Statkraft

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Statkraft Energi AS

Annual Report 2004

STATKRAFT ENERGI
REPORT OF THE BOARD OF DIRECTORS FOR 2004

Introduction

In June 2004 the Norwegian Storting (parliament) voted to transform Statkraft into a limited company, organised as a group. As part of this process Statkraft Energi AS was incorporated on 25 June 2004 with a share capital of NOK 100,000 as a wholly owned subsidiary of Statkraft SF. The company initially had no operating activity and no employees.

Under the agreement of 27 September 2004, relating to the transfer of business activities, the majority of Statkraft SF's operations and employment contracts were transferred to the company with effect from 1 September 2004. At the same time, the company's share capital was increased to NOK 20,000,000,000 by means of a capital contribution in kind. On 1 October all shares in Statkraft Energi AS were transferred to Statkraft AS, the new parent company in the Statkraft AS Group and a wholly owned subsidiary of Statkraft SF.

From 1 September until 31 December 2004 Statkraft Energi AS ran the business operations transferred to it. These comprised the equivalent of 807 full-time employees within the area of electricity generation and sales, and associated activities; financial trading; construction of power generation facilities; and research and development. Furthermore, the company had, during this period, shareholdings in several Norwegian regional power utilities (BKK, Skagerak Energi, Agder Energi and Trondheim Energiverk). Through a wholly owned subsidiary, the company owns 44.6 per cent of the shares in Sydkraft AB as well as a number of other group companies.

The property leasing agreement with Mustad Eiendom AS was transferred from Statkraft Energi AS to Statkraft AS during the first quarter of 2005. The costs associated with the transfer amounted to NOK 193 million. Furthermore, internal borrowing agreements were refinanced with effect from 1 January 2005, such that the total balance sheets of both Statkraft Energi AS and Statkraft AS have been reduced by some NOK 30 billion from this date. By means of this internal refinancing process, back-to-back liabilities and receivables between Statkraft Energi AS and Statkraft AS have been settled at fair value, and a new net receivable from Statkraft Energi AS has been established in Statkraft AS. The cost of this refinancing package amounts to NOK 773 million.

Following the reorganisation of Statkraft SF during the autumn of 2004, and in connection with the subsequent formation of the Statkraft AS Group with Statkraft AS as the parent company, it is deemed necessary to adjust the equity held by Statkraft Energi AS. This equity adjustment involves a write-down of share capital and the share premium fund. The amount of the capital write-down shall be distributed to Statkraft AS and partially offset against Statkraft Energi AS's claim in respect of the purchase price of the assets to be transferred from Statkraft Energi AS to Statkraft AS. With reference to the exercise of prudence and good business judgement, and taking into consideration any expected future losses, it is the opinion of the board of directors that the company's share capital and tied capital will be fully covered also after the capital write-down.

As a step in the creation of the Statkraft AS Group, part of Statkraft Energi AS's business and shareholdings will be transferred to the parent company, Statkraft AS, during the first quarter of 2005, while a small part of the business will be transferred to Statkraft Development AS.

Following the creation of the Statkraft AS Group, the following will have been transferred to Statkraft AS:

- All the company's shares in Statkraft Energy Enterprise AS, Statkraft Holding AS, Statkraft Forsikring AS, Statkraft Norfund Power Invest AS, Statkraft Development AS, Statkraft Energy Europe AS, Naturkraft AS and Hydra Tidal Energy Technology AS; and
- the employees of Statkraft's corporate staff departments as well as associated assets, rights and liabilities.

That part of Statkraft Energi AS's business relating to product development, construction of generation facilities, and R&D, as well as all associated employees, assets, rights and liabilities will be transferred to Statkraft Development AS.

The assets held by Statkraft Energi AS will therefore largely consist of waterfall rights and hydropower plants with associated rights. Its business activities will consist of electricity generation as well as market activities, including trading.

As at 1 March 2005, Statkraft Energi AS had the equivalent of 621 full-time employees.

Financial statements

Profit for the year totalled NOK 1,471 million before tax, and NOK 1,036 million after tax. Net operating revenues amounted to NOK 2,481 million, while operating expenses amounted to NOK 1,134 million. Operating profit totalled NOK 1,347 million. Dividends received from subsidiaries came to NOK 749 million. Net financial income totalled NOK 124 million, while the company recorded a tax expense of NOK 435 million for 2004.

