ANNUAL REPORT
SUSTAINABILITY REPORT
2005--

Statkraft

FINANCIAL KEY FIGURES--	UNIT OF MEASUREMENT	2005 ADJUSTED*	2005	PRO FORMA** 2004 ADJUSTED*	PRO FORMA** 2004	PRO FORMA** 2003
Statkraft AS Group						
From the Income Statement						
Gross operating revenues	NOK mill.	14 015	15 021	9 832	10 842	11 425
EBITDA	NOK mill.	9 505	10 233	5 936	6 791	6 937
Operating profit	NOK mill.	8 008	8 375	4 522	5 377	5 647
Share of profit from associated companies	NOK mill.	1 936	1 577	1 493	1 493	1 086
Net financial items	NOK mill.	-1 838	-1 504	-2 572	-2 240	-2 564
Profit before tax	NOK mill.	8 107	8 449	3 443	4 630	4 169
Net profit	NOK mill.	5 343	5 620	3 169	4 415	2 661
From the Balance Sheet						
Property, plant & equipment and intangible assets	NOK mill.	52 812	52 812	47 816	47 816	47 136
Investments in associated companies	NOK mill.	28 793	28 793	28 751	28 751	28 297
Other assets	NOK mill.	9 249	9 249	11 948	11 948	11 179
Total assets	NOK mill.	90 854	90 854	88 515	88 515	86 612
Total equity	NOK mill.	39 994	39 994	39 015	39 015	33 588
Interest-bearing debt	NOK mill.	31 251	31 251	39 827	39 827	40 671
Capital employed, basic[1]	NOK mill.	41 364	41 364	41 493	41 493	40 012
Cash flow						
Net change in cash flow from operating activities	NOK mill.	12 250	12 250	4 013	4 013	8 187
Dividend for the year to owner (incl. minority interests)	NOK mill.	4 788	4 788	3 474	3 474	2 655
Depreciation	NOK mill.	1 497	1 858	1 414	1 414	1 290
Maintenance investments[2]	NOK mill.	468	468	487	487	706
Expansion investments in new generating capacity[3]	NOK mill.	1 767	1 767	1 061	1 061	571
Investments in shareholdings[4]	NOK mill.	4 511	4 511	287	287	424
Cash and cash equivalents	NOK mill.	4 374	4 374	5 292	5 292	1 815
Unused drawing rights	NOK mill.	5 334	5 334	5 700	5 700	6 400
Financial variables						
FFO interest coverage[5]		3.6	4.1	2.3	2.7	2.2
Interest-bearing debt ratio[6]	%	43.9	43.9	50.5	50.5	54.8
Equity ratio[7]	%	44.0	44.0	44.1	44.1	38.8
Long-term rating - Standard & Poor's		BBB+	BBB+	BBB+	BBB+	BBB+
Long-term rating - Moody's		Baa1	Baa1	Baa2	Baa2	Baa2
Key figures, accounts						
EBITDA margin[8]	%	68	68	60	63	61
ROACE before tax[9]	%	19.3	20.2	11.1	13.2	13.7
Net return on investments in associated companies[10]	%	6.7	5.5	5.2	5.2	3.8
Return on total assets after tax[11]	%	7.8	8.1	6.0	7.5	5.6
Return on equity after tax[12]	%	13.5	14.2	8.7	12.2	8.4
Tax rate[13]	%	34.1	33.5	8.0	4.6	36.2
Key figures, upstream business* **						
Production cost/MWh[14]	NOK/MWh	53.3	53.3	52.5	52.5	51.6
Value added Optimisation and Hedging[15]	NOK mill.	1 442	1 442	1 844	1 844	1 008
Production, annual mean from generators	TWh	42.0	42.0	41.3	41.3	41.7
Production, sold volume	TWh	48.5	48.5	34.3	34.3	39.2
Installed capacity	MW	10 888	10 888	10 698	10 698	10 822
Reservoir capacity	TWh	37.5	37.5	39.0	39.0	39.2
Wholly and partly owned power plants (excl. small-scale power plants)	No.	156	156	140	140	144
Key figures, downstream business* **						
No. of distribution grid customers	1 000	265	265	266	266	263
Energy supplied	TWh	9.0	9.0	-	-	-
Distribution grid capital (NVE capital)[16]	NOK mill.	3 721	3 721	3 736	3 736	-
No. of end-user customers	1 000	82	82	79	79	75
Total volume supplied	TWh	2.0	2.0	1.8	1.8	1.6
Market variables* **						
System price	NOK/MWh	235	235	242	242	291
Electricity consumption in the Nordic market	TWh	390	390	385	385	377
Electricity generated in the Nordic market, actual	TWh	391	391	375	375	361
Statkraft's share of Nordic electricity production	%	12.4	12.4	9.1	9.1	10.8

**Adjusted for non-recurring items.*

***The Statkraft AS Group was formed on 1 October 2004 with the transfer of the bulk of Statkraft SF's operations to Statkraft AS and its subsidiaries. In order to facilitate a comparison between 2005 and previous years, pro forma figures have been calculated for the income statement, the balance sheet, and the cash flow statement for 2003 and 2004. The pro forma figures have been calculated on the assumption that the reorganisation had been in place for the entire accounting period. The pro forma figures are unaudited.*

****Key figures apply to consolidated companies (not associated companies) in the Nordic region.*

NON-FINANCIAL KEY FIGURES--

Environmental responsibility--	UNIT OF MEASUREMENT	2005	2004	2003
Power production, annual mean	TWh	42.0	41.3	41.7
Of which hydropower	TWh	41.4	41.2	41.7
Of which wind power	TWh	0.6	0.1	0.02
Power production, actual	TWh	48.5	34.3	39.2
Of which hydropower	TWh	48.1	34.2	39.1
Of which wind power	TWh	0.4	0.1	0.1
Of which with green certificates	TWh	0.6	0.4	0.1
District heating produced	TWh	0.4	0.4	0.4
Proportion of renewable power production	%	99	99	99
Serious environmental non-compliances	No.	1	0	4

Social responsibility--	UNIT OF MEASUREMENT	2005	2004	2003
Distribution of value added****				
Owner (incl. minority interests)	NOK mill.	4 788	3 474	2 655
State and local authorities	NOK mill.	3 735	985	2 223
Lenders	NOK mill.	2 312	2 954	3 033
Employees	NOK mill.	1 185	1 075	1 257
The company	NOK mill.	685	823	-73
Value lost, statutory-priced industrial contracts[17]	NOK mill.	-1 719	-2 296	-3 503
Proportion sold at statutory prices	TWh	14.6	17.8	18.6
Value lost, concessionary fixed-price contracts[17]	NOK mill.	-533	-521	-731
Proportion sold at concessionary prices	TWh	2.8	2.8	2.9
Reputation professionals[18]	%	77	-	-
Reputation general public[18]	%	45	-	-

Building competence--	UNIT OF MEASUREMENT	2005	2004	2003
Full-time jobs (equivalent)*****	No.	1 965	1 894	1 965
H1 (No. of lost-time injuries per million hours worked)		6.6	7.2	7.0
H2 (Total no. of injuries per million hours worked)		17.9	14.1	18.0
Sickness absence rate	%	3.8	4.2	4.1
Organisation and management survey (scale of 1 to 5, where 5 is best)		4.0	4.0	3.9
Recruitment[19]		28.5	29.0	38.0

*****2003 and 2004 are pro forma figures.*

******The number of full-time jobs (equivalent) in 2003 and 2004 has been calculated in a different way than in earlier reports.*

1) Property, plant & equipment + intangible assets + receivables + inventories - provisions for liabilities - taxes payable - other interest-free liabilities + provisions for dividend payable

2) Book value of maintenance investments to sustain current generating capacity

3) Book value of investments to expand generating capacity

4) Purchase of shares as well as equity increases in other companies

5) Operating profit + financial income + depreciation + dividend from assoc. companies - taxes payable / Financial expenses

6) Interest-bearing debt x 100 / Interest-bearing debt + equity

7) Total equity x 100 / Total assets

8) Operating profits before depreciation x 100 / Gross operating revenues

9) Operating profit x 100 / Average capital employed, basic

10) Share of profit from associated companies x 100 / Investments in associated companies

11) (Net profit + financial expenses x 0.72) x 100 / Average total assets

12) Net profit x 100 / Average total equity

13) Tax expenses x 100 / Profit before tax

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

15) Added value of physical and financial contracts. at commercial terms and conditions compared to spot price

16) Key figure used to calculate the revenue ceiling 2004-2006. Published at www.nve.no

17) Loss on statutory-priced contracts compared to spot price

18) Percentage with a good overall impression. Source: MMI

19) Ranking as a preferred employer among recent graduates. Source: Universum

EUROPE HAS A GREAT NEED FOR ENVIRONMENT-FRIENDLY ENERGY

In the years to come rising environmental standards and increasing energy requirements will lead to a sharp rise in demand for more environment-friendly energy.

At the same time, national and regional markets will gradually become more integrated, with a common European energy market becoming a reality in the future. Statkraft is already Europe's second-largest producer of renewable energy, and it is the company's stated ambition to succeed in this market and help make Europe's energy supply more environment-friendly.

--ABOUT STATKRAFT

Statkraft is a responsible resource manager and environment-friendly challenger in the European energy market. The Statkraft Group is the third-largest electricity producer in the Nordic region, and the second-largest producer of environment-friendly energy in Europe. The company operates hydropower and wind power generating facilities, builds gas-fired power plants with the best available technology and conducts research into the environment-friendly energy solutions of the future.

With about 2,000 employees in Norway, Sweden, Finland, Germany, the Netherlands and the UK, the Statkraft Group is a major energy player in Europe. Highly qualified staff engage in physical and financial power trading from offices in the Nordic region and on the Continent. Statkraft owns shares in several regional companies in Norway which handle distribution grid operations and end-user sales.

ENERGY SOURCES

WATER-- THE BULK OF STATKRAFT'S PRODUCTION IS BASED ON HYDROPOWER. STATKRAFT'S ELECTRICITY COMES FROM 133 HYDROPOWER PLANTS IN NORWAY, 19 IN SWEDEN AND FOUR IN FINLAND.

WIND-- WIND POWER IS ONE OF THE MOST ENVIRONMENT-FRIENDLY METHODS FOR LARGE-SCALE ENERGY PRODUCTION THAT EXISTS TODAY. IN RECENT YEARS STATKRAFT HAS CONSTRUCTED AND PUT INTO OPERATION SEVERAL WIND FARMS IN NORWAY.

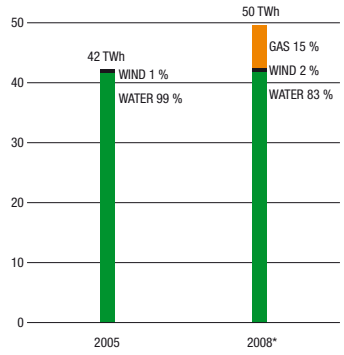
GAS-- GAS POWER CAN REPLACE FAR MORE POLLUTING COAL AND OIL-BASED ELECTRICITY PRODUCTION. STATKRAFT IS CURRENTLY BUILDING GAS-FIRED POWER PLANTS WITH THE BEST AVAILABLE EMISSION-REDUCING TECHNOLOGY IN NORWAY AND GERMANY.

OTHER-- STATKRAFT'S SUBSIDIARY TRONDHEIM ENERGIVERK PRODUCES DISTRICT HEATING. STATKRAFT PLAYS A KEY ROLE IN DEVELOPMENT PROJECTS RELATING TO TIDAL POWER, OSMOTIC POWER, AND HYDROGEN AS AN ENERGY CARRIER.

GENERATION

TODAY, STATKRAFT'S ELECTRICITY COMES FROM FACILITIES IN NORWAY, SWEDEN AND FINLAND.

IN THE NEXT FEW YEARS, STATKRAFT WILL INCREASE ITS OUTPUT BY APPROX. 8 TWH, PRIMARELY THROUGH THE CONSTRUCTION OF GAS-FIRED POWER PLANTS. SUCH FACILITIES IN GERMANY WILL HAVE AN OUTPUT OF 5-6 TWH.



*Including capacity under construction.

Kristin Steenfeldt-Foss
Department head

Jan Daleng
Technical specialist

Einar O. Haugen
HR manager abroad

Helge Barsgård
Master craftsman

Anette Surtevjo Moen
Technical officer

Statkraft is a state-owned limited company that is divided into three business areas. Generation and Markets produces and sells electricity directly to large customers and via power exchanges, New Energy develops and constructs new environment-friendly generating facilities both in Norway and the rest of Europe, and Regional comprises Statkraft's shareholdings in regional power utilities through which the company produces, sells and distributes electricity to private consumers and businesses.

Statkraft has a strong position in the Nordic region, with a unique infrastructure for producing environment-friendly energy, a comprehensive system for the collection and analysis of market data, and considerable market and operating experience. This forms the starting point for an active growth strategy based on the acquisition and construction of environment-friendly generating capacity in Europe, the development of wind power and other new, renewable generating capacity, the development of the company's Norwegian shareholdings and a further optimisation of its existing business activities.

