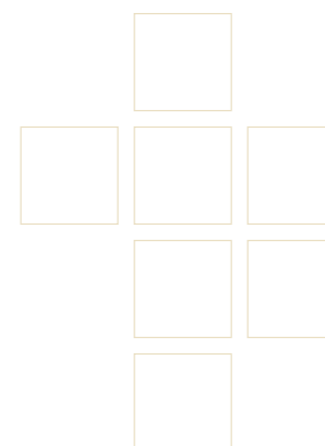
## FOCUS AREAS – environmental responsibility

Focus areas 2004–2007	Status and work in progress
Increased focus on the environmental aspects of gas-fired power generation	Statkraft has participated in a joint technology development project with the research foundation SINTEF Energy Research and the Research Council of Norway.
Focus on achieving our goal of zero environmental non-compliances	In 2004 we prepared environmental plans, including descriptions of relevant environmental issues, for our projects. Material flow accounting is undertaken and potential pollution sources are identified as part of the environmental review at each power plant group. A risk assessment focusing particularly on possible violations of applicable river management regulations is also in progress. We will be carrying out a pilot project to reduce soil, water and air pollution in 2005.
Focus on the environment-friendly completion of all construction projects and the continual improvement of the environmental performance of existing generating facilities	Environmental follow-up plans are prepared for all projects. Emphasis is placed on systematically reporting the experience gained from previous projects and including it in the new projects' environmental follow-up plans.
Seek solutions that promote the natural recruitment of fish in the river systems where this is possible	We have evaluated biotope measures to boost natural recruitment. We have implemented measures in the Numedalslågen, Osa, Halne and Skjomen rivers, and will continue our efforts relating to spawning gravel and egg planting in the Vikja and Bjoreio rivers.
Focus on routine environmental monitoring at all our installations through our maintenance system	We have set up a system of periodic environmental monitoring at all our installations which have an impact on the environment. This will continue to be a priority area in 2005, particularly in connection with the coming into effect of the Regulations Relating to Internal Control pursuant to the Water Resources Act.
Focus on following up potential sources of pollution and developing improvement measures	Environmental reviews undertaken by the power plant groups have revealed both areas of potential improvement and potential pollution risks. Needs identified in the review will be followed up through a centralised project in 2005. The aim of the project is to increase the focus on pollution risk and waste minimisation, and should result in specific improvement proposals.
Improve material flow accounting and waste management	We reviewed our material flow accounting routines in 2004. We have also developed a module in our maintenance system which makes it easier to track hazardous substances from acquisition to disposal. The system will be tested in 2005.
Follow up environmental plan for head office	The head office environmental plan has been reviewed and updated. In 2005 the activities specified in the plan will be implemented in the various departments' action plans.
Work systematically to set environmental standards for our suppliers and follow up their performance	Environmental follow-up programmes are being prepared for all construction projects to ensure that environmental standards and targets set by the authorities and by Statkraft are met. The environmental follow-up programme's requirements are included as part of the RFQ documents.
Further improve the efficiency of existing facilities so that they generate more power with no increase in the amount of water used	We concluded a major review of planned daily maintenance in 2004. In future plans the scale and costs associated with maintenance will be reduced, while today's availability will be maintained. Several modernisation projects, particularly with respect to turbines, are ongoing and have increased output without increasing the amount of water used.
Construct and put into operation a pilot plant for the exploitation of tidal energy	A feasibility study was conducted in 2004 to pave the way for the construction and start-up of a pilot plant for the exploitation of tidal energy. A thorough plan was prepared, and seabed topography and water currents at the chosen site were charted and analysed. Additionally, a study of various technological solutions for the exploitation of tidal currents was completed at the same time as costs, general operability and development potential were assessed. Early in 2005 Statkraft was granted a licence to operate a pilot tidal power plant in Kvalsundet in Tromsø. The plant is expected to generate 3.6 GWh per year. The plant will be built to full scale and is designed to remain in operation for at least 25 years.
Continue testing and developing effective membranes for osmotic power generation and establish operating parameters for future osmotic power plants	A three-year osmotic power project was concluded in 2004. The project did not reveal any fundamental obstacles to achieving the target of a membrane output of 4 W/m <sup>2</sup> . Statkraft has been granted financial support by the Research Council of Norway to continue development work together with SINTEF, European Membrane Institute in Twente (NL) and Forschungszentrum GKSS (DE). We are also working to set up a consortium to finance a pilot plant. Studies show that osmotic power is competitive with other renewable energy sources, provided that good and cost-effective membranes can be developed.
Testing and developing components for hydrogen production based on wind power	This is a new focus area. Statkraft is working with SINTEF on a wind-hydrogen project. The aim of the project is to optimise the efficiency and lifespan of components used for hydrogen production in association with wind power combined with low-voltage electrical distribution networks. The wind-hydrogen project is closely linked to our collaboration with the Spanish company EHN and the Canadian company Hydrogenics.