Operating activities generated a cash flow of NOK 619 million, while the company's short-term tied capital rose by NOK 3,731 million. Operating activities therefore generated a negative net cash flow of NOK 3,112 million.

NOK 161 million was invested in property, plant and equipment. This relates mainly to the day-to-day renewal and upgrading of its own power generation facilities. The sale of assets, primarily Kraftverkene i Øvre Namsen, generated a cash flow of NOK 1,294 million. The company has also reduced its lending by NOK 6,039 million, primarily as a result of repayments from subsidiaries. Investing activities generated a positive net cash flow of NOK 7,155 million.

Long-term debt amounting to NOK 4,909 million was repaid, while other long-term tied capital was reduced by NOK 46 million. Financing activities generated a negative net cash flow of NOK 4,863 million.

Cash and cash equivalents was reduced by NOK 820 million to stand at NOK 233 million at the close of the year.

In accordance with the provisions of the Accounting Act, the board of directors confirms that the financial statements have been prepared on the assumption that the business is a going concern. The board proposes the following allocation of the profit for the year 2004:

(NOK million)	Statkraft Energi AS
Net profit for the year	1 036
Allocation of net profit for the year:	
To other equity	1 031
To dividend	5

As at 31 December 2004, Statkraft Energi AS had an equity ratio of 43.8 per cent. The company's interest-bearing debt ratio was 49.7 per cent. The company's distributable reserves as at 31 December 2004 amounted to NOK 322 million.

Strategic business and risk management

As the parent company in the group, Statkraft AS has adopted a set of principles for corporate governance which shall apply to the entire group. These principles are based as far as possible on the Norwegian Recommendation for Corporate Governance. A set of new business principles and a code of conduct have also been adopted.

The Statkraft Group uses a value-driven management model incorporating strategic and operational management and follow-up. The management model is based on the use of scorecards, forecasts, trend analyses, authorisations and cost KPIs. The group has created its own systems and routines for managing market-related, financial, operational and other risks.

The financing of the Statkraft Group is the responsibility of the parent company, Statkraft AS, which handles all financial management and risk mitigation on behalf of Statkraft Energi AS. Authorisations and limits for interest rate and currency exposure, as well as for credit and liquidity risks, therefore follow the group's overall risk management policies. The company's liquidity is included in Statkraft's group cash pool.

The company's risk management is explained in Note 25 to the financial statements.

Working environment

The annual organisation and leadership survey of the organisation taken over from Statkraft SF on 1 October 2004 shows that 78.5 per cent of the workforce is satisfied with their working environment. This is considered a very good result.

The company is continuing Statkraft SF's strong focus on safety and the working environment by means of long-term efforts to secure local support for and management follow-up of issues pertaining to health, safety and the environment (HSE). One of the measures undertaken during the autumn of 2004 was the staging of an HSE awareness campaign focusing on the individual employee's responsibility within the area of HSE. No serious injuries were incurred during 2004, though five lost-time injuries did occur. The company's sickness absence rate stood at 4.3 per cent.

Gender equality

Women made up 22.8 per cent of the total workforce, while 18.4 per cent of managerial positions were held by women. The company is continuing Statkraft SF's efforts to achieve equal pay for equal work. Schemes offering flexible working hours for those employees with care responsibilities are also important in the company's efforts to achieve gender equality.

External environment

Hydropower is a renewable resource and is environment-friendly compared with other sources of energy. Nevertheless, the construction and operation of power generation facilities will have an impact on the external environment. We seek to reduce the negative impact. The company aims to achieve zero environmental non-compliances, and is continuing Statkraft SF's emphasis on following up the environmental aspects of its business activities. This means that environmental impact and environmental risk are key issues in our day-to-day business operations, including our supervision of subcontractors. No serious environmental non-compliances were reported in 2004. However, there were several less serious environmental non-compliances, mainly minor violations of river management regulations.

Outlook

In 2005 we will continue to develop the company in line with our strategic objectives and the vision of being a European leader in environment-friendly energy. Statkraft Energi AS will strive to increase the value created by its core business: power generation and market activities.

At the start of 2005 the water level in Statkraft Energi AS's reservoirs was somewhat higher than normal. Based on current price expectations and normal water inflow and market conditions, the company's ordinary operations are expected to deliver a result in 2005 similar to that achieved in 2004.