TRADING

DIRECT LARGE CUSTOMER SALES-- STATKRAFT HAS AN EXTENSIVE PORTFOLIO OF SUPPLY CONTRACTS AT COMMERCIAL TERMS AND CONDITIONS WITH INDUSTRIAL COMPANIES IN NORWAY AND ABROAD. IN THE PERIOD TO 2020 STATKRAFT HAS AGREEMENTS TO SUPPLY A TOTAL OF 165 TWH UNDER THESE TYPES OF CONTRACTS.

MARKETPLACES-- A LARGE PROPORTION OF STATKRAFT'S ELECTRICITY OUTPUT IS TRADED ON THE NORDIC POWER EXCHANGE NORD POOL. STATKRAFT IS A MAJOR FINANCIAL PLAYER ON NORD POOL, THE GERMAN POWER EXCHANGE EEX, THE DUTCH POWER EXCHANGE APX AND OTHER EUROPEAN POWER EXCHANGES.

DISTRIBUTION – END-USER SALES

STATKRAFT IS INVOLVED IN DISTRIBUTION GRID OPERATIONS AND END-USER SALES IN NORWAY THROUGH THE COMPANIES TRONDHEIM ENERGIVERK, SKAGERAK ENERGI, BKK, AGDER ENERGI, AND FJORDKRAFT. TOGETHER THESE COMPANIES HAVE 595,000 DISTRIBUTION GRID CUSTOMERS AND 582,000 END-USER CUSTOMERS.

--YEARS OF EFFORT ARE BEARING FRUIT

Statkraft can look back on a very successful year, with the company achieving its best ever financial results. High output levels in Norway and stable prices have been important factors for our success. We have also increased our earnings by exploiting our analytical capability through good optimisation of our water resources and dynamic market activity. The strength of our business concept gives us good opportunities to increase long-term value creation through our activities in Europe, where there is a growing demand for environment-friendly energy.

The European power markets are undergoing great changes. Key words in this context include deregulation, consolidation, changes in players' competitiveness, new framework conditions for environment- and climate-friendly energy, and measures to ensure supply reliability. Statkraft is well-equipped to exploit the new opportunities these provide – with our combination of flexible and environment-friendly energy and unique market expertise. Supported by a well-functioning production infrastructure, highly adjustable output, and a substantial reservoir capacity, our power trading business complements our other activities. A flexible generating capacity, which supports our trading business, is the basis of our further expansion.

With the acquisition of 24 hydropower plants in Sweden and Finland and the commencement of construction work on two gas-fired power plants in Germany and one in Norway, 2005 has been in many ways a breakthrough year for Statkraft when it comes to establishing our presence in Europe. Integrating new operational and market activities will ensure profitable growth in a market where volume and economies of scale are becoming increasingly important. The gas-fired power plants are designed for flexible use and will be completed in 2007. First-hand knowledge of both the Nordic hydropower-based market and the continental thermal energy market will give us a greater competitive advantage in Europe. Closer coordination between hydropower and thermal power also has environmental benefits. Statkraft has moved closer to its vision of being a European leader in environment-friendly energy.

--BUSINESS PRINCIPLES

Our business principles give us the strength we need to meet new challenges at home and abroad.

1
Value creation
– Creating lasting value

2
Environmental responsibility
– Nature at work

3
Social responsibility
– Energy for generations

4
Building competence
– People first

--OUR VISION
To be a European leader in environment-friendly energy, defines our long-term ambition and lays our course.

Here at home the status of our shareholding in Trondheim Energiverk has now been clarified. This means we can continue our efforts to develop strong regional companies. We wish to create a group of companies which is capable of exploiting the synergies available to them, in order to achieve a more cost-effective operating model. The collaboration which has been established between Skagerak Energi and Statkraft Energi on the operating front is a platform on which we can continue to build.

We have recently expanded our market operations. New products, such as green certificates and greenhouse gas quotas, have been included in our portfolio. We are convinced that trading in green certificates is the most cost-efficient way of procuring new, renewable power. Effective and predictable framework conditions in line with those of our competitors are important. The authorities have announced the implementation of new schemes, which we hope will promote profitable investments in renewable energy.

Our highly competent employees are committed to helping Statkraft achieve its goals. At the same time, the knowledge that the energy industry is vital to the good life – today and tomorrow – provides an extra incentive for further development. Statkraft wishes to actively contribute to energy solutions for the future, which will have to be more efficient and more balanced with regard to global sustainability. Our innovation effort to develop new energy technologies and efficient, secure resource utilisation is a step towards a sustainable and profitable future.

A good cash flow from operating activities has given Statkraft a sound financial base. We constantly seek to improve the group's position, so that we can meet our owner's return-on-investment targets, as well as be a responsible resource manager and an environment-friendly challenger in a European energy market. Financial strength is vital in an industry characterised by growth and consolidation. I am convinced that our strategic advantage gives us a solid foundation for a continued growth in profits and returns in the years to come.

BÅRD MIKKELSEN
PRESIDENT & CEO

--SUSTAINABLE INDUSTRY NEEDS SUSTAINABLE ENERGY

Europe is as dependent on gas as Norway is on electricity, and demand continues to grow. In Europe gas is used for heating, cooking and, not least, for electricity generation. With two gas-fired power plants in Germany, Statkraft will be an active player with regard to both gas trading and environment-friendly gas-fired power generation on the Continent.


Europe o

--ECONOMIC GROWTH, WITH ALL THE BENEFITS TO SOCIETY THAT IT BRINGS, REQUIRES A PLENTIFUL SUPPLY OF ENVIRONMENT-FRIENDLY ENERGY. GAS-FIRED POWER PLANTS BRIDGE THE GAP BETWEEN THE OIL AND COAL AGE AND A FUTURE BASED ON RENEWABLE ENERGY. IN 2005 STATKRAFT DECIDED TO GO AHEAD WITH THE CONSTRUCTION OF TWO GAS-FIRED POWER PLANTS IN GERMANY, THEREBY TAKING A HUGE STEP INTO A MARKET THAT HAS A MAJOR COMMERCIAL AND ENVIRONMENTAL POTENTIAL.

--EUROPEAN HOMES NEED MORE GREEN ELECTRICITY









Norwegian households use an average of 20,000 kWh of electricity a year. Consumption further south and east in Europe is slightly less, but it is growing rapidly in pace with economic development. The construction of more environment-friendly electricity generating capacity is vital if European households' energy requirements are to be met in the years ahead, while also meeting the targets for reduced emissions and pollution which have been agreed by international treaty.









CARBON QUOTAS AND PLAY A KEY ROLE IN OUR GREENHOUSE GAS HAS MADE ENVIRONME AN ATTRACTIVE COMM EUROPEAN MARKET.

--A GLOBAL BATTLE

According to EU directive 2001/77/EC, 22 per cent of the total national energy consumption of EU member states will have to come from renewable sources by 2010. Today, that figure is around 16 per cent. In line with the Kyoto Protocol, the EU has also committed itself to cutting greenhouse gas emissions by 8 per cent from its 1990 level in the period 2008–2012. Almost all of Statkraft's electricity production comes from renewable sources, and the group offers green electricity with guarantees of origin

GREEN CERTIFICATES

THE BATTLE TO

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NT-FRIENDLY ENERGY

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and green certificates. The green certificates act as proof that the electricity has been generated from renewable sources, that it has been sold only once and that the power plant that produced it has been audited and certified by an independent agency.

Statkraft's substantial green generating capacity gives it a competitive advantage in a European market where demand for such energy is growing.

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JAN:

-- A COOPERATION AGREEMENT IS SIGNED WITH THE GERMAN ENERGY COMPANY MARK-E FOR THE CONSTRUCTION OF A 400 MW GAS-FIRED POWER PLANT WITH AN ESTIMATED ANNUAL OUTPUT OF AROUND 2.4 TWH IN HERDECKE, SOUTH OF DORTMUND. DUE FOR COMPLETION IN 2007. --

FEB:

-- A LICENCE IS GRANTED FOR THE ESTABLISHMENT AND OPERATION OF A PILOT TIDAL POWER PLANT IN KVALSUNDET IN TROMSØ. THE PLANT IS EXPECTED TO GENERATE 3.6 GWH OF ELECTRICITY PER YEAR. --

MAY:

-- THE THEN PM KJELL MAGNE BONDEVIK OPENS TWO NEW SMALL-SCALE POWER PLANTS IN HARDANGER: THE ØVRE AND NEDRE BERSÅVATN PLANTS. ALTHOUGH SMALL, THEY CAN MEET THE ELECTRICITY NEEDS OF AROUND 2,100 HOUSEHOLDS. --

JUN:

-- THE BOARD OF NATURKRAFT AS (IN WHICH STATKRAFT HAS A 50 % STAKE) DECIDES TO GO AHEAD WITH THE CONSTRUCTION OF NORWAY'S FIRST GAS-FIRED POWER PLANT AT KÅRSTØ IN ROGALAND. --

-- STATKRAFT DECIDES TO BUILD AND OPERATE A MODERN 800 MW GAS-FIRED POWER PLANT WITH AN ANNUAL OUTPUT OF BETWEEN 4 AND 5 TWH, IN KNAPSACK, JUST OUTSIDE COLOGNE, GERMANY. --

-- BOTH GAS-FIRED POWER PLANTS ARE DUE TO GO INTO OPERATION IN 2007. --

OCT:

-- STATKRAFT ACQUIRES 24 HYDROPOWER PLANTS IN SWEDEN AND FINLAND FROM E.ON SVERIGE, WITH AN ANNUAL MEAN OUTPUT OF APPROX. 1.6 TWH. --

OCT:

-- A RESEARCH PROJECT IS ESTABLISHED IN CONJUNCTION WITH SHELL TECHNOLOGY NORWAY AND LYSE ENERGI TO DEVELOP OFFSHORE WIND TURBINES. ALSO CONTRIBUTING TO THE PROJECT ARE THE RESEARCH COUNCIL OF NORWAY AND SWAY A/S. --

NOV:

-- THE ACQUISITION OF TRONDHEIM ENERGIVERK (TEV) IS GIVEN FINAL APPROVAL. STATKRAFT HAS NO FURTHER DIRECTIVES OUTSTANDING FROM THE NORWEGIAN COMPETITION AUTHORITY. --

MAR:

-- TRADING IN CARBON QUOTAS GETS UNDERWAY ON NORD POOL AFTER THE POWER EXCHANGE OPENED FOR TRADING IN CARBON EMISSION QUOTAS IN FEBRUARY. --

APR:

-- A LONG-TERM CONTRACT IS SIGNED WITH THE NORWEGIAN INDUSTRIAL COMPANY FESIL, WHICH WILL SECURE ELECTRICITY SUPPLIES TO ITS SMELTING PLANT IN MO I RANA THROUGH 2020. --

SEP:

-- FORMER NORWEGIAN PM GRO HARLEM BRUNDTLAND OFFICIALLY OPENS PHASE 2 OF THE SMØLA WIND FARM. WITH A TOTAL OF 68 WIND TURBINES, THE FACILITY IS EUROPE'S LARGEST LAND-BASED WIND FARM, GENERATING AN ANNUAL 440 GWH OF ELECTRICITY. --

-- STATKRAFT DECIDES TO BUILD A WIND FARM AT KJØLLEFJORD IN LEBESBY IN FINNMARK. THE WIND FARM WILL HAVE A TOTAL INSTALLED CAPACITY OF UP TO 40 MW, AND IS DUE FOR COMPLETION IN THE AUTUMN OF 2006. --

DEC:

-- THE NORWEGIAN WATER RESOURCES AND ENERGY DIRECTORATE (NVE) RECOMMENDS THAT STATKRAFT BE ALLOWED TO BUILD THE KJENSVATN POWER PLANT IN NORDLAND. IF THE PROJECT IS REALISED, IT WILL MEAN THE MODERNISATION AND EXPANSION OF POWER GENERATION IN THE AREA, AND AN INCREASE IN OUTPUT OF 73 GWH PER YEAR. --

DEC:

-- AN AGREEMENT IS SIGNED WITH THE DUTCH COMPANY NUON TO TERMINATE THE OBLIGATION TO SELL GREEN CERTIFICATES ISSUED BY THE GROUP'S EXISTING WIND FARMS. STATKRAFT RECEIVES NOK 1 BILLION IN COMPENSATION FOR FUTURE REVENUE LOSS. --

--REPORT FROM THE BOARD OF DIRECTORS[1]

2005 WAS A RECORD YEAR FOR STATKRAFT. AT JUST OVER NOK 15 BILLION, GROSS OPERATING REVENUES WERE MORE THAN NOK 4 BILLION HIGHER THAN IN 2004. PROFIT BEFORE TAX ROSE BY 82 PER CENT TO NOK 8.4 BILLION. NET PROFIT TOTALLED NOK 5.6 BILLION, AN INCREASE OF 27 PER CENT. THIS SUBSTANTIAL IMPROVEMENT IS LARGELY DUE TO A 14 TWH, 41 PER CENT, INCREASE IN ELECTRICITY PRODUCTION. IN ADDITION, FINANCIAL EXPENSES WERE SIGNIFICANTLY LOWER. EFFICIENT OPERATIONS AND PLENTIFUL WATER RESOURCES COMBINED WITH GOOD WATER OPTIMISATION AND PROFITABLE TRADING PAVED THE WAY FOR THE MARKED IMPROVEMENT IN FINANCIAL PERFORMANCE FROM 2004 TO 2005.