## Social responsibility

The bulk of the value added by Statkraft is channelled back into society – in the form of salaries and employee benefits, direct and indirect taxes, and the dividend paid to the company's owner. The difference between the market price of electricity and the statutory-price paid on industrial contracts also represents a contribution to society. Of the value added by Statkraft in 2004, 77 per cent was either distributed to the company's lenders and owner or paid as taxes. Only 11 per cent of value added was retained by the company as additional equity.



Statkraft is keen to maintain good relations with all stakeholders and fulfil the group's "social contract". It is therefore necessary to continually focus on the social and environmental consequences of the company's operations. Among other things, this means involving stakeholders in the planning processes and carrying out extensive environmental monitoring of all facilities. In 2004 Statkraft engaged in a fruitful dialogue with local communities and authorities with regard to changes in the river management regulations for the Suldalslågen river and the expansion of power generating facilities on the Aura river. In 2004 Statkraft set up a new emergency response organisation and upgraded the contingency plans for all operational divisions.

National knowledge building in the form of innovation is an important part of Statkraft's contribution to society. The objective of Statkraft's focus on innovation is to strengthen the company's future competitive advantages through the development of new technology and business opportunities. Statkraft's vision and business principles form the basis for its innovation efforts. A primary focus is on tidal power, osmotic power and hydrogen. Among other projects, Statkraft is in the process of designing a full-scale pilot tidal power plant, and has been granted a licence to build it in Kvalsundet near Tromsø.

Statkraft invested a total of NOK 45.8 million in innovative technology in 2004, the equivalent of around one per cent of the group's operating costs.

Statkraft has become a member of the World Business Council for Sustainable Development

(WBCSD). The members of this international forum believe that sustainable development is necessary for the further development of the business community. Statkraft wishes to use the WBCSD as an arena in which to further develop its sustainable business operations.

"The Statkraft Fund – teaming up with nature" was established to give financial support to social causes. The fund distributes up NOK 5 million annually to voluntary organisations, foundations, etc. according to stipulated criteria.

Statkraft wishes to have a good reputation since this will help it to achieve its business goals, so it carries out an annual reputation survey among representatives of the financial community, policymakers and public opinion. An important realisation to emerge from these surveys is that awareness of Statkraft is low. In 2005, therefore, greater emphasis will be placed on communicating what Statkraft is and does. At the same time, the company is pleased to note that its popularity as a potential employer among recent graduates has increased from 81st place in 2001 to 29th place in 2004.

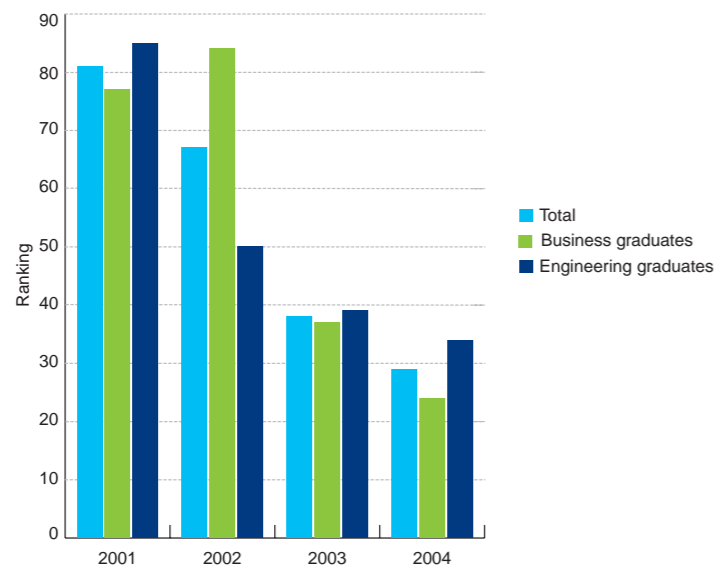
#### KEY FIGURES – social responsibility