The Board of Directors of Statkraft Energi AS

Oslo, 15 March 2005

Bård Mikkelsen
Chair

Christian Wilhelm Rynning-Tønnesen

Ingelise Arntsen

Jørgen Kildahl
CEO

INCOME STATEMENT

NOK million	Note	2004
Power sales revenues	3	**1 521**
Other operating revenues	5	**1 067**
Gross operating revenues		**2 588**
Transmission costs		**-107**
Net operating revenues		**2 481**
Salaries and payroll costs	6,7	**-271**
Compensation and licence fees	8	**-92**
Other operating expenses	9	**-544**
Depreciation and amortisation	13, 14	**-227**
Operating expenses		**-1 134**
Operating profit		**1 347**
Financial income	10	**1 166**
Financial expenses	10	**-1 042**
Net financial items		**124**
Profit before tax		**1 471**
Tax	11	**-435**
Net profit		**1 036**

Allocation of net profit for the year

To other equity	-1031
To dividend	-5

BALANCE SHEET

NOK million	Note	31.12.04
ASSETS		
Intangible assets	13	**1 732**
Property, plant & equipment	14	**21 582**
Investments in subsidiaries and associates	15	**19 785**
Other long-term financial assets	16	**22 549**
Fixed assets		**65 648**
Inventories		**36**
Receivables	17	**8 755**
Cash & cash equivalents		**234**
Current assets		**9 025**
Total assets		**74 673**
EQUITY AND LIABILITIES		
Paid-in capital	18	**31 707**
Retained earnings	18	**1 031**
Equity		**32 738**
Provisions	19	**2 178**
Long-term interest-bearing debt	20	**32 312**
Long-term liabilities		**34 490**
Tax payable	11	**193**
Other interest-free liabilities	21	**7 252**
Current liabilities		**7 445**
Total equity and liabilities		**74 673**
Pledges		**2 090**
Guarantees		**1 691**

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Oslo, 15 March 2005

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STATEMENT OF CASH FLOW

NOK million		2004
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax		1 471
Gain/loss on sales of fixed assets		-982
Depreciation and write-downs		227
Tax paid		-97
Cash flow from operating activities		619
Change in other short-term items		-3 731
Net cash flow from operating activities	A	-3 112
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant & equipment		-161
Proceeds from sale of fixed assets (gross)		1 294
Repayment of loans to third parties		6 039
Investments in other companies		-17
Net cash flow from investing activities	B	7 155
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long-term liabilities and subordinated loans		-4 909
Change in other long-term receivables and payables		46
Net cash flow from financing activities	C	-4 863
Net cash flow through the year	A+B+C	-820
Cash received as contribution in kind		1 053
Cash & cash equivalents as at 31.12		233

ACCOUNTING PRINCIPLES

Accounting regulations

The annual accounts have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

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. Profits/losses from subsidiaries are recognised in the year in which they are 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 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.

Partly owned power plants. Co-owned power plants, ie those power plants which Statkraft operates, but in which others also hold shares, and those power plants operated by others, but in which Statkraft holds shares, 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.

Public grants
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 company pays compensation to landowners for the right to use waterfalls and land. In addition, compensation is paid to others for damage caused to forests, land, telecommunication lines, etc. 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 the notes 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 the notes to the financial statements.

Pension costs
Pension costs and pension liabilities 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 unamortised 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 tax payable and changes in deferred tax liabilities/assets. The tax payable is 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 on the balance sheet are only recorded to the extent that it is probable that the asset will be realised in the future. Tax related to equity transactions is recorded against equity.

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 normative 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 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 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 plants 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.

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 recorded at cost.

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 useful economic life of the underlying asset.

Reservoir water. 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. Each portfolio is then valued in accordance with the lower value principle.

Cash and cash equivalents. Cash and cash equivalents also includes 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 cost.

Restructuring provisions. When it is 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 depends 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 accrued 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 revenues.

Interest
Interest instruments are treated as accruals in the same way as 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 (buy-back), 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.

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 profit/loss for the year in order to show cash flow generated by operating activities, investing activities and financing activities respectively.

Consolidated accounts
No consolidated accounts have been prepared for Statkraft Energi AS since Statkraft AS prepares consolidated accounts for the group as a whole.