IMPORTANT EVENTS IN 2005

On 1 October 2005 Statkraft took over 20 hydropower plants in Sweden and four in Finland, with a combined mean annual output of 1.6 TWh. The acquisition of these power plants is based on an agreement signed on 1 July 2005 with E.ON Sverige. The final transaction cost was NOK 4.1 billion. The operation of these power plants and production optimisation are coordinated through the Region Northern Norway office.

Naturkraft, a 50-50 joint venture between Statkraft and Hydro, has started the construction of a gas-fired power plant at Kårstø in Rogaland. The power plant has a planned installed capacity of approx. 400 MW, and is due for completion in 2007. Statkraft's shareholding will give it a production capacity of 1.75 TWh, and the group's investment will total some NOK 1 billion.

In 2005 Statkraft started constructing two gas-fired power plants in Germany, at Knapsack and Herdecke, with a capacity of 800 MW and 400 MW respectively. Both power plants are located near Statkraft's office in Düsseldorf. Statkraft and the German energy company Mark-E each have a 50 per cent stake in the Herdecke facility. Knapsack is wholly owned by Statkraft. The group has signed an agreement to sell 33 per cent of the facility's mean production to the Dutch energy company Essent. The power plants will give Statkraft a combined annual output of 5–6 TWh at an estimated cost of just over EUR 500 million. Both facilities are due for completion in 2007.

Statkraft opened Phase 2 of the Smøla Wind Farm in September. With a total of 68 wind turbines and an annual output of around 440 GWh, the facility is Europe's largest land-based wind farm. A total of NOK 1.2 billion has been invested in Phase 1 and 2 of the Smøla facility. Statkraft now produces around 600 GWh of wind power per year. The construction of the Kjøllefjord Wind Farm in Finnmark has commenced. When it goes on stream in the autumn of 2006 at an estimated cost of NOK 365 million, it will increase annual wind power production by some 150 GWh.

Statkraft and the Dutch company Nuon decided in December to terminate their agreement relating to the sale of green certificates deriving from wind power production at Smøla and Hitra. Statkraft has received a lump-sum compensation payment from Nuon. As a result of the termination of the agreement, write-downs of the wind power facilities were made. The net effect of the transaction was positive in the amount of NOK 645 million before tax and NOK 464 million after tax.

In 2005 Statkraft made preparations to sell its shareholding in Trondheim Energiverk (TEV) to comply with the Norwegian Competition Authority's directive ordering Statkraft to sell the company. November saw the reversal of this directive and Statkraft therefore discontinued the sales process. Statkraft has no further directives outstanding from the Norwegian Competition Authority.

Statkraft has signed long-term agreements with Fesil and Rio Doce Manganese Norway in Mo i Rana to supply 900 and 450 GWh/year of electricity respectively through 2020. These agreements are at commercial terms and conditions, and replace previous statutory-priced contracts.

FINANCIAL PERFORMANCE[2]

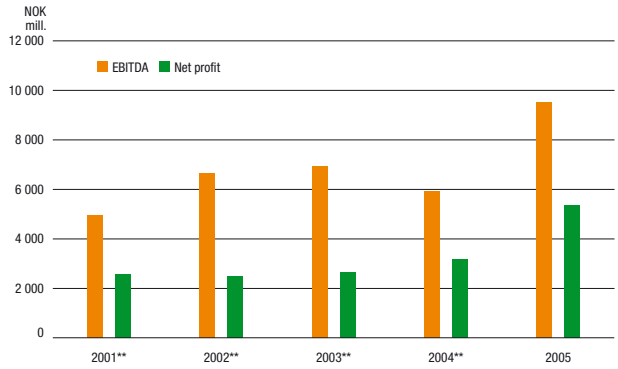
Annual results

Statkraft made a profit before tax of NOK 8,449 million in 2005 (NOK 4,630 million), and a net profit of NOK 5,620 million (NOK 4,415 million).

[1]The Statkraft AS Group was formed on 1 October 2004 with the transfer of the bulk of Statkraft SF's operations to Statkraft AS and its subsidiaries. In order to facilitate a comparison between 2005 and previous years, pro forma figures have been calculated for the income statement, the balance sheet, and the cash flow statement for 2003 and 2004. The pro forma figures have been calculated on the assumption that the reorganisation had been in place for the entire accounting period. All comparable figures for 2004 in the report from the board of directors are pro forma figures which have not been audited.

Substantial non-recurring items were recorded in both 2004 and 2005. The net effect of non-recurring items in 2005 was positive in the amount of NOK 342 million before tax (NOK 1,187 million) and NOK 277 million after tax (NOK 1,246 million). Profit from ordinary operations, before non-recurring items, was therefore NOK 8,107 million before tax (NOK 3,443 million) and NOK 5,343 million after tax (NOK 3,169 million).

EBITDA AND NET PROFIT, ORDINARY OPERATIONS*



*Adjusted for material non-recurring items.
**Figures for 2001 and 2002 apply to the Statkraft SF Group. Figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group.

Return on investment

All the performance indicators for invested capital show a marked improvement from 2004 to 2005. Return on operating activities in 2005, measured as ROACE – operating profit as a percentage of average capital employed – was 19.3 per cent before tax (11.1 per cent). This includes adjustments for non-recurring items. Statkraft's target for ROACE is 14 per cent. After tax and adjustments for non-recurring items, the company's return on equity was 13.5 per cent (8.7 per cent), while return on total capital was 7.8 per cent (6.1 per cent).

Operating revenues

In 2005 the weather was mild in the Nordic region, with higher than normal levels of precipitation and water inflow, factors which normally put pressure on electricity prices. However, high prices for the fossil fuels used in thermal power generation and high carbon quota prices counteracted this effect. The lowest monthly price on the spot market came in January, while the prices in the other

[2] Figures in brackets show comparable pro forma figures for 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 DIRECTORSHIPS: DIRECTOR OF NATURGASS MØRE AS, ROMSDALSMUSEET AS, AND MØREAKSEN AS

--ARVID GRUNDEKJØN--
CHAIR
BORN: 1955
POSITION: CHAIR OF THE ANDERS WILHELMSEN GROUP; SELF-EMPLOYED
BACKGROUND: QUALIFIED LAWYER AND MSC IN BUSINESS
BOARD MEMBER SINCE 2004
MEMBER OF STATKRAFT'S COMPENSATION COMMITTEE
OTHER DIRECTORSHIPS: CHAIR OF ANDERS WILHELMSEN & CO AS AND CREATI AS; DIRECTOR OF ROYAL CARIBBEAN CRUISES LTD.

--HALVOR STENSTADVOLD--
BORN: 1944
POSITION: SENIOR MANAGER, ORKLA GROUP
BACKGROUND: MASTER OF POLITICAL SCIENCE
BOARD MEMBER SINCE 2003
MEMBER OF STATKRAFT'S AUDIT COMMITTEE
OTHER DIRECTORSHIPS: DIRECTOR OF STOREBRAND ASA AND OSLO BØRS ASA (STOCK EXCHANGE)

--ASTRI BOTTEN LARSEN--
EMPLOYEE REPRESENTATIVE
BORN: 1964
POSITION: SENIOR ENGINEER, STATKRAFT ENERGI AS
BACKGROUND: MASTER OF MECHANICAL ENGINEERING, DIPLOMA IN BUSINESS STUDIES
BOARD MEMBER SINCE 2002
MEMBER OF STATKRAFT'S AUDIT COMMITTEE

--MARIT BÜCH-HOLM--
DEPUTY CHAIR
BORN: 1952
POSITION: SENIOR CREDIT MANAGER, NORDEA BANK NORGE ASA
BACKGROUND: MSC IN BUSINESS
BOARD MEMBER SINCE 1994
MEMBER OF STATKRAFT'S AUDIT AND COMPENSATION COMMITTEES

months remained relatively stable at over NOK 200/MWh. Nord Pool's average system price for 2005 was NOK 235/MWh, which is NOK 7/MWh lower than in 2004.

In 2005 the group had gross operating revenues of NOK 15,021 million (NOK 10,842 million). The increase of NOK 4,179 million is almost entirely due to good energy optimisation and a substantial inflow of water. Output rose from 34.3 TWh in 2004 to 48.5 TWh in 2005, while electricity prices fell only slightly. Hedging continued to provide substantial added value compared with sales at spot prices, amounting to NOK 1.4 billion (NOK 1.8 billion).

14.6 TWh of electricity was sold to industry at statutory prices. This resulted in an estimated loss of NOK 1.7 billion compared with what the revenues would have been if this volume of electricity had been sold at spot prices.

Other operating revenues remained more or less unchanged from 2004 to 2005. Just over NOK 1 billion in non-recurring items was taken to income in both years. In 2005 this comprised a lump-sum compensation payment of NOK 1,006 million from the Dutch energy company Nuon for the termination of contracts relating to the sale of green certificates from the wind farms at Smøla and Hitra for the period 2006–2020. In 2004 this comprised gains on the sale of fixed assets. Electricity transmission costs rose by 95 million from 2004 to 2005 as a result of the increase in the volume of electricity distributed.

Operating expenses

Operating expenses totalled NOK 5,899 million in 2005, an increase of NOK 1,085 million compared with 2004. As a result of the termination of the contracts with Nuon, write-downs of NOK 361 million in the value of the Smøla and Hitra wind farms were made.

Compensation payments, licence fees, ordinary depreciation and property taxes rose by NOK 197 million as a result of adjustments in the basis for calculation and the consolidation of additional facilities.

Payroll costs rose by NOK 106 million. NOK 84 million of this relates to increased pension costs. Almost NOK 30 million relates to the consolidation of new businesses.

Other operating costs increased by NOK 422 million. In 2005 NOK 278 million in stamp duty was charged as expenses in connection with Statkraft's transition to a limited company. This was a rise of NOK 123 million compared with the stamp duty charged as expenses in 2004. NOK 160 million of the increase in operating costs is the result of new business operations, primarily the consolidation of acquired power plants, new wind farms and costs incurred in the development of gas-fired power plants and other new power generating capacity. The rest of the increase amounts to NOK 139 million and is largely due to the net effect of write-backs of provisions in 2004, a few minor provisions in 2005, as well as write-downs in 2005, the largest of which derives from the demolition of the old Bjølvo power plant.

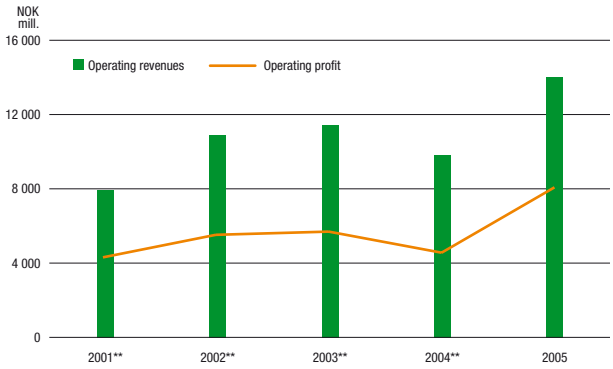
Operating costs related to basic ongoing operations remained stable in relation to 2004.

Operating profit

Operating profit in 2005 totalled NOK 8,375 million (NOK 5,377 million), an increase of 56 per cent compared with 2004. The bulk of the company's operating profit, 98 per cent, comes from the segment Generation and Hedging. Distribution grid operations, Trading and Origination and District Heating contributed 6, 2 and 1 per cent respectively, while the other segments and shared group functions either broke even or made a slight loss. Their combined contribution was -7 per cent.

Adjusted for non-recurring items, consolidated operating profit totalled NOK 8,008 million. This represents an improvement of NOK 3,486 million or 77 per cent, compared with 2004.

OPERATING REVENUES AND OPERATING PROFIT, ORDINARY OPERATIONS*



**Adjusted for material non-recurring items.*
***Figures for 2001 and 2002 apply to the Statkraft SF Group. Figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group.*

Share of profits from associated companies

In 2005 Statkraft's share of profits from associated companies amounted to NOK 1,577 million (NOK 1,493 million). The increase compared with 2004 is a result of BKK's improved financial performance, which is mainly due to high output levels. The largest profit share totalled NOK 1,198 million (NOK 1,256 million) and came from E.ON Sverige. Calculated in SEK, the company showed a slight increase despite high non-recurring costs caused by hurricane damage repairs. Statkraft's share of this non-recurring cost is calculated at NOK 359 million. Statkraft owns 44.6 per cent of the shares in this company. The majority shareholder is the German energy company E.ON. Statkraft has an option to sell its shares in the company to E.ON before 2007 for just over EUR 2 billion. Based on the current market assessment, the board puts a considerably higher value on this investment.