Unit of measurement		2004	2003	2002	2001	2000
Distribution of value added						
– Owner, state & local authorities						
	NOK million	4 437	4 923	4 165	6 184	1 833
– Lenders						
	NOK million	3 007	3 098	2 783	1 860	1 568
– Employees						
	NOK million	1 085	1 353	1 262	645	554
– The company						
	NOK million	1 084	137	115	632	210
Reputation						
– Total						
	Scale of 1 to 100, where 100 is best	66	72	–	–	–
– Financial community*						
		81	87	–	–	–
– Policymakers*						
		65	77	–	–	–
– Public opinion*						
		64	51	–	–	–
Recruitment						
– Total						
	Ranking as a preferred employer among recent graduates	29	38	67	81	–
– Business graduates**						
		24	37	84	77	–
– Engineering graduates**						
		34	39	50	85	–

\*Source: Itera ResearchLab

\*\*Source: Universum Graduate Survey

#### Graduates' ranking of Statkraft as a preferred employer



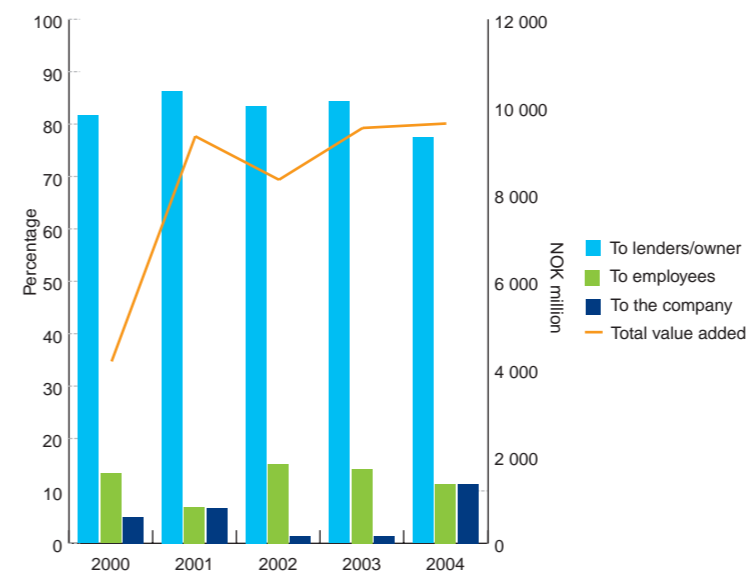
In 2004 Statkraft was ranked 29th among business and engineering graduates. The target is to be included among the 25 most popular companies from 2005. Statkraft has been steadily gaining in popularity as an employer.

#### Value added statement

The value added by Statkraft is channelled back into society in the form of employee salaries and benefits, interest to lenders, the dividend paid to our owner and direct, and indirect taxes paid to local authorities and the state. That portion of value added which is not distributed to various stakeholders is retained by the company as additional equity.

Value added (Figures in NOK million)	2004	2003	Distribution of value added (Figures in NOK million)	2004	2003
Gross operating revenues	11 286	12 120	<b>Employees</b>		
- Paid to suppliers for goods and services	2 357	2 725	1. Gross salaries and benefits	1 085	1 353
<b>Gross value added</b>	8 929	9 395	<b>Lenders/owner</b>		
- Depreciation	1 464	1 347	1. Interest	3 007	3 098
<b>Net value added</b>	7 465	8 048	2. Dividend	3 402	2 605
+ Financial income	733	474	3. Taxes	1 035	2 318
+ Share of profit/loss in associated companies	1 529	1 114	<b>The company</b>		
			1. Change in equity	1 084	137
- Minority interests	114	125	<b>Total wealth distributed</b>	9 613	9 511
<b>Total wealth created</b>	9 613	9 511			

#### Distribution of value added



The value added in 2004 amounted to NOK 9.6 billion, which was about the same as in 2003. Earnings from business operations were lower than the previous year due to the fall in electricity prices and production volume. However, this was counterbalanced by sales of assets and certain other accounting items.

Of the value added in 2004, 31 per cent was paid out as interest to lenders, while the owner's dividend amounted to 35 per cent. The remaining third was evenly distributed between employee salaries and benefits, direct and indirect taxes, and retained earnings (11 per cent each). Over the past three years the share of value added distributed to the company's lenders and employees has fallen slightly, while the share paid as dividend has risen. In 2004 the amount paid as taxes was more than halved compared with the year before as a result of particular tax items being included in the accounts. This allowed for a larger proportion of retained earnings in 2004 than in previous years.

Electrical power is vital for Norwegian industry.



Statkraft's summer projects are popular among students.