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ACCOUNTING PRINCIPLES

NOTE 1 IMPORTANT INDIVIDUAL TRANSACTIONS

2004

Reorganisation

In connection with the transformation of Statkraft SF to a limited company, Statkraft SF's existing business activities were, with certain exceptions, transferred to the newly created company, Statkraft Energi AS. The reorganisation, which has been undertaken such that accounting continuity has been maintained, came into effect from 1 September 2004. Subsequent reorganisation has resulted in Statkraft Energi AS becoming a wholly owned subsidiary of Statkraft AS with effect from 1 October 2004.

Major sales transactions

Statkraft Energi AS 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.

NOTE 2 SEGMENT INFORMATION

The bulk of Statkraft Energi AS's business activities lie within the fields of power generation and trading.

The majority of the company's operating revenues derive from Norway.

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 entering into positions to buy or sell. Short positions are taken to hedge the price of a specific fraction of the planned future output. Long positions are taken to adjust the hedging level if assumptions change and Statkraft realises that its hedged position is too high. All contracts are recorded as an adjustment to the underlying revenues from power generation, based on the margin between the contract price and the spot price (system price for financial contracts).

	Statkraft Energi
NOK million	**2004**
Production sold at spot price	1 972
Difference between spot price and statutory-priced contracts [1)]	-860
Revenues from commercial contracts [2)]	621
Other net power sales revenues[3)]	-212
Total	**1 521**

[1)]Industrial contracts at prices determined by the Storting as well as power supplied to local authorities at concessionary prices. In 2004 these were NOK 110 and NOK 80/MWh, respectively. The majority of statutory-priced industrial contracts are due to expire in the years to 2011.

[2)]Includes a financial export contract for 652 GWh which runs until 30.06.2020.

[3)]Includes gains/losses on trading, margin on production optimisation and third-party concessionary power.

Statkraft Energi 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	2,4	2,2	2,2	2,2
Total fixed-priced contracts	16,2	15,0	12,9	10,9	11,0	11,0	3,3	2,3	2,3

As a result of agreements on accelerated reversion that were entered into from 1957 to 1966, Statkraft Energi 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 31.12.2010. The remaining leasing contracts run until 31.12.2030.

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
Output 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

Figures in TWh	Reservoir water levels as at 31.12.2004	Maximum capacity	Power generation[1)] 2004
Statkraft Energi	26,3	33,5	8,6
Group	30,1	39,1	34,8

[1)]After losses

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 through the year because the level of power generation remained low for the entire year.

NOTE 5 OTHER OPERATING REVENUES

NOK million	2004
Power plant leasing revenues	22
Other leasing and service sales revenues	56
Gains/losses on sale of property, plant & equipment	982
Compensation payments	8
Total	**1 067**

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

NOTE 6 SALARIES AND OTHER PAYROLL COSTS

NOK million	2004
Salaries	194
Employers' national insurance contributions	27
Pension costs	48
Other benefits	1
Total	**271**

The company's CEO is a member of Statkraft's group management and is employed by Statkraft SF. His services are purchased from Statkraft SF.

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. No directors' fees were paid to members of the board in 2004.

On average the company had the equivalent of 807 full-time employees in 2004.

NOTE 7 PENSIONS

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 commitments and assets has been undertaken such that accounting continuity has been assured and based on actuarial calculations as at 1 September 2004.

Occupational pension schemes
Statkraft Energi has an occupational pension scheme for its 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 salary, up to a maximum of 12G (12 times the National Insurance Scheme's basic amount). 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. Pension fund assets are therefore recorded at book value.

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.

Unfunded pension liabilities
In addition to the above, Statkraft Energi has entered into pension agreements that provide all employees whose pensionable income 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 group executives with a surviving spouse's and child's pension. These pensions are funded out of the company's current income.