Net financial expenses

Net financial expenses for the year as a whole totalled NOK 1,504 million (NOK 2,240 million). Just over NOK 700 million of this reduction was due to a decrease in interest-bearing debt and lower average interest rates on the borrowing portfolio. Accumulated gains on the sale of assets amounted to NOK 334 million in 2005, and are related to the sale of Statkraft's shares in the former Hedmark Energi Holding AS (HEAS) to Eidsiva energi Holding AS. The sale was agreed to in 2004, while the transaction was completed in 2005. In 2004 the corresponding figure was NOK 332 million. Financial income rose as a result of currency hedging gains and a high level of liquidity. The buying back and redemption of debt resulted in a net loss of NOK 207 million, compared with NOK 239 million in 2004. Adjusted for this loss, the average interest rate on Statkraft's borrowings has been reduced.

The average interest rate on loans in SEK was 2.0 per cent, while for loans in NOK it was 6.4 per cent. Accrued losses on previously cancelled interest rate swap agreements have been included in the interest rate figure. Just over half of Statkraft's borrowing portfolio in NOK is at floating interest rates, while the interest on the entire borrowing portfolio in SEK is fixed for a term of less than one year.

Taxes

Tax expenses totalling NOK 2,829 million (NOK 215 million) were charged to the accounts. In 2004 the tax expense was unusually low due to large tax-free gains and substantial corrections to previously deferred tax positions following changes in the tax system. Statkraft has made further positive corrections to tax provisions in 2005, after several tax disputes were resolved in the company's favour. The effective tax rate was 33.5 per cent in 2005.

Cash flow and balance sheet items

Operations in 2005 generated a positive cash flow of NOK 8.0 billion. Included in this figure is a NOK 1.0 billion gain from the cancellation of the agreement with Nuon for the sale of green certificates.

Changes in short and long-term tied capital generated NOK 3.3 billion, of which the largest single item was a one-off payment of NOK 2.2 billion which Statkraft received for leasing out 65 per cent of the electricity output from the Rana power plant for a period of 15 years. A further NOK 1.0 billion was generated in connection with cash collateral accounts, while NOK 0.9 billion in dividend payments for 2004 was received from associated companies. The total cash flow generated by the operating activities therefore amounted to NOK 12.3 billion for the year.

NOK 2.2 billion was used for investments in increased generating capacity, with the largest items being NOK 0.6 billion for the construction of Phase 2 of the Smøla Wind Farm, NOK 0.7 billion for gas power projects in Germany and NOK 0.3 billion for Trondheim Energiverk's new district heating facility. Other investments in property, plant and equipment, totalling NOK 0.5 billion, are largely associated with the ongoing renewal and upgrading of the company's own power generating and distribution grid facilities.

NOK 4.5 billion was used for investments in assets in other companies. NOK 4.1 billion of this relates to the acquisition of power

plants in Sweden and Finland, while NOK 0.3 billion was invested in companies associated with new gas-fired power plants. The sale of HEAS generated receipts of NOK 2.1 billion.

A net total of 4.6 billion was used for investment purposes during the year.

Statkraft raised new debt totalling NOK 1.0 billion in 2005. The extensive buying back and redemption of bond loans resulted in a negative cash flow from financing activities of NOK 8.5 billion. At the end of the year, the group had cash and cash equivalents of NOK 4.4 billion, NOK 0.9 billion less than at the start of the year.

Interest-bearing debt at the end of the year totalled NOK 31.3 billion (NOK 39.8 billion). The interest-bearing debt ratio was 43.9 per cent (50.5 per cent). Interest-bearing debt in SEK corresponded to NOK 15.0 billion when the effect of currency swap agreements is taken into consideration, while the remaining debt is largely in NOK. Other current assets, excluding cash and cash equivalents, totalled NOK 3.8 billion, and current debt amounted to NOK 11.5 billion.

The credit rating company Moody's upgraded Statkraft's long-term company rating to Baa1 with a "stable outlook" in 2005. Statkraft already has a rating of BBB+ with a "stable outlook" from Standard & Poor's.

At the end of 2005 Statkraft had equity of NOK 40.0 billion. This corresponds to 44.0 per cent of total capital after dividend provisions. This is unchanged from 2004.

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 profit

The Norwegian state budget for 2006 requires Statkraft to pay a dividend to the state for 2005 of NOK 4,720 million. The dividend will be paid by Statkraft SF. To provide Statkraft SF with the funds to pay the required dividend, the board proposes that Statkraft AS makes the following allocation of profit for 2005:

NOK million	Dividend
Net profit in the accounts of Statkraft AS*	3 103
Allocation of the profit for the year:	
Dividend from Statkraft AS to Statkraft SF	3 100
Transferred to other equity	3

**The dividend is paid out of the parent company's net profit, which is substantiallylower than the group's consolidated net profit.*

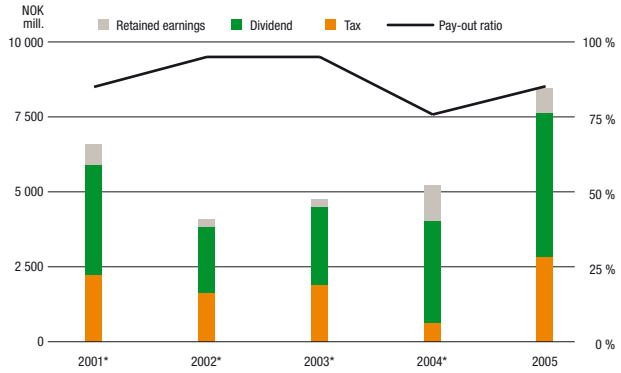
In addition, the subsidiaries of the Statkraft AS Group make the following group contribution to Statkraft SF:

NOK million	Group contribution
Group contribution from Statkraft Energi AS to Statkraft SF	1 281
Group contribution from Trondheim Energiverk AS to Statkraft SF	412
Total group contribution to Statkraft SF	1 693

Dividend and group contribution payments account for 88 per cent of the Statkraft AS Group's profit after tax and minority interests.

The parent company's unrestricted equity totalled NOK 5 million at the end of the year.

ALLOCATION OF PROFIT BEFORE TAX*



**Statkraft SF Group.*

STATKRAFT'S OPERATIONS

The Statkraft Group is the third-largest producer of electricity in the Nordic region and the second-largest producer of renewable energy in Europe. Statkraft trades in power from its offices in the Nordic region and on the Continent. In Norway, distribution grid operations and retail sales are handled through regional companies in which Statkraft has shareholdings.

Vision and strategy

Statkraft's business operations will be developed in line with the company's vision of being a European leader in environment-friendly energy. In Norway and the Nordic region, Statkraft will prioritise:

- The continual development of existing operational and market activities
- The development of new hydropower, wind power and gas power generating capacity
- The management of its shareholdings in Norwegian regional companies, contributing to industrial development and increased efficiency

In Europe excluding the Nordic region, Statkraft will prioritise:

- The further development of operations associated with the trading of electricity, gas and related products
- The development of new hydropower, wind power and gas power generating capacity in selected geographic areas

Business principles and code of conduct

The board of directors has adopted a set of business principles, principles for corporate governance and a code of conduct for employees. These principles have been published in a document called "Doing the Right Thing at Statkraft". Together with the company's vision, business idea and core values, these principles provide a governing framework for the management of Statkraft's business activities.

Statkraft's business principles highlight the company's commitment to value creation, environment-friendliness, corporate social responsibility and competence-driven operations. The employee code of conduct sets out the attitudes and behaviours which Statkraft expects of its employees with respect to value creation, loyalty, impartiality, business ethics and respect for the individual. With effect from 2006, the head of the internal auditing department at Statkraft acts as Compliance Officer and has an advisory body, the Compliance Council. Employees may safely turn to the Compliance Officer for advice if they should find themselves facing an ethical dilemma.

"Doing the Right Thing at Statkraft" has been followed up in 2005 with awareness raising and educational programmes such as dilemma training and management training courses. The implementation programme will continue in 2006 and focuses on how important good business practice is to securing the necessary conditions for the company's growth and development.

Corporate governance

Statkraft's principles for corporate governance clarify the relative roles of the company's owner, board of directors and management. As a state-owned enterprise, Statkraft follows the Norwegian recommendation for corporate governance, except with regard to the non-discrimination of shareholders, the tradability of its shares, the annual general meeting and the selection committee. These are not relevant because Statkraft is not a publicly listed company and the Norwegian state is its sole owner.

The board of directors have decided to establish an audit committee. The committee will meet for the first time in the first half of 2006. The board places great emphasis on following up the government's focus on corporate governance in its management of state-owned enterprises.

The board of directors

In June the annual general meeting elected two new members to the board of Statkraft AS: Gunn Wærsted and Olav Fjell. The board would like to thank Rebecca Selvik and Erik Nygaard, who have resigned from their directorships. The chair and directors of Statkraft AS hold the same offices in Statkraft SF. The board held a total of 12 board meetings in the course of the year.

The bulk of the board's efforts in 2005 has been devoted to investment decisions regarding the construction of gas-fired power

--OLAV FJELL--
BORN: 1951
POSITION: CONSULTANT
BACKGROUND:
MSC IN BUSINESS
BOARD MEMBER SINCE 2005
OTHER DIRECTORSHIPS:
CHAIR OF EASTERN DRILLING
ASA, DEEP SEA SUPPLY ASA
AND FRANZEFOSS AS;
DIRECTOR OF FJORD
SEAFOOD ASA AND KRISTIAN
JEBSENS REDERI AS

--THORBJØRN HOLØS --
EMPLOYEE REPRESENTATIVE
BORN: 1957
POSITION: SENIOR UNION
REPRESENTATIVE,
SKAGERAK ENERGI AS
BACKGROUND:
ENERGY TECHNICIAN
BOARD MEMBER SINCE 2002

--ODD VANVIK--
EMPLOYEE REPRESENTATIVE
BORN: 1952
POSITION: SENIOR UNION REPRESENTATIVE FOR THE STATKRAFT AS GROUP
BACKGROUND: MASTER CRAFTSMAN
BOARD MEMBER SINCE 1993
MEMBER OF STATKRAFT'S COMPENSATION COMMITTEE

--GUNN WÆRSTED--
BORN: 1955
POSITION: PRESIDENT AND CEO OF SPAREBANK 1 GRUPPEN AS
BACKGROUND: MSC IN BUSINESS
BOARD MEMBER SINCE 2005
OTHER DIRECTORSHIPS:
CHAIR OF BI NORWEGIAN SCHOOL OF MANAGEMENT, FERD HOLDING AS, THE NORWEGIAN FINANCIAL SERVICES ASSOCIATION (FNH), AND VARIOUS SUBSIDIARIES OF SPAREBANK 1 GRUPPEN AS

plants in Norway and Germany and the acquisition of generating capacity in Sweden and Finland. The further development of the company's wind power potential both inside and outside Norway has been a key task, as has the work on the terms of Statkraft's shareholdings in Norwegian regional power utilities and the further development of its shareholdings.

The board has focused particularly on monitoring the performance of company operations following Statkraft's transition to limited company status in 2004 and the establishment of a new group structure at the start of 2005. The board has also concluded a review of group strategy, the main thrust of which remains unchanged.

Risk

Statkraft has a value-driven management model which takes into consideration the links between strategy, operational management and follow-up. The model focuses on the value-drivers which affect the group's earnings and profitability. Scorecards at group, company, and business area level set out specific targets for measurable performance indicators, and lie at the heart of Statkraft's operational management. The scorecards are supplemented by other tools, such as forecasts, trend analyses and cost targets.

Statkraft's operations are exposed to a number of different risks. These are divided into four main categories: market risk, financial risk, operational risk and other risk. Operational risk is managed largely through contingency plans, operating procedures and insurance. Financial and market risks are managed by means of authori-sations, limits and the continual assessment of exposure. Other risk mainly relates to external framework conditions.

For a hydropower-based system, price and output capability will vary considerably, and this can have a major impact on Statkraft's financial performance. Usually, there is a negative correlation between the volume of output available and price. This results in a natural moderation of earnings fluctuations. In recent years, however, fuel prices and carbon quota prices have had a strong effect on Nordic electricity prices. In addition, Statkraft actively manages its risk, with extensive use of forward contracts and other physical and financial instruments to hedge its revenues. For both hedging and trading purposes, internal guidelines in the form of authorisations and limits regulate the level of risk exposure.

Statkraft uses interest rate and currency instruments in the management of its interest rate and foreign exchange exposure. Interest rate swaps are used to achieve the desired interest rate structure on the company's borrowing portfolio. In addition, future rate agreements (FRAs) are used to manage floating-interest risk. Interest rate and currency swap agreements are used to achieve the desired currency for the company's borrowing portfolio. Authorisations and limits for interest rate and currency exposure have been laid down. There are also limits for liquidity risk and credit risk.