#### Statutory-priced contracts

(Figures in NOK million)

	2004	2003	2002	2001	2000
Market value of statutory-priced industrial contracts and concessionary sales	5 021*	6 416*	4 241	3 847	2 139
- Revenues from statutory-priced industrial contracts and concessionary sales	2 204*	2 182*	2 113	2 225	2 094
= Contribution to society	2 817*	4 234*	2 128	1 622	45

\* The figures for 2003 and 2004 are for the Statkraft Group, previous years relate to Statkraft SF alone.

Statkraft has a statutory obligation to supply low priced power to segments of Norwegian industry. In 2004 this contribution to society (the difference between the statutory price and the market price) amounted to NOK 2,813 million. The Storting has decided that the old industrial contracts shall gradually be phased out. Statkraft will now offer long-term supply contracts based on commercial terms and conditions.

#### Taxes paid to Norwegian local authorities

(Figures in NOK million)

	2004	2003	2002	2001	2000
Vinje	71.1	67.2	66.0	64.5	65.6
Hemnes	60.1	60.1	59.2	59.0	57.2
Rana	57.0	52.5	49.0	48.4	48.8
Suldal	56.7	48.3	47.0	48.5	60.2
Tokke	38.0	36.8	36.1	35.1	42.7
Meløy	35.4	30.6	27.6	26.2	32.8
Luster	35.2	31.3	28.9	28.4	38.1
Eidfjord	34.2	33.5	33.4	33.5	36.6
Narvik	29.9	30.0	29.7	29.0	31.9
Nore og Uvdal	29.7	30.7	29.3	28.7	27.7
Total, 10 largest local authorities to which tax is paid	447.3	421.0	406.2	401.3	441.6
Total, all local authorities to which tax is paid	870.1	839.2	816.2	807.9	868.2

These figures do not include TEV or Skagerak Energi. Of the total taxes paid by Statkraft in 2004 around 75 per cent went to local or county authorities, while around 25 per cent went to the state. The table shows the 10 local authorities which receive the most in tax revenues from Statkraft as well as the total amount of tax paid to local authorities in Norway. The table includes property tax, natural resource tax and licence fees paid directly to the local authorities, and shows that the 10 largest local authorities receive around half of the total taxes paid to local authorities.

## FOCUS AREAS – social responsibility

### Focus areas 2004–2007

Assess various measures to improve our reputation among the general public, and maintain our good reputation among policymakers and in the financial community

### Status and work in progress

In 2005 we will be focusing on the following measures to improve Statkraft's reputation:

- Communicating that Statkraft is a value adding, environment-friendly, socially responsible and competence-driven company.
- Using sponsorships to emphasise our social responsibility, and conducting profiling and advertising campaigns to publicise our groundbreaking projects.
- Actively seeking editorial coverage in various media.
- Providing relevant, detailed and reliable financial information to communicate the company's underlying worth and risk exposure.
- Gaining internal acceptance and support for our reputation enhancement activities and giving employees the tools to communicate a common main message.

Continue our Top 25 campaign

In 2004 we again conducted a massive information campaign about the attractiveness of Statkraft as a workplace. This has resulted in our increased popularity as a potential employer: up from 81st place in 2001 to 29th place in 2004. The objective is to be among the 25 most popular employers from 2005 onwards.

Use sponsorships selectively and with purpose, mainly focusing on various types of cultural activities

All existing sponsorship agreements will be reviewed during 2005 in light of Statkraft's communications strategy. All sponsorships, both existing and new, will be accompanied by internal and external relationship-building activities to enhance Statkraft's reputation.

Prepare proposals for new river management regulations that combine a high level of power generation with sustainable salmon populations

During the summer of 2004, following many years of trial regulations and wide-ranging environmental monitoring, Statkraft applied to the Norwegian Water Resources and Energy Directorate (NVE) for permission to change the river management regulations for the Suldalslågen river. A corresponding application will be sent to the NVE with respect to the Alta river in 2005.

Continue to focus on maintaining good relations with local stakeholders and regional and national regulatory authorities

Statkraft strives to maintain good relations with the local authorities in which it has facilities and other regulatory authorities. In 2004 we had meetings with host communities and central authorities such as the Directorate for Nature Management and the NVE.

Make every effort to implement good planning processes in close consultation with affected stakeholders

All planning processes shall emphasise the need for the involvement of local and county authorities, landowners, and other special interest groups.