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

	2004
Annual discount rate	5.1%
Salary adjustment	3.3%
Adjustment of current pensions	2.9%
Adjustment of National Insurance Scheme's basic amount (G)	2.9%
Forecast voluntary exit	
• Up to age 45	2.5%
• Between age 45 and 60	0.5%
• Over age 60	0.0%
Projected yield	5.7%
Rate of inflation	2.5%
Tendency to take early retirement (AFP)	20.0%

Pension cost breakdown

2004	01.09–31.12 NOK million
Net present value of accrued pension entitlements for the year	10
Interest costs on pension liabilities	14
Gross pension cost for the year	24
Projected yield on pension fund assets	-12
Recognised effect of estimate deviations	36
Recognised effect of plan changes	0
Net pension cost for the year	48

Reconciliation of pension liabilities and pension fund assets

	31.12.2004 NOK million
Gross pension liabilities	855
Pension fund assets	-734
Net pension liabilities	120
Unamortised estimate deviations	-73
Unrecognised plan changes	-17
Employers' national insurance contributions	4
Net pension liabilities on the balance sheet	34
Pension liabilities – unfunded schemes	79
Pension assets – funded schemes	-45

NOTE 8 COMPENSATION AND LICENCE FEES

Statkraft Energi

NOK million	2004
Licence fees	62
Compensation payments	30
Total	**92**

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 5,100 million and NOK 800 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 EXPENSES

NOK million	2004
Materials	25
External services	195
Expenses, power plants operated by third parties	54
Other operating expenses	270
Total	**544**

Deloitte Statsautoriserte 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:

Auditing fees	327 000
Audit-related assistance	1 267 920
Total	**1 594 920**

NOK 1,008,500 of audit-related assistance is associated with the transfer of business activities from Statkraft SF.

NOTE 10 FINANCIAL INCOME AND EXPENSES

Financial income

NOK million	**2004**
Interest received from group companies	325
Other interest received	63
Dividend from subsidiaries	749
Other financial income	29
Total	**1 166**

Financial expenses

NOK million	**2004**
Interest paid to group companies	689
Other interest paid	77
Other financial expenses	276
Total	**1 042**

NOTE 11 TAX

The total tax expense is calculated as follows:

NOK million	**2004**
Property tax	97
Natural resource tax	148
Natural resource tax carried forward/refunded	-148
Resource rent tax	45
Tax payable	142
Change in deferred tax	293
Total tax expense	435

Reconciliation of nominal Norwegian tax rates and effective tax rates

NOK million	
Profit before tax	750
Nominal tax rate	28 %
Expected tax expense at a nominal rate of 28 %	210
Impact on taxes of:	
Property tax	70
Changes in differences in resource rent tax	213
Tax-free revenue	-274
Other, net	217
Tax expense	435
Effective tax rate	58 %

Specification of temporary differences and tax loss carryforwards

Current assets/current liabilities	60
Property, plant & equipment	-480
Pension liabilities	-11
Other long-term items	3
Deferred tax assets – resource rent tax	-281
Total deferred tax assets	-709

Loss carryforwards expire in 2013.	
Tax rates applied	28/20%

Statkraft Energi AS has put up security for tax on assets transferred in connection with the reorganisation of Statkraft SF in the amount of NOK 508 million.

The guarantees are valid for a period totalling three years from 2005.

NOTE 12 SHARE OF REVENUE AND EXPENSES IN POWER PLANTS OPERATED BY THIRD PARTIES

With respect to power utilities in which Statkraft Energi AS has shares but no operating responsibility, cf. Note 14, the company appropriates for its own use a proportion of the power utility's output corresponding to its shareholding. This electricity is included in the company'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 expenses 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 Energi AS's share of revenue and expenses related to these power utilities. The calculated revenues are Statkraft's actual power appropriation, multiplied by the average price for saleable electricity, as well as Statkraft's share of concessionary power sales revenues.

NOK million	2004
Calculated power sales revenues	209
Other operating revenues	985
Transmission costs	8
Net operating revenue	1 202
Compensation and licence fees	6
Other operating expenses	54
Depreciations	26
Net operating expenses	86
Calculated profit before tax and financial items	1 116

NOTE 13 INTANGIBLE ASSETS

NOK million	2004
Licences, waterfall rights, etc	1 023
Deferred tax assets	709
Total	**1 732**

NOK million	Rights
Contribution in kind 01.09.2004	1 122
Accumulated depreciation 31.12.2004	99
Book value 31.12.2004	1 023
Depreciation for the year	7
Estimated useful economic life	7 years to perpetuity

See Note 11 for more details on deferred tax assets.