ENVIRONMENT-FRIENDLY OPERATIONS

Statkraft's environmental contribution is threefold: Statkraft helps supply Europe with environment-friendly energy, it exploits the natural resources upon which its business is based in a sustainable way, and it limits the impact of its operations on the environment. Statkraft would like to have a role in creating a more environment-friendly coordination between the Nordic hydropower-based market and the continental thermal-power-based energy market.

External environment

Almost 100 per cent of Statkraft's electricity production is based on the renewable energy sources water and wind. In a few years, when the three gas-fired power plants in which Statkraft has a stake are completed, this picture will change. Natural gas is not a renewable resource and the gas-fired power plants will produce carbon emissions. Nevertheless, gas power will make a positive contribution to the environment because it will be part of a European energy mix that produces a lower level of greenhouse gas emissions.

All electricity production has consequences which, one way or another, have an impact on the environment. Environmental considerations are therefore crucial to all development projects. In 2005 Statkraft has made it plain that the environmental aspects which the company considers to be extremely important include environment-friendly energy, interventions in the landscape and the course of river systems, local pollution, waste management, energy and resource utilisation, and greenhouse gases. The company is working systematically to manage the water flow in its catchment areas in a way that is adapted to environmental conditions, and is implementing other river management measures.

Statkraft has implemented an environmental management system which clarifies the company's goals, priorities and action plans related to the environment. This system initially covers the hydropower and wind power generating activities of individual companies. Statkraft's environmental management system has been certified in accordance with the ISO 14001:2004 standard. All environmental non-compliances and incidents within the group are registered, reported and followed up in accordance with the requirements of this standard.

Statkraft's target is to achieve zero environmental non-compliances. In 2005 one serious environmental non-compliance was recorded. A technical fault at the Trollheim power plant in Møre og Romsdal led to a period of low water flow, which resulted in the death of salmon fry. Measures to prevent any similar incident happening in the future are being investigated. In addition, two serious environmental incidents and 23 less serious environmental non-compliances were recorded in 2005.

Statkraft also makes efforts to reduce consumption, emissions and waste from its operations. Statkraft produced 342 tonnes of hazardous waste and 1,467 tonnes of other waste in 2005. 55 per cent of the group's total waste was sent for recycling, slightly less than in 2004. The target for 2006 is to increase that amount by five percentage points.

THE WORKPLACE

In the development of the business, emphasis is placed on sound management, business understanding and technical expertise, well-functioning work processes and communication. The standardisation of competence systems and the sharing of best practice across the group will provide cost-effective integration of Trondheim Energiverk, the power plants in Sweden and Finland, and the new gas-fired power plants in Germany.

Working environment

At the end of 2005, there were the equivalent of 1,965 full-time jobs in the group, an increase of 71 compared with the start of the year. This can largely be ascribed to increased activity, including investments in Germany and Sweden. Statkraft expects its payroll to increase in the course of 2006. The average age of Statkraft employees is 45, and the average length of service is 16 years. In 2005 the group had a staff turnover of 1.5 per cent, not including retirement.

Each year Statkraft carries out an organisational and management survey, with consistently good results. A very large percentage of the staff participates in the survey. Statkraft has been ranked in 28th place and 29th place as an attractive employer by business students and engineering students respectively. Statkraft also offers a popular trainee programme.

Statkraft has various management development and project management training programmes. As part of the group's internationalisation process, a focus is also placed on language courses and cultural studies.

Health and safety

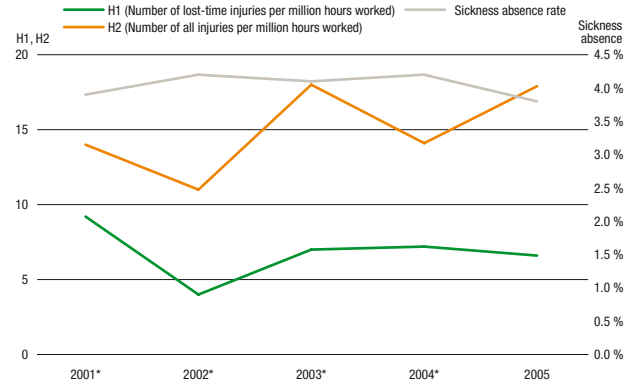
Statkraft's vision for health, safety and environment (HSE) is to achieve zero lost-time injuries. The company is implementing a long-term improvement programme to promote local involvement in and management follow-up of health and safety in all units.

The number of lost-time injuries per million hours worked (H1) totalled 6.6 in 2005, down from 7.2 in 2004. The total number of injuries per million hours worked (H2) and the number of days lost to injury (F) increased in 2005. There was one serious accident at Skagerak Energi. An electrician was subject to an electric shock and is now on sick leave. The accident has been analysed and measures implemented.

Reducing the number of day-to-day injuries by promoting good attitudes and implementing preventive measures is also important. Through the year focus has been placed on following up the areas for improvement that have come to light during an HSE campaign started in 2004. All employees have, moreover, attended first-aid

courses. Emphasis has also been placed on the HSE performance of Statkraft's suppliers. Improved reporting routines in the event of injury, compulsory online safety courses and tighter HSE requirements in enquiries and contracts have been implemented.

INJURIES AND SICKNESS ABSENCE



**Statkraft SF Group.*

The group-wide sickness absence rate was 3.8 per cent in 2005, a reduction compared with 2004 when it was 4.2 per cent. The target is to achieve a sickness absence rate of less than 4 per cent. All the Norwegian companies in the group have also signed up to the Norwegian "inclusive working life" (IA) scheme, and a number of measures have been implemented to meet the objectives of the scheme.

Gender equality

Statkraft aims to achieve a greater balance between the genders and increase the number of women in management positions. 21 per cent of the company's total workforce and 16 per cent of those in management positions are women, a slight rise from 15 per cent in 2004. The percentage of women in group management is 29 per cent, while women make up 44 per cent of the board.

The board follows up plans to improve the gender balance on a regular basis, also with respect to increasing the number of women on the boards of subsidiaries and in companies in which Statkraft has a substantial shareholding

Statkraft wishes to have a diversity of competences. The group promotes equal treatment with respect to recruitment and personnel policy, and, in the hiring process, it seeks to facilitate the consideration of persons with a multicultural background for relevant positions. Statkraft will also ensure that freedom of speech and employee rights are upheld in all parts of the business. A life-course policy for employees over the age of 62 was introduced in 2005.

Statkraft aims to achieve equal pay for equal work and equal performance by means of salary systems which reflect individual competence, job complexity and results achieved. Incentive schemes include collective and individual performance-related pay.

SOCIAL RESPONSIBILITY

Contribution to society

Statkraft provides considerable benefits to society, through the generation of environment-friendly energy and as a direct or indirect result of its economic activity. The reliable generation and supply of electricity, as well as the innovative development of energy solutions for the future also represent important contributions to society.

Less the cost of goods and services used, Statkraft generated a total value added for distribution of NOK 12.7 billion in 2005. NOK 2.3 billion of this were borrowing costs, largely interest paid to lenders, while NOK 0.7 billion was retained by the company. NOK 9.7 billion was paid to the Norwegian state, local authorities and employees in the form of dividend and group contributions (NOK 4.8 billion), taxes (NOK 3.7 billion) and salaries (NOK 1.2 billion).

Stakeholder dialogue

All electricity production has consequences which, one way or another, affect the environment and society at large. There is a need for more renewable energy, both globally and nationally. However, there is often opposition when new production facilities are proposed. Statkraft wishes to develop new environment-friendly energy projects in constructive dialogue with various stakeholders. In the group's expansion of its operations in Europe, particular emphasis is placed on good business practice and the continuation of the established routines for stakeholder dialogue that already exist in Statkraft's Norwegian operations.

Operational reliability and emergency preparedness have high priority. One serious incident requiring the mobilisation of the company's emergency response plans occurred in 2005 as a result of a technical fault at the Trollheim power plant, which led to a brief period of low water flow.

A corporate reputation survey shows that 45 per cent of the Norwegian population have a good overall impression of Statkraft. The target is 50 per cent. Among professional target groups, such as policymakers and financial analysts, 77 per cent have a good overall impression of the company, which is relatively high. A good reputation is important if Statkraft is to reach its business objectives, and the board will follow up with measures to safeguard this in the further development of the company.

FRAMEWORK CONDITIONS

Proposals for changes in the Energy Act will, among other things, implement the EU Electricity Directive 2 relating to functional requirements for the management of distribution grid operations. The board is of the opinion that the proposals go further than the EU directive's provisions, and will almost entirely eliminate the ability of Norway's vertically integrated energy companies to exercise corporate governance. It is important that the rules introduced in Norway are not more stringent than those of its neighbouring countries, not least because the Nordic power market operates

very efficiently, with a far greater degree of competition than exists in non-Nordic EU countries. The final wording of the bill will be crucial to the energy sector.

Industry represents an extremely important customer group for Statkraft. In 2005 two major statutory-priced industrial contracts were replaced with contracts at commercial terms and conditions. This demonstrates the existence of a functioning market for long-term industrial contracts in Norway. The board feels that it is extremely important that this market segment be allowed to develop as a natural part of the well-functioning Nordic electricity market. The board would like to warn against the introduction of extraordinary market mechanisms that would intervene in the functioning of today's electricity market and reduce its liquidity.

After negotiations with the Swedish authorities, the Norwegian government has concluded that a joint green certificate market cannot be realised at this point in time. The extent to which new renewable electricity generating capacity is built in the future will largely depend on the economic framework that is put in place. Without new types of subsidy schemes, the construction of such capacity, eg wind farms, is unlikely to be economically viable.

OUTLOOK AND STRATEGIC DIRECTION

In 2006 the board will place great emphasis on ensuring the successful construction of the three gas-fired power plants in Norway and Germany. The construction of gas-fired power plants on the Continent will supplement Statkraft's expertise in operations, analysis and trading. It is also important to build up operating and marketing activities that will enable Statkraft to engage in trading a combination of gas and electricity. The board will also follow up the construction of wind power and hydropower projects in Norway that have already been given approval. The acquisition of hydropower plants in Sweden and Finland has given Statkraft an improved platform for further value creation in its Nordic trading business.

The further development of existing business operations, the development of renewable energy and business development in line with company strategy will also be in focus. Efforts are currently underway to achieve closer coordination between Trondheim Energiverk and other group companies. Trondheim Energiverk will maintain its position as a strong regional utility.

In 2005 Statkraft developed the group in accordance with its strategies and objectives. To continue this work, Statkraft is dependent on having a solid financial platform. In this connection, the board would like to see the size of the dividend payable to the state set at an amount that will allow Statkraft to reinvest a reasonable share of the profit in the company. If Statkraft continues to have a level of dividend which is substantially higher than its competitors, the group's ability to invest in environment-friendly power generation will be reduced over time. For the group to enjoy framework conditions in line with its competitors', the normal regulations and procedures for determining dividends which are stipulated in the Limited Companies Act must also apply to Statkraft.

At the start of 2006 the water level in Statkraft's reservoirs was slightly higher than normal. Relevant forward prices on the Nordic power exchange indicate that prices will hold steady at a relatively high level. In recent years the contribution from financial hedging activities has been extremely high, well above a normal level. Given a relatively normal water inflow during 2006, this gives grounds to expect continued high earnings from electricity generation and sales. The board does not anticipate any significant changes in the group's running costs. Thus the group is in an excellent position to continue generating high revenues.

THE BOARD OF DIRECTORS OF STATKRAFT AS
Oslo, 8 March 2006

Gunn Wærsted

Arvid Grundekjøn
CHAIR

Marit Büch-Holm
DEPUTY CHAIR

Halvor Stenstadvold

Aud Mork

Olav Fjell

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
PRESIDENT & CEO

THE MANAGEMENT REPORT ALSO COVERS:

--MANAGEMENT REPORT

MARKET AND BUSINESS CONDITIONS

THE EFFICIENT EXPLOITATION OF THE COMBINED EUROPEAN DISTRIBUTION GRID AND ELECTRICITY GENERATING INFRASTRUCTURE WILL LEAD TO IMPROVED SECURITY OF SUPPLY AND ECONOMIC BENEFITS FOR SOCIETY AT LARGE. TOGETHER WITH POLLUTION TAXES AND A FRAMEWORK FOR THE DEVELOPMENT OF GREEN CERTIFICATES, A WELL-FUNCTIONING POWER MARKET WILL PROMOTE EFFICIENCY AND BENEFIT THE ENVIRONMENT. NORWEGIAN AND EUROPEAN AUTHORITIES WISH TO ACCELERATE GROWTH IN THE AREA OF RENEWABLE ENERGY SOURCES. STATKRAFT'S STRATEGY IS TO DEVELOP NEW, ENVIRONMENT-FRIENDLY GENERATING CAPACITY IN NORWAY AND THE REST OF EUROPE.