Prepare for a possible revision of operating licence conditions in consultation with relevant local authorities

We have presented our opinion with regard to the construction of new power generating facilities on the Aura river at public meetings and site inspections in Nesset, Lesja and Sunndal. We have also held meetings with the political leadership of the individual local authorities concerned. The local authorities' demands were presented in a joint document in December 2004. It is expected that considerable resources will be devoted to this revision in 2005 and 2006.

Be at the forefront of developments and be perceived as innovative within various research fields both nationally and internationally, particularly with regard to osmotic power, tidal power and hydrogen

Statkraft leads the field, both in Norway and Europe, with regard to research into various energy technologies. The development of technology to exploit tidal energy for power generation has come so far that we are designing a full-scale pilot plant. No commercially viable tidal power technologies currently exist. We believe that our concept is the most promising in this area. Statkraft is the global leader in the development of osmotic power technology. The main challenge is to develop membranes that meet required technical, environmental and financial standards. Statkraft has embarked on a collaboration with SWAY AS for the development of floating offshore wind power technology. Statkraft has also formed an international consortium together with the Canadian company Hydrogenics and the Spanish company EHN to evaluate the possibilities for hydrogen production based on wind power. Statkraft's contribution to the consortium is the detailed testing of purchased electrolysers at SINTEF to optimise the electrolyser to handle the load fluctuations of wind power. Statkraft also participates in national and international competence- and network-building projects for the production, storage and use of hydrogen based on hydropower and wind power, as well as in projects for biopower, gas power with carbon capture and storage, and distributed power generation.

Pave the way for a smooth transition from statutory-priced to commercially priced industrial contracts

Statkraft has a statutory obligation to supply cheap power to segments of Norwegian industry. In 2004 the difference between the statutory price and the market price of the power sold amounted to NOK 2,813 million. The Storting has now decided that the old industrial contracts shall gradually be phased out. Statkraft will therefore offer long-term supply contracts based on commercial terms and conditions. Statkraft already covers the long-term power requirement of many Norwegian, Swedish and Finnish industrial companies. A number of major statutory-priced power contracts expired in 2004, and several more will follow in 2005.

Roll out the company's business principles and code of conduct to all business areas

Statkraft's business principles and code of conduct have been approved by the board and will be implemented throughout the group.

Implement the Oslo Stock Exchange's recommendations for corporate governance

Statkraft's principles for corporate governance have been approved by the board and will be followed up throughout the year.

Focus on raising awareness of the company's core values and code of conduct, and ensure that they are complied with

Statkraft's business principles, code of conduct and principles for corporate governance will be implemented throughout the group. Employees will be given educational tools in a process designed to inspire commitment. An assessment will also be made of how Statkraft's principles and guidelines may be communicated to business partners and other stakeholders.



## Building competence

Statkraft's employees and their competence represent a competitive advantage in a changing energy market. The group has succeeded in creating a learning, competence-based and motivated organisation. Statkraft's core values – boldness and responsibility, commitment and competence – reflect a balanced approach to its business operations. HR guidelines and a dedicated competence web support the continual development of its corporate competence and culture.

Statkraft aims to provide secure employment and a good working environment. Statkraft's HSE vision is that there should be no lost-time injuries resulting from its business activities. This goal has not yet been reached. The H1 indicator, which measures the number of lost-time injuries per million hours worked, totalled 7.2 in 2004. For that reason an awareness campaign highlighting the HSE responsibility of each individual employee and focusing specifically on the avoidance of day-to-day injuries was launched in 2004.

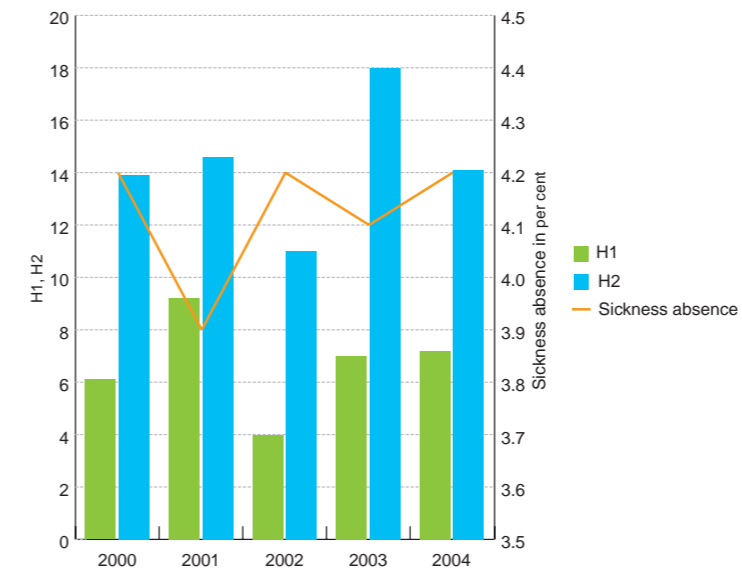
Each year Statkraft carries out a survey of its organisational and management performance. The survey covers many factors relating to management, organisation, strategy and targets, and the results are included in the group scorecard. The result for 2004 was 4.01 on a scale of 1 to 5, where 5 is best, and was based on a response rate of 90 per cent.