NOTE 14 PROPERTY, PLANT & EQUIPMENT

Statkraft Energi AS NOK million	1 Water regulation facilities	2 Turbines, generators, etc	3 Shares in power plants operated by third parties	4 Underground facilities, roads, buildings, bridges, quays	5 Plants under construction	6 Other	Total
Contribution in kind 01.09.2004	15 572	6 016	2 764	4 787	348	1 007	30 494
Additions 2004	52	24	3	42	0	41	161
Disposals 2004	0	8	365	8	65	63	508
Capitalised interest on building loans	0	0	0	0	13	0	13
Dep./write-downs 31.12.2004	3 392	2 819	693	1 131	0	543	8 578
Book value 31.12.2004	**12 233**	**3 213**	**1 709**	**3 689**	**296**	**442**	**21 582**
Depreciation for the year	73	49	20	24	0	54	220
Depreciation period (years)	30–60	15–30	5–50	50–60		3–40	

Power plants	Third-party shareholdings
Eidfjord	35.00%
Folgefonn	14.94%
Grytten	12.00%
Kobbelv	17.50%
Leirdøla	35.00%
Svartisen	30.00%
Svorka	50.00%
Ulla-Førre	28.00%
Vikfalli	12.00%

Statkraft Energi AS has the following shareholdings in power plants operated by third parties:

NOK million	Shareholding	Share of property, plant & equipment
Aurlandsverkene	7.00%	363
Mørkfoss-Solbergfoss	33.33%	54
Røldal-Suldal Kraft AS[1)]	8.74%	-
I/S Sira-Kvina kraftselskap	32.10%	1 292
sum		**1 709**

[1)]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.

NOTE 15 SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Name	Registered office	Shareholding and voting rights
Statkraft Holding AS	Oslo	100 %
Statkraft Energy Enterprise AS	Oslo	100 %
Statkraft Energy Europe AS	Oslo	100 %
Statkraft Vind AS	Oslo	100 %
Statkraft Forsikring AS	Oslo	100 %
Finnmark Energi AS	Alta	100 %
Statkraft Norfund Power Invest AS	Oslo	50 %
Naturkraft AS	Bærum	50 %

NOTE 16 OTHER LONG-TERM FINANCIAL ASSETS

NOK million	2004
Loans to group companies	22 325
Bonds and other long-term receivables	152
Pension fund assets	45
Other shares and securities	27
Total	**22 549**

The item "Bonds and other long-term receivables" includes paid natural resource tax which may subsequently be offset against payable income tax.

NOTE 17 RECEIVABLES

NOK million	2004
Accounts receivable	156
Accrued revenues, etc	282
Other receivables	551
Current receivables from group companies	7 766
Total	**8 755**

Accounts receivable are net of provisions for bad debts.

NOTE 18 EQUITY

NOK million	Paid-in capital	Retained earnings	Total equity
Initial capital	0,1		0,1
Capital increase	31 554		31 554
Profit 2004		1 036	1 036
Share issue expenses	-1		-1
Group contribution received	154		154
Allocated to dividend for 2004		-5	-5
Equity as at 31.12.2004	**31 708**	**1 031**	**32 738**

Shares

Owner	Face value	No. of shares	Shareholding
Statkraft AS	100	200 000 000	100 %

NOTE 19 PROVISIONS

NOK million	2004
Pension commitments	79
Other provisions	2 099
Total	**2 178**

Pension commitments are described in more detail in Note 7, while deferred tax is covered in Note 11.

Other provisions for 2004 include NOK 1,566 million in advance payments received in connection with power sales contracts, a recognised gain of NOK 422 million linked to terminated foreign currency contracts and a provision of NOK 45 million to cover restructuring expenses linked to downsizing.

NOTE 20 LONG-TERM INTEREST-BEARING DEBT

NOK million	2004
State-guaranteed loans, back-to-back from Statkraft SF	28 236
Not state-guaranteed loans, back-to-back from Statkraft AS	4 059
Other liabilities	17
Total for the Statkraft SF Group	**32 312**

The figures include the effect of currency swap agreements associated with the loans.

Breakdown of debt by currency:

NOK million	2004
Debt in NOK	-14 700
Debt in SEK	14 717
	17

The currency breakdown above takes into account underlying currency swaps.
The nominal average interest rate for NOK and SEK is 6.69 per cent and 2.33 per cent, respectively.

Statkraft Energi AS has debts totalling NOK 37.8 billion to Statkraft AS, cf. the back-to-back agreements specified above.