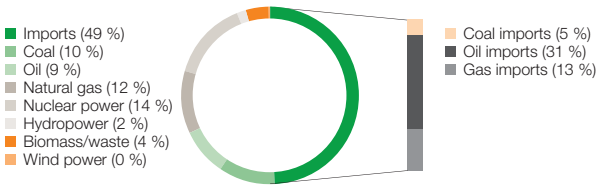
THE EUROPEAN ENERGY MARKET[1]

Energy supply

In Europe (EU-25[2]), almost half of the energy consumed is imported, and only 6 per cent of the total energy consumption comes from renewable sources, ie hydropower, wind power and biomass/waste.

ENERGY RESOURCES EU-25, 2004

Total 1,750 mill. tonnes oil equivalents



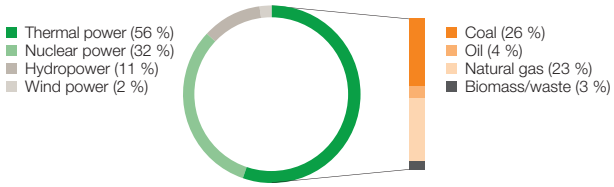
According to the scenarios developed by the European Commission, energy imports are expected to rise to 62 per cent of the total supply in 2020[3]. The forecasted increase in renewable energy sources is modest, lying significantly below political objectives. Energy consumption is forecasted to rise by a total of 11 per cent.

Production of electrical power

A total of approx. 3,100 TWh of electrical energy was generated in the EU in 2004. Thermal power plants contributed 56 per cent of this, while nuclear power accounted for 32 per cent. The renewable energy sources hydropower, wind power and biomass/waste in thermal power plants covered a combined 16 per cent of the electrical power generated. Coal is the fossil fuel most used in thermal power plants. Of the total power produced, coal contributed 26 per cent, natural gas 23 per cent and oil 4 per cent.

PRODUCTION OF ELECTRICAL POWER EU-25, 2004

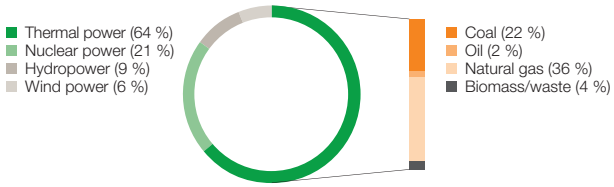
Total 3,100 TWh



The European Commission's core scenario for the year 2020[3] shows a 29 per cent increase in electricity consumption compared with 2004. Of the fuels used to generate electrical power, natural gas is expected to increase the most, accounting for an estimated 36 per cent of the electrical power production. The renewable energy sources are forecasted to cover 19 per cent of the area's electrical power production.

PRODUCTION OF ELECTRICAL POWER EU-25, 2020

Total 4,000 TWh



Trends

It is expected that EU's future energy situation will be characterised by increased dependence on imports, ambitious targets for reducing greenhouse gas emissions, and a clear increase in annual

electricity consumption (1.5 per cent). This trend has a considerable impact on security of supply, which is also a priority area. The EU's target is for renewable energy sources to account for 12 per cent of energy supplies and 22 per cent of electricity consumption in 2010. These targets seem difficult to meet, but the EU has given clear signals that they intend to implement far-reaching measures to promote the use of renewable energy resources.

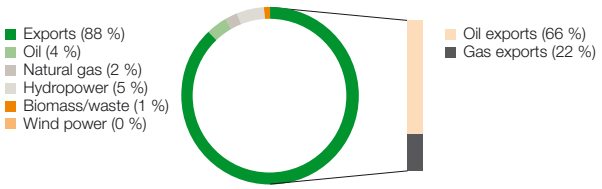
There has long been a political desire to use other environment-friendly energy carriers in addition to hydropower. It is in the areas of wind power, biomass energy and waste-to-energy that significant growth has been seen in the past 10 years. This trend has been promoted by means of subsidy schemes, and reduced production costs as a result of technological developments.

The situation in Norway

Norway is in a completely different energy situation than the countries of the EU. The energy picture in Norway is dominated by the export of oil and gas. While Norway's population corresponds to 1 per cent of the population in EU, Norway's energy resources corresponded to 13 per cent of the EU's energy supply in 2004.

NORWAY'S ENERGY RESOURCES, 2004

Total 230 mill. tonnes oil equivalents



The generation of electricity is also significantly different in Norway compared with the EU, in that practically 100 per cent of its electricity is produced from renewable energy sources. With an abundance of environment-friendly energy carriers, such as water, wind and natural gas, Norway's energy sector is extremely well placed for continued growth in environment-friendly power production.

Norway's technical/economic hydropower potential totals 205 TWh. Of this 118.9 TWh has already been developed, conservation orders have been issued for 44.2 TWh[4], while 41.9 TW is available for future exploitation. Of this, 1.2 TWh is currently under construction. Production licences have been granted for a further 1.5 TWh, while 23.8 TWh may be produced by new small-scale power plants (below 10 MW). Finally, the modernisation and expansion of existing power plants, plus the construction of new power plants exceeding 10 MW give a potential of 15.4 TWh[5].

Measures to increase the proportion of environment-friendly energy

In Norway – and in Europe in particular – measures have been implemented which have resulted in a significant increase in the exploitation of renewable energy sources. If this growth is to continue, clear political targets and financial incentives will remain necessary. Two main incentive schemes are currently practiced: direct subsidies for specific measures and market-based solutions based on certificates. This latter solution seems to be more effective and compatible with well-functioning international power markets. The opportunities for Norwegian players to contribute to the development of renewable energy resources in the future will depend on the framing and reliability of the financial incentive schemes. From Statkraft's point of view, the postponement of the establishment of a market for green certificates linked to renewable generating capacity in Norway is very unfortunate.

KYOTO AND CO_2

The Kyoto Protocol came into effect on 16 February 2005. Under the Kyoto Protocol, the world's industrial countries have adopted targets for reducing their greenhouse gas emissions during the period 2008–2012, compared with 1990 levels. The EU has unilaterally adopted a system which is also intended to reduce carbon emissions from the various industrial sectors in the years 2005–2007. Within these sectors, each installation will be allocated an emission quota, which is freely tradable.

Projects to reduce carbon emissions in developing countries will be allocated carbon quotas which can be sold in the market (known as the CDM: Clean Development Mechanism). From 2008, projects in so-called "transition" countries, such as those in Eastern Europe, will also be allocated quotas which may be sold in the market (known as JI: Joint Implementation).

Effect on the power market

When the EU's carbon quota trading system was established, the carbon price started at around EUR 8/tonne. It then fell to around EUR 5/tonne for a short period. The carbon price subsequently rose substantially over a long period, reaching EUR 30/tonne at the beginning of July 2005. The price fell slightly after that, remaining at EUR 20–25/tonne in the second half of the year. This price volatility is an indication of the considerable uncertainty which characterises the market.

Gas-fired power plants have the lowest carbon emissions of all power plants burning fossil fuels. Gas prices rose sharply compared with coal prices through 2005. This has made gas power much less competitive than coal-based power. When production is moved from gas-fired to coal-fired power plants, carbon emissions rise, forcing power producers to purchase carbon quotas to cover increased emissions. Therefore the increase in gas prices has led to increased coal-fired power generation, which in turn has led to a substantial rise in carbon prices.

Situation after 2007

The initial period for carbon quotas ends in 2007. The European Commission recently issued new guidelines for allocation of carbon

[1] *Source: European energy and transport-scenarios and key drivers. EU, September 2004*
[2] *The 25 EU member states.*
[3] *The Reference Scenario: a continuation of current development and policy.*
[4] *Fact sheet 2005. The Energy Sector and Water Resources in Norway. Ministry of Petroleum and Energy.*
[5] *Norwegian Water Resources and Energy Directorate (NVE), status as at 1 January 2005.*

quotas in the second phase of the EU's carbon quota trading scheme for the period 2008–2012. The guidelines stipulate that the total annual quota for the countries in EU shall be 6 per cent lower than the annual quotas in the current phase of the scheme, enabling the countries in the EU to stay on track and achieve the goals set out in the Kyoto Protocol. This means that the European Commission will retain its agreed environmental targets despite the rise in carbon prices in 2005. A reduction of 6 per cent will probably result in a tighter emissions market, although a certain number of quota credits will also be available in the second phase. Carbon prices in the second phase will be dependent on a complex interplay between a number of different factors, but the European Commission's new guidelines increase the probability that the price level will continue to be relatively high.

The increase in electricity prices as a result of higher carbon costs is a negative factor for that part of the EU's electricity-intensive industry which faces competition from other parts of the world. There is considerable uncertainty as to which international measures will be implemented to reduce greenhouse gas emissions after 2012. During the UN climate negotiations in December 2005 it was agreed to continue the dialogue with the aim of arriving at mutually acceptable solutions which will also apply to those key countries which have not ratified the Kyoto Protocol (eg USA, China, India and Australia).

In future it will therefore be necessary to establish quota systems covering a larger geographic area and including a larger segment of the economy to ensure stable political framework conditions and to avoid unintended regional consequences.

PRICE SETTING

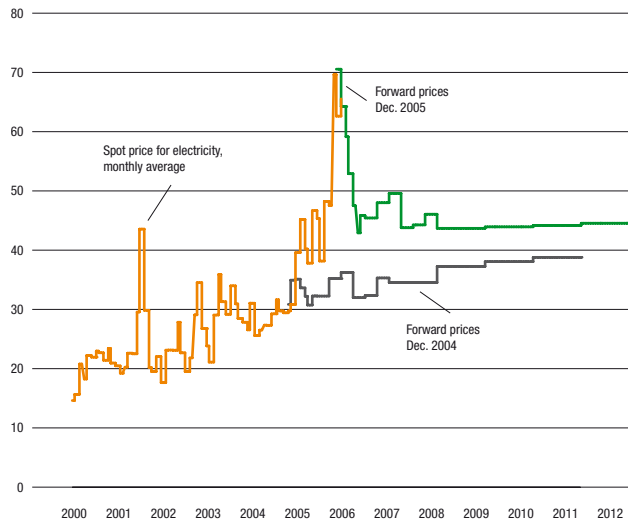
Continental power markets, and the German market in particular, continue to move towards fully market-based sales systems, like those which have long been in place in the Nordic region.

The Nordic financial power market seems to have reached a level of maturity, with good liquidity and an annual forward trading volume in the region of 2,000 TWh. Statkraft is one of the largest single players in this market. Compared with the Nordic region, the continental market is expected to become even bigger, with an estimated annual forward trading volume of 4,500-8,000 TWh in 2010.

Germany

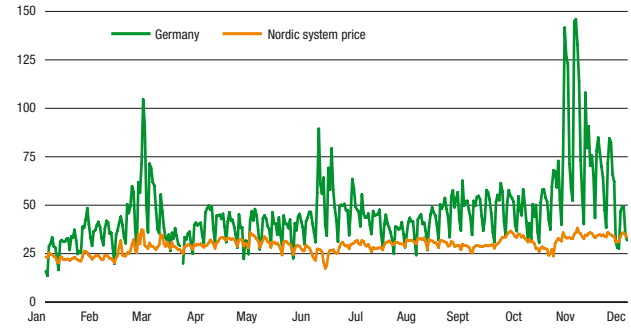
In 2005 the spot price of electricity in Germany (EEX) was considerably higher than in previous years. Prices rose sharply in particular towards the end of the year. This can largely be ascribed to high gas prices, high carbon prices, and relatively high coal prices, though the latter were even higher in 2004. Expected future electricity prices rose significantly during 2005.

HISTORICAL AND EXPECTED ELECTRICITY PRICES IN GERMANY, EUR/MWH



The price of electricity on the spot market in Germany has been markedly higher and more volatile than the spot price in the Nordic region. In Germany, as in the rest of continental Europe, there is a significant difference between the daytime and nighttime spot price, and the price during the week and at weekends.

DEVELOPMENT OF SPOT PRICES FOR ELECTRICITY IN 2005, EUR/MWH

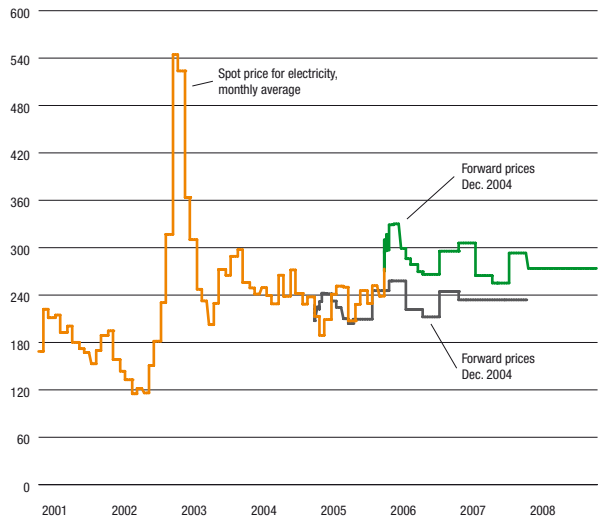


The Nordic region

The inflow of water to the Nordic hydropower system is still an important factor for price setting. The level of inflow in 2005 was particularly high. There are considerable limitations in available transmission capacity between the Nordic region and Germany. Therefore, on the whole, the high level of inflow had a price-lowering effect. However, this was counteracted by high carbon and fuel prices.