Statkraft aims to achieve a greater balance between the number of male and female employees, and increase the number of women managers. Gender equality is laid down in the company's personnel policy and is particularly evident with respect to recruitment, career development and incentive schemes.

### KEY FIGURES – building competence

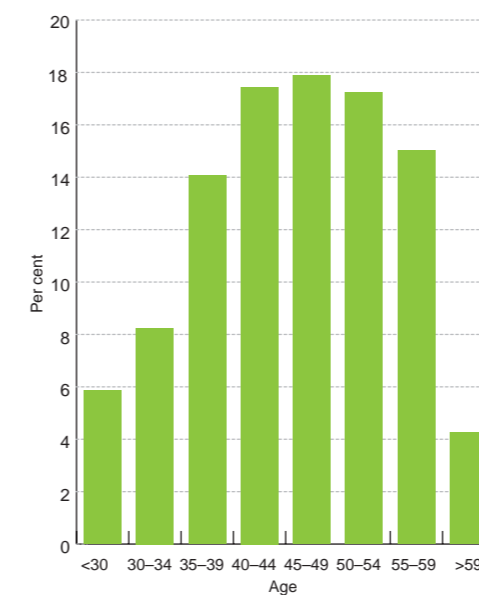
	Unit of measurement	2004	2003	2002	2001	2000
Full-time jobs (equivalent) as at 31 December	No.	1 877	1 968	2 370	2 035	1 276
H1	No. of lost-time injuries per million hours worked	7.2	7.0	4.0	9.2	6.1
H2	Total no. of injuries per million hours worked	14.1	18.0	11.0	14.6	13.9
F	No. of days lost through injury per million hours worked	62	132	45	188	156
Sickness absence	%	4.2	4.1	4.2	3.9	4.2
Organisation and management survey	Scale of 1 to 5, where 5 is best	4.01	3.93	3.57	-	-

### Injuries and sickness absence



Statkraft's HSE vision is that there should be no lost-time injuries resulting from its business activities. There were 24 lost-time injuries in 2004, though none of them was serious. The figures for 2004 show an improvement both in terms of the total number of injuries and their degree of seriousness. Sickness absence for the group was on a par with recent years. Reducing the level of sickness absence is a high priority for all group companies.

### Age

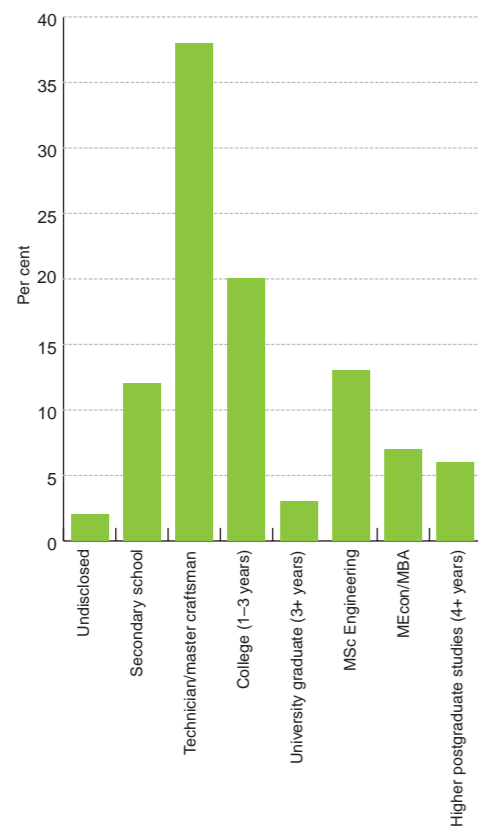


The average age of Statkraft's employees has remained stable in recent years. In 2004 the average Statkraft employee was 45 years old and had worked for the company for 15 years. The group has a staff turnover of 1.9 per cent, considerably lower than the target of 3–8 per cent. The group has a low percentage of employees over the age of 60, which can be ascribed to the downsizing processes that have been undertaken particularly in the distribution grid and power generation areas, as well as the desire to adjust the competence mix to meet new requirements. Approximately 64 per cent of the company's employees (not including TEV and Skagerak Energi) are members of a union.