Following the end of the year, these inter-company balances were refinanced, resulting in the termination of the back-to-back agreements during January 2005. After refinancing, the outstanding debt amounts to NOK 17 million.

NOTE 21 OTHER INTEREST-FREE LIABILITIES

NOK million	2004
Accounts payable	229
Public charges payable	97
Accrued costs	218
Other interest-free liabilities	50
Current liabilities to group companies	6 657
Total	**7 252**

NOTE 22 PLEDGES, OBLIGATIONS AND GUARANTEES

Pledges

Under certain circumstances county councils 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 12. To finance the acquisition of such rights, the county councils/companies have been granted permission to pledge the power plant as security. The mortgage debt raised by the county councils under this scheme totals NOK 2,090 million.

As at 31.12.2004, the book value of the pledged assets in Statkraft Energi AS totalled NOK 6,394 million.

Obligations and guarantees

Statkraft Energi AS has off-balance-sheet obligations and guarantees totalling NOK 1,691 million. Of this NOK 1,637 million relate to power swap agreements, NOK 35 million to unpaid taxes, and NOK 19 million to other guarantees.

NOTE 23 FINANCIAL INSTRUMENTS

Please see Note 25 for details of the use of interest rate and currency instruments.

Interest rate instruments are accrued in the accounts in the same way as interest-bearing debt and receivables. Unrealised gains/losses on fixed interest positions (fixed-interest swaps and fixed-interest debt) are not recognised in the accounts since they are not considered to be part of a hedging instrument.

When fixed-interest swaps are cancelled, realised gains/losses will be netted in the balance sheet and recorded as an accrual over the outstanding term of the swap. This principle is applied both to swaps that are linked to specific loans and to portfolio swaps which are used to achieve the desired exposure for the portfolio. When debt is repaid prematurely (buy-back), gains/losses will be recorded in the income statement. Swaps linked to repaid loans will normally be cancelled. Gains/losses on these swaps will, like their underlying loans, be recorded in the income statement.

Book value and fair value of interest rate and currency instruments

	Statkraft Energi AS	
	31.12.2004	
	Book value	Fair value
Interest rate swaps	0	642
Interest rate and currency swaps	203	897
Currency forward contracts	-12	-15
Total	191	1 523

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

Power trading

Derivatives recorded at fair value

NOK million	Fair value 2003	Recognised change in value 2004	Fair value 2004
Trading portfolio	235	-195	40

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 broke down as follows per future time period:

NOK million	
2005	35
2006	5
2007	0
Total fair value 31.12.2004	40

Derivatives not recorded at fair value

Statkraft Energi AS has three power trading 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, para.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 from 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 trading 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 also the Elsam agreement below). 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 individual 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 therefore primarily derived from the area price risk (Helsinki, Stockholm and Norwegian price areas), spread risk and foreign exchange risk (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.

NOTE 24 CLOSELY RELATED PARTIES

An agreement has been signed for the purchase of transport services from the company Helikopterdrift AS.
The Chair 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 25 MARKET-RELATED RISK AND FINANCIAL RISK

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, 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 the long term 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 so that the expected earnings are maximised within the given risk criteria. Internal market exposure guidelines 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 (VaR) 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 the customer's individual 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. For this reason Statkraft must, in the long term, accept larger fluctuations in its financial results.

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. Future rate agreements (FRA) are also used to manage fixed-interest risk. Interest rate and currency swaps are used to achieve the desired currency on 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 to 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.

NOTE 26 EVENTS AFTER THE BALANCE SHEET DAY

During the first quarter 2005 efforts were made to transfer the office leasing agreement with Mustad Eiendom AS, sales of shares in subsidiaries and intra-group debt to other group companies. The transactions are expected to be completed during the first half of 2005.

NOTE 27 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.

Deloitte.

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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Statkraft Energi AS

AUDITOR'S REPORT FOR 2004

We have audited the annual financial statements of Statkraft Energi AS as of 31 December 2004, showing a profit of NOK 1,036,000,000. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing standards in Norway. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles in Norway
- the Company's management has fulfilled its duty to maintain the Company's accounting process in such a proper and well-arranged manner that the accounting process and the documentation is in accordance with the law and generally accepted accounting practices in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Oslo, 15 March 2005
Deloitte

Aase Aa. Lundgaard (signed)
State Authorised Public Accountant (Norway)

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