Expected future electricity prices also rose in the Nordic region during 2005. This can largely be ascribed to the fact that carbon and fuel prices during the year have shown a higher increase than the market had expected.

HISTORICAL AND EXPECTED ELECTRICITY PRICES IN THE NORDIC REGION, NOK/MWH



EXPECTED DEVELOPMENTS

Statkraft expects the trend towards the further deregulation and integration of the European power market to continue. However, regional power markets and different price zones will remain for a long time to come, given differences in the pace of deregulation, regulatory regimes and bottlenecks in the transmission networks between countries and regions.

Statkraft expects that a large proportion of the future rise in consumption will be met by gas power and new, renewable power generation. The company also expects that security of supply and environmental considerations will be best met within the framework of a deregulated, market-based system.

In Statkraft's opinion, carbon quotas are an effective tool, with those producing the largest carbon emissions being hit the hardest. Statkraft cannot foresee realistic alternatives today. However, more sectors should be included in the quota system. The system should also be expanded to encompass additional greenhouse gases. It is also important to establish long-term and predictable regimes in order to reduce the uncertainty associated with long-term investments.

Statkraft supports measures to increase transmission capacity between price areas and between countries. Such measures will reduce the bottlenecks between markets and will be an effective tool for improving resource optimisation. Increased transmission capacity will also improve the security of supply.

STATKRAFT'S POSITION AND STRATEGY

Statkraft's hydropower production has low variable costs. With Europe's largest reservoir capacity and a high installed effect, Statkraft has Europe's most flexible electricity production. Hydropower can replace polluting thermal power in periods of peak consumption.

The price of electricity in Germany and on the rest of the Continent is considerably more volatile than the price in the Nordic region. Statkraft's production infrastructure has a high installed effect and a vast storage capacity, and output can therefore be rapidly adjusted to cover demand in periods when the price is highest. Conversely, in periods when the price is low, Statkraft can reduce its own production and meet its delivery obligations by buying power in the market, saving water in its reservoirs until there is a greater demand for power and higher prices.

Today, Statkraft's business opportunities are adversely affected by limitations in transmission capacity between the Nordic region and Germany, between Norway and Denmark, and between Norway and Sweden. An increase in transmission capacity is expected in the years ahead. A new 700 MW cable from Norway to the Netherlands is due to go into operation in the fourth quarter 2007. This will connect the Norwegian market to a power market that will in periods be willing to pay high prices when importing power and to sell at lower prices when exporting power.

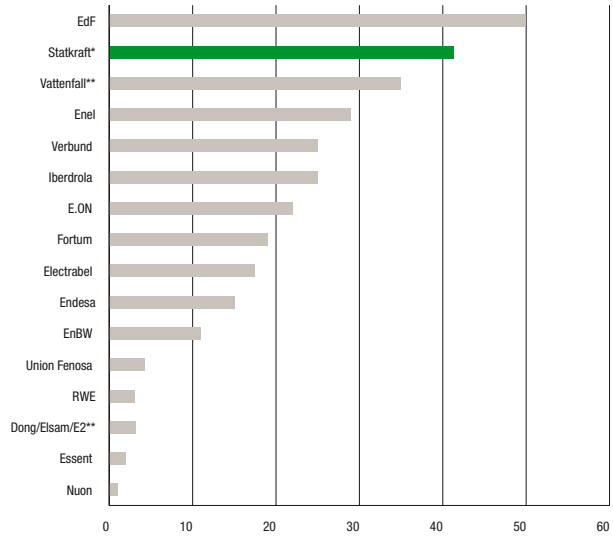
The price of carbon has resulted in increased electricity prices in both the spot and forward markets. Since Statkraft's production is largely carbon free, this makes the company's output of hydropower and wind power more profitable. While the company's future output of gas power is also well positioned in a system of carbon quotas, the situation is, however, complicated by the fact that the high price of gas is an important factor in driving up the price of carbon. Nevertheless, carbon trading itself may become an important business opportunity.

Statkraft has extensive experience of power trading in the Nordic and continental markets. The company prioritises the development of market activities in adjacent geographic areas and new products such as green certificates and greenhouse gas quotas. This means continued focus on extending its competence with respect to renewable energy, technological developments and price-setting mechanisms in the various European markets.

Statkraft wishes to grow along three axes to further develop today's businesses:

The acquisition and construction of flexible and environment-friendly generating capacity and infrastructure will help realise added value and reduce risk. Access to generating capacity on the Continent will also strengthen the company's power trading activities in the region and position Statkraft in anticipation of a more integrated European power market.

PRODUCTION OF RENEWABLE ENERGY, TWH

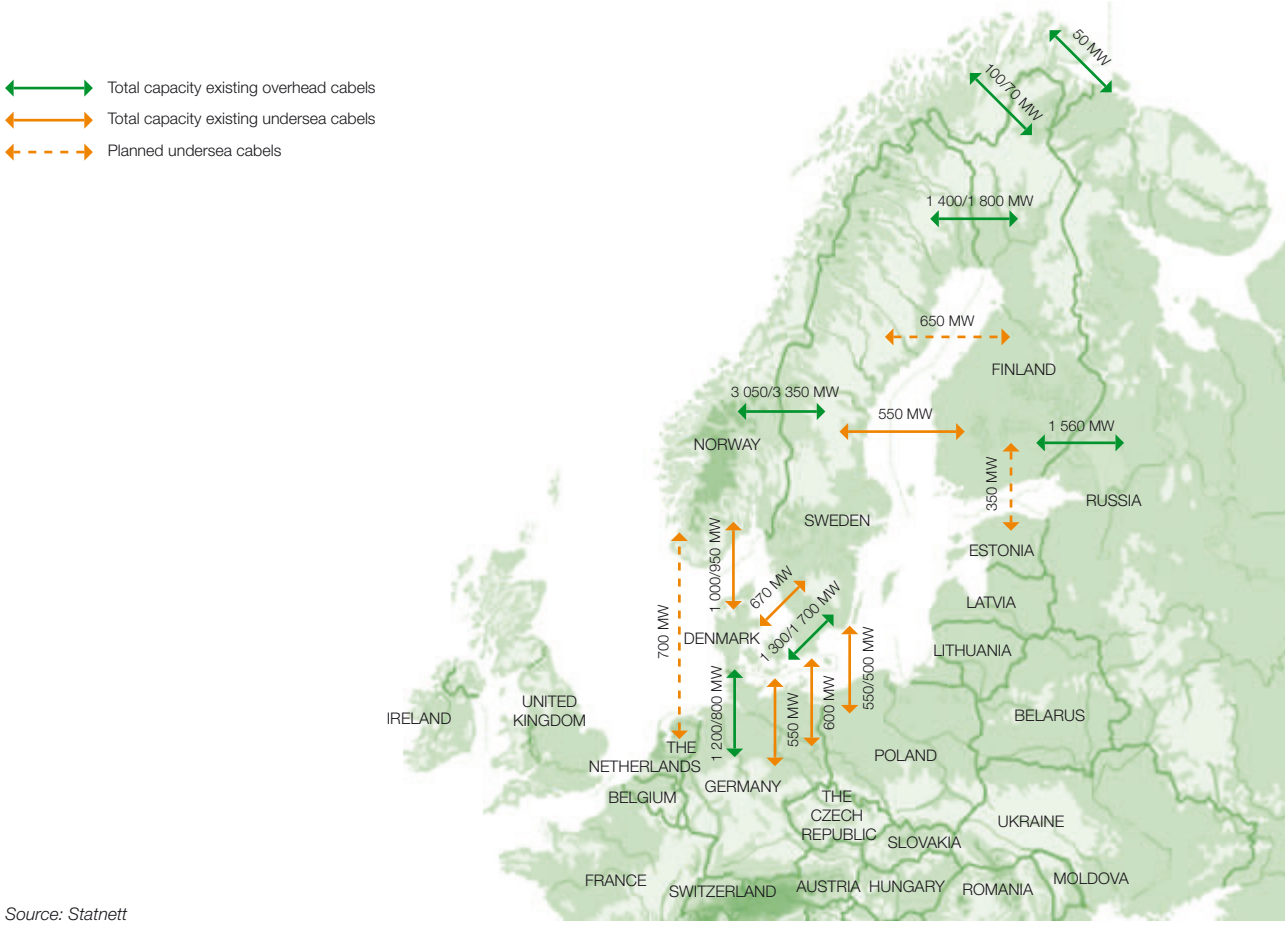


Source: Annual reports for 2004
**Mean production*
***Pro forma figures based on a press release from Dong dated 01.06.2005*

The development of wind power and other forms of renewable generating capacity will enable Statkraft to meet the expected growth in demand for electricity. This also includes non-flexible capacity, such as wind power, small-scale hydropower plants and other renewable generating capacity in Norway and the rest of Europe.

The extension of its shareholdings in Norwegian regional companies will put Statkraft in a strong position as a participant in the continued restructuring of the Norwegian power market. Statkraft will support profitable regional development, through which it will also contribute to increased value creation. Statkraft is prepared to increase the size of its shareholdings in such regional utilities, should other shareholders decide to sell.

TRANSMISSION CAPACITY BETWEEN THE NORDIC COUNTRIES AND THE CONTINENT



Source: Statnett

--MANAGEMENT REPORT

RISK FACTORS

STATKRAFT'S BUSINESS ACTIVITIES EXPOSE THE GROUP TO A VARIETY OF RISKS. THE MOST IMPORTANT OF THESE RELATE TO POWER GENERATION AND TRADE, BUT STATKRAFT IS ALSO EXPOSED TO FINANCIAL RISKS ASSOCIATED WITH FOREIGN EXCHANGE AND INTEREST RATES, AND OPERATIONAL RISKS DERIVING FROM ITS UNDERLYING OPERATIONS. CHANGES IN GENERAL BUSINESS FRAMEWORK CONDITIONS, POLITICAL DECISIONS AND ISSUES AFFECTING THE GROUP'S REPUTATION ARE OTHER RISK FACTORS. RISK MANAGEMENT IS AN INTEGRATED PART OF ALL STATKRAFT'S BUSINESS ACTIVITIES AND IS FOLLOWED UP BY THE RESPECTIVE BUSINESS UNITS THROUGH ESTABLISHED PROCEDURES FOR THE MONITORING AND MITIGATION OF RISK. IN ADDITION, STATKRAFT'S OVERALL RISK POSITION IS MONITORED AT THE GROUP LEVEL.

MARKET RISK

Market risk is associated with power generation, hedging and trading, and is affected by supply and demand in the power market. Levels of precipitation and winter temperatures have a major impact on the Nordic power market. Risk associated with fluctuations in price and volume is to some extent, however, self-regulating, since prices generally have a negative correlation to available production volume. The Nordic power market is linked to the Continent by transmission cables from Norway and Sweden, and the Nordic price is therefore affected by developments in the price of electricity on the Continent. Since coal and gas are important raw materials for a large proportion of the electricity generated in Europe, the price of these raw materials will also affect the Nordic electricity prices.

To actively manage the risks associated with power sales, Statkraft concludes physical and financial contracts in both the Nordic region and on the Continent. Hedging strategies are regulated by mandates and specific criteria for the respective contracts' impact on expected revenues and down-side risk. The portfolio is continually adjusted in light of current expectations of future prices and the group's own production capability. Exposure with respect to the mandates is followed up on a daily basis, and the risk associated with the whole portfolio is reported regularly to group management and the board of directors.

Statkraft also has its own trading and origination portfolios. The trading portfolio contains limited, short-term positions in financial power derivatives, while the origination portfolio contains tailor-made, bilateral contracts for customers with special needs. The contracts are then hedged as much as possible using standard financial contracts. The risks within the respective portfolios are followed up by an independent middle office through Value at Risk and Profit at Risk mandates, and are reported on a daily basis. In addition, developments in exposure are reported regularly to group management and the board.

FINANCIAL RISK

Statkraft has established a centralised Treasury department whose task is to coordinate the group's entire treasury activities. The Treasury department's job is to manage the financial risks associated with foreign exchange, interest rates and liquidity through the safeguarding of the group's underlying cash flow.

Statkraft is exposed to foreign exchange risks as a result of the integration between the Nordic and continental power markets, the group's EUR-based power trade and other cash flows deriving from foreign subsidiaries and associated companies. With effect from 2006 Nord Pool converted to EUR, and all trade on the power exchanges is therefore in foreign currencies. The foreign exchange risk is regulated largely by means of forward currency contracts, and the expected cash flow for the next three years is hedged in accordance with specified mandates. In certain cases the group hedges its foreign currency cash flows by establishing corresponding loan commitments in the same currency. Financial investments in foreign currencies are hedged for a substantial share of their total market value in foreign currencies.