## Gender

Women made up 22 per cent of Statkraft's workforce in 2004, while 15 per cent of the managers were women. The group's policy is to have the same proportion of women in managerial positions as it has in the workforce in general, and at the same time increase the overall number of women employed. Four out of Statkraft's nine board members (44 per cent) are women.

## Education



The education figures do not include TEV or Skagerak Energi. 29 per cent of Statkraft's employees have a university degree or higher, 20 per cent have an engineering diploma or other college diploma, 38 per cent are qualified master craftsmen or have another technical qualification, while 12 per cent have completed upper or lower secondary school. While this competence mix is well suited to its business requirements, Statkraft is working consistently to attract and retain the best people.

## Incentive schemes

With the exception of TEV and Skagerak Energi, which have their own agreements, Statkraft operates a collective, variable bonus scheme for all employees. The scheme was created as a management tool to encourage both managers and employees to focus on business-critical activities across the group. The scheme is based on KPIs for gains from trading activities and power optimisation, as well as power plant uptime and operational efficiency. Each of the four KPIs can give a variable bonus of up to NOK 10,000 a year. In 2004 the collective variable bonus amounted to NOK 32,000. In addition, an individual, performance-related bonus scheme has been introduced. This is based on the employee's contribution to the achievement of Statkraft's goals and compliance with its core values. The framework for the individual bonus scheme is drawn up by group management and will amount to around 2 per cent of the total amount paid out in salaries, up to a maximum of 10 per cent of the individual employee's salary. This scheme will come into effect for the first time in 2005. Both bonus schemes entail a one-off annual payment and are not included in the employee's pensionable income. The remuneration paid to the chief executive and group management is specified in Note 6 to the financial statements.

## FOCUS AREAS – building competence

Focus areas 2004–2007	Status and work in progress
Harmonise organisational and personnel systems, processes and schemes	At regular intervals (at least once a year), Statkraft produces a quantified organisational status report based on 11 different KPIs. The KPIs provide a valuable impression of probable future value creation, and are used to set new targets and associated measures. Important HR documents include Statkraft's personnel policy ("Job satisfaction and development"), management philosophy ("Value creation through leadership") and competence policy ("Commitment and competence"), as well as documents relating to HR processes and life course policy.
Further develop the Competence Web and ensure that it is used actively by the organisation	75 per cent of Statkraft's employees now use the Competence Web, which is also being introduced in TEV and Skagerak Energi. The company aims to increase the extent to which knowledge is transferred throughout the group. The Competence Web: <ul style="list-style-type: none"> <li>• provides an accurate overview of employees' formal and informal competence</li> <li>• allows the creation of personal development plans for each employee</li> <li>• allows any discrepancy between actual and optimal competence mix to be analysed</li> <li>• provides an overview of employees' individually set objectives</li> </ul>
Emphasise gender equality in the company as a whole and increase the number of women managers and the proportion of women directors in particular	Statkraft's focus on gender equality is laid down in its personnel policy, which states that "we actively seek to increase the number of women in management positions". In 2004 15 per cent of Statkraft's managers were women. Of the last two groups selected to participate in Statkraft's training programme for potential managers, 50 per cent and 33 per cent, respectively, were women. Training in corporate governance is offered as part of Statkraft's effort to increase female representation at board level.
Focus on reducing day-to-day injuries and increase emphasis on using existing methods and tools	The greatest challenge is to reduce the number of day-to-day injuries. In 2004 the following measures were implemented: <ul style="list-style-type: none"> <li>• Training in use of the "Safe Job Analysis" tool</li> <li>• Definition of follow-up routines for each injury</li> <li>• Competitions, films and preventive safety measures</li> <li>• Defensive driving courses</li> <li>• Online illustration of injuries and hazardous situations</li> </ul>
Focus on raising the individual employee's level of HSE awareness	Analysis of reported injuries, near-misses and hazardous situations shows that almost all reported incidents occur in connection with day-to-day activities. Incidents are rarely reported in connection with large complicated tasks which are covered by detailed HSE instructions and to which the Safe Job Analysis tool has been applied. HSE awareness in connection with day-to-day situations will be an area of focus in the time ahead. To reduce the number of incidents, we have tightened up the regulations for the use of personal safety equipment. We have also run a safety awareness campaign, which was opened by the board chair in Glomfjord.
Tighten up HSE standards for and monitoring of subcontractors	We have tightened up injury reporting routines for subcontractors working for Statkraft. This has resulted in an increase in the number of reported injuries. We want to follow up our subcontractors in a positive way and have implemented the following measures in 2004: <ul style="list-style-type: none"> <li>• The online safety course developed for Statkraft's own employees has been made compulsory for all subcontractors who will be working at our existing facilities or on construction projects.</li> <li>• HSE requirements specified in RFOs and contracts have been tightened up and we have increased focus on HSE monitoring and reporting of our subcontractors.</li> </ul>
Promote a more "inclusive working life" at Statkraft	All group companies have joined the government's "inclusive working life" scheme. The following measures were implemented in 2004: <ul style="list-style-type: none"> <li>• Employees on sick leave will be followed up more closely by their managers.</li> <li>• Managers will learn how to follow up employees on sick leave as part of our management training programme.</li> <li>• The company will increase the level of workplace and task-based adaptation to suit the needs of employees with temporarily reduced working capacity.</li> </ul>
Develop a satisfactory policy for older employees	A specific policy to meet the needs of employees over the age of 62 is now being introduced. The life course scheme gives the company flexibility and provides an incentive to employees to remain at work for longer. From 2012 there will be a considerable increase in natural wastage due to retirement.
Focus on company rituals and practices	Throughout 2004 Statkraft has arranged a number of internal seminars to increase employees' awareness of how they work together and the extent to which they are all representatives of the company's core values. We have also changed the way new employees are introduced to the company. Among other things, all new recruits are taken to visit the "birthplace of hydropower" in Tyssedal.
Use core values in connection with recruitment, introduction, compensation, and competence and management development	Evaluation of candidates' "compatibility with core values" is now part of the recruitment checklist. The company's core values are also given a key role in competence and management development.
Link core values to performance appraisal	The individual employee's contribution to the whole is now included in performance appraisals and bonus reviews. Such contributions may include: <ul style="list-style-type: none"> <li>• Knowledge sharing</li> <li>• Initiative</li> <li>• Social and professional contributions over and above the individual's job description</li> </ul>

## ISO certification

Statkraft's quality control and environmental management systems are certified in accordance with the ISO 9001:2000 quality standard and the ISO 14001:1996 environmental standard. The systems were recertified by Det Norske Veritas in 2005. Internal audits are undertaken according to a rolling plan, and external follow-up audits in accordance with the relevant standards. These audits are coordinated by Statkraft's internal audit department. Group management carries out an annual review, which also includes a risk assessment.

A total of five external audits associated with ISO 9001:2000 and ISO 14001:1996 were carried out in 2004. The audits uncovered 18 non-conformances. All non-conformances were rectified within the specified deadlines. Audits carried out in accordance with ISO 14001 in 2004 were coordinated with the Norwegian Water Resources and Energy Directorate's inspections. This practice will be continued in 2005.



## Auditor's report

**Deloitte.**

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### INDEPENDENT AUDITOR'S REPORT

We have reviewed certain aspects of Statkraft's Sustainability Report for 2004 (The "Report") presented on pages 90-114 in Statkraft's Annual Report for 2004. The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAF 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and subject matters for the engagement were agreed with the management of the Company.

We have tested whether Statkraft has applied procedures to collect, compile, and validate data for 2004, as described on page 100 in the Report, and whether data accumulated as a result of these procedures are appropriately reflected in the Report. Our work was limited to corporate level and the head offices of Region Eastern Norway (Dalen) and Region Western Norway (Sauda) within the business area Production and Market, as well as one reporting unit within each of these region offices, Tokke and Illa Fenne respectively.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters referred to above. We believe that our work provides an appropriate basis for us to conclude with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

- Statkraft has applied detailed procedures to collect, compile, and validate data for 2004 to be included in the Report.
- Data for 2004 presented in the Report are consistent with data accumulated as a result of the procedures noted above and appropriately reflected in the Report.
- Data for 2004 from those units tested, as referred above, was reported according to the procedures noted above and was consistent with the source documentation presented to us.

Oslo, Norway, 18 March 2005  
Deloitte Statskontrollfirma Revisorer AS

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*“Statkraft’s most important responsibility is to continue supplying one of the cornerstones of modern life, by teaming up with nature.”*

*CEO Bård Mikkelsen*

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**Statkraft**