In addition to the foreign exchange risk, there is also a risk linked to interest rates on loans. Interest rate management is regulated by means of mandates which specify the relative proportions of fixed and floating interest rates. Interest rate swap agreements and forward interest rate agreements are used to achieve the desired interest rate structure for the loan portfolio.

Statkraft's liquidity risk is associated with variances between the term of its financial obligations and the cash flow generated by its assets, as well as variations in margin requirements linked to financial instruments. Liquidity risk is managed by means of easily available loans in the Norwegian money and banking market, short-term financing through drawing facilities, and minimum requirements for the group's cash reserves. As a group, Statkraft AS shall have a liquidity reserve which is sufficient to operate the business for a minimum of six months without the need for further borrowing.

Statkraft assumes contracting-party risk as a result of its power trading and short-term investment of surplus liquidity. The limit for the individual contracting-party is set on the basis of a formal credit rating and reported key figures. Risk is reported on a weekly basis. Contracting-party risk associated with power sales contracts is regulated through mandates covering volume, amount and duration, and is evaluated by a dedicated contracting-party committee. Contracting-party risk related to short-term investments is regulated by limits on size, and is reduced in that issuers generally have an A-rating or higher.

Statkraft's financial risk is reported regularly to group management and the board.

OPERATIONAL RISK

Statkraft's operational risk covers damage to its production facilities and other assets, injury to the group's employees and the risk of damage to the environment.

Statkraft has a considerable operational risk exposure associated with damage to or loss of assets owned by the company or a third-party, eg in the event of fire, flood or dam damage. The group has extensive experience in handling these types of risk by means of various emergency (response) plans and procedures. The follow-up of operational risk is given a very high priority. Statkraft has taken out insurance for the group covering every material type of damage. The group's captive insurance company, Statkraft Forsikring AS, is used as a tool in the group's risk financing. Statkraft Forsikring's liability per claim is limited. Any liability above stipulated limits is covered in the reinsurance market.

Risk associated with injury to employees is dealt with by means of detailed operational procedures in every operative unit. Hazardous conditions, minor incidents and all injuries with or without lost-time, are reported and analysed on an ongoing basis to reduce the possibility of reoccurrence and to limit potential consequences. The group has drawn up a set of HSE performance indicators which are reported regularly to group management and the board.

Environmental risk is associated with breaches of operating licence conditions, minimum water flow regulations, legislation, environment plans and voluntary environmental standards. All environmental non-compliances are registered to ensure that the causes are investigated and understood, and any necessary remedial measures implemented. In accordance with ISO 14001 requirements, Statkraft carries out an annual review of the environmental aspects of all its operative units' activities. Furthermore, the group has drawn up its own environmental performance indicators which are included in the reports provided to group management and the board.

OTHER RISK

Statkraft is exposed to risks deriving from changes in the regulatory framework or political decisions which affect the group's freedom of action. These include changes in the fiscal regime, the reversion of assets to state ownership, general conditions for Norwegian industry, anti-trust legislation, EU and EEA regulations and directives issued by the Norwegian Water Resources and Energy Directorate (NVE). In addition, Statkraft is affected by political decisions determining the size of the company's dividend.

Changes in the regulatory framework represent a significant factor in Statkraft's overall risk exposure. The group is continually monitoring changes in the political climate and strives to maintain an open dialogue with decision-makers in all relevant arenas. Statkraft is keen to have good relations with all stakeholders in society at large. For this reason, the monitoring of reputation risk is given a high priority in the overall risk assessment, and is reported regularly to group management and the board.

--MANAGEMENT REPORT

PERFORMANCE MANAGEMENT

EFFECTIVE MANAGEMENT OF STATKRAFT'S OPERATIONS IS VITAL FOR THE GROUP'S FINANCIAL, ENVIRONMENTAL AND SOCIAL PERFORMANCE. THE FOUNDATION FOR THE COMPANY'S PERFORMANCE MANAGEMENT CAN BE FOUND IN ITS ARTICLES OF ASSOCIATION, ITS BUSINESS AND CORPORATE GOVERNANCE PRINCIPLES, AND ITS CODE OF CONDUCT. STATKRAFT'S MANAGEMENT MODEL IS VALUE-DRIVEN AND COVERS THE INTERFACE BETWEEN STRATEGY AND OPERATIONAL MANAGEMENT AND FOLLOW-UP, WITH INTEGRATED SYSTEMS AND ROUTINES FOR RISK MANAGEMENT. THROUGH EFFECTIVE AND TRANSPARENT MANAGEMENT AND CONTROL, THE COMPANY STRIVES TO ACHIEVE A PREDICTABILITY AND CREDIBILITY WHICH ARE CRUCIAL TO ITS EFFORTS TO INSPIRE PUBLIC CONFIDENCE.

In its articles of association, the objectives of Statkraft AS are defined as follows: *"alone or in participation or cooperation with other companies, to plan, design, construct and operate energy installations; carry out physical and financial energy trading and carry out activities which are naturally associated with such operations".*

The company's business principles, principles for corporate governance and employee code of conduct are all part of a document titled "Doing the Right Thing at Statkraft", which has been approved by the board of directors and distributed in a booklet to all employees.

THE HIERARCHY OF STATKRAFT'S GOVERNING DOCUMENTS

Articles of Association	
Business Principles	
Corporate Governance Principles	Code of Conduct for Employees
Rules and regulations	

BUSINESS PRINCIPLES

Together with the company's vision, business idea and core values, Statkraft's business principles provide a foundation for its business activities and act as a guide for overall decision-making. Statkraft's business principles reflect the fact that the financial, environmental and social dimensions of its activities are closely interwoven, and the realisation that, as a leading player in the energy market, Statkraft has a responsibility over and above its legislative, regulatory and contractual obligations.

Statkraft's business principles express the company's responsibilities with respect to its owner, the environment, society at large and its own employees. When balancing different considerations, the following global principles apply:

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 judgement 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.

CORPORATE GOVERNANCE PRINCIPLES

Statkraft's principles for corporate governance regulate the relationship between its owner, board of directors and management. To the extent that it is applicable to Statkraft's organisation and ownership, the company complies with the Norwegian recommendation relating to corporate governance. Statkraft is not a publicly listed company; thus it diverges from the recommendation with respect to the non-discrimination of shareholders and the tradability of its shares. The Norwegian state is the sole owner of Statkraft; thus the company diverges from the recommendation with regard to the annual general meeting and selection committee. The following is a brief description of how responsibilities are allocated and control exercised.

Ownership and shareholder rights

All the shares in Statkraft AS are owned by Statkraft SF (state owned enterprice), which is owned by the Ministry of Trade and Industry. Before Statkraft SF meets at the general meeting of Statkraft AS, all issues must be dealt with by 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 ownership in Statkraft AS would require the approval of the Norwegian Storting (parliament). The current government has confirmed that Statkraft will continue to be a state-owned enterprise. The owner's dividend is paid by Statkraft SF. The corporate meeting of state-owned enterprises is empowered to set aside the board's recommendation with respect to dividend payment.

Board of directors

The board of directors of Statkraft AS is identical to that of Statkraft SF. The board is elected for a period of two years, and has 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, geographic 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 accounts. 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 CEO's duties and obligations with respect to the board. The board evaluates its own performance and competence on an annual basis.

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 CEO's terms and conditions, as well as matters of principle relating to salary levels, bonus systems, pension terms, employment contracts, etc, for senior Statkraft executives. The committee also deals with issues relating to the remuneration of other employees where these are of particular importance for the company's reputation, competitiveness or attractiveness as an employer.

Audit committee

The board of directors has decided to establish an audit committee. The committee will meet for the first time in the first half of 2006.

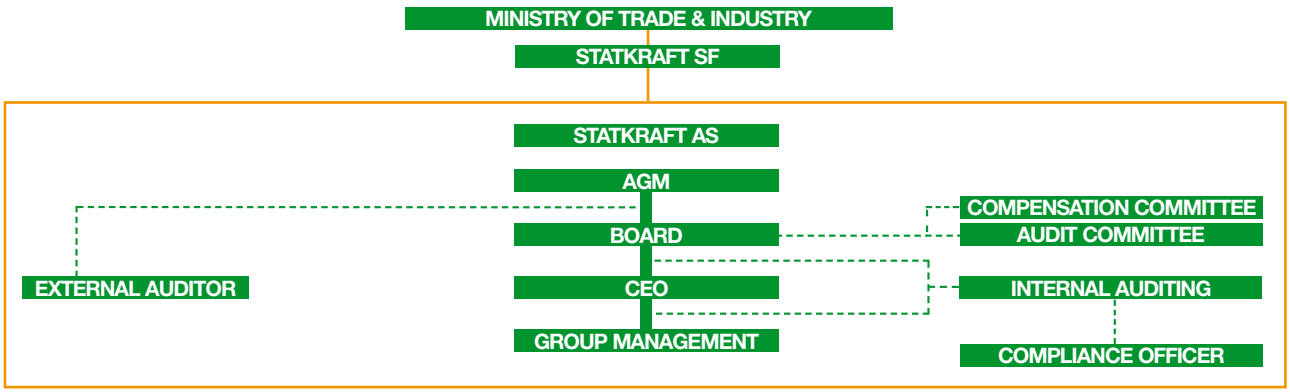
Chief executive officer

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

Group management

Group management comprises the CEO and six executive vice presidents. Three of these have responsibility for individual business areas, while the other three are responsible for key group functions.

FRAMEWORK FOR CORPORATE GOVERNANCE



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 a continual improvement of internal management and control systems. The board of directors approves the overall guidelines for the company's internal auditing function.

The CEO 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 before it 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.

Compliance Officer

The main task of the Compliance Officer is to communicate the company's code of conduct and be available to give advice on matters of ethics. The head of internal auditing acts as Compliance Officer. Responsibility for compliance lies with the individual employee and manager. All employees are obliged to speak out if they become aware of any unethical or illegal activity, and to ask for advice if they are experiencing an ethical dilemma. Both requests for advice and disclosures may be made anonymously, and such contact will not lead to any sanctions.

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. The same auditing company shall be used for all group companies where practical and where Statkraft has the authority to decide such matters. With respect to partly owned companies, the auditor is selected in consultation with the other shareholders. The board of directors meets with 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 impartiality 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 normal auditing process, such as declarations and confirmations with respect to company legislation, understanding accounting and tax regulations, and confirming financial information in various contexts. Deloitte was selected as external auditor with effect from the 2004 financial year.

ISO certification

Statkraft's quality assurance and environmental management systems are certified in accordance with the ISO 9001:2000 quality standard and the ISO 14001:2004 environmental standard. The systems were recertified by Det Norske Veritas in 2005. Internal audits are undertaken according to an annual rolling plan, and external follow-up audits in accordance with the standards. These audits are coordinated by Statkraft's internal auditing department. Group management carries out an annual review which includes a risk assessment in accordance with the ISO standards.

CODE OF CONDUCT FOR EMPLOYEES

Statkraft's employee code of conduct sets out what the company's business principles imply to the individual employee. Good business practice and high ethical standards are crucial to the company's success. Statkraft manages substantial capital and natural resources, and the company's operations have an enormous impact on both private citizens and society as a whole. The code of conduct applies to all representatives of Statkraft. Statkraft's managerial staff is responsible for ensuring that their subordinates are familiar with the code of conduct, promote compliance with it and model the required behaviours.

The following priorities apply:

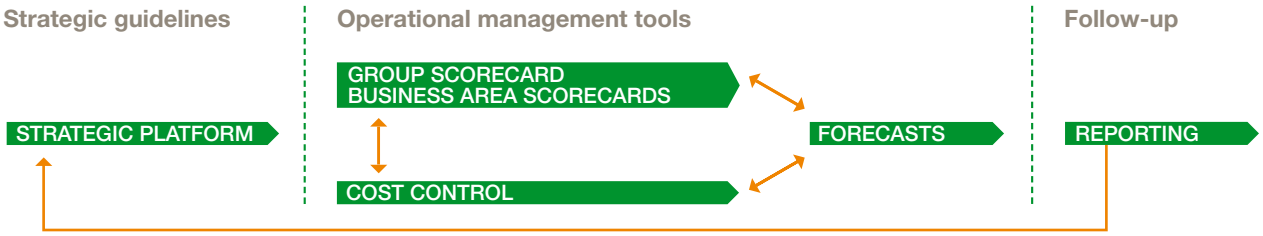
1. Protect life and health
2. Protect the environment
3. Protect against loss of confidence in the company by the market or society
4. Protect against financial loss
5. Protect business-critical systems

The code of conduct describes the attitudes and actions with respect to value creation, loyalty, impartiality, business practice and respect for the individual which we expect from our representatives. In addition, Statkraft's quality assurance system and other formal instructions includes procedures which regulate company activities.

"DOING THE RIGHT THING AT STATKRAFT"

In 2005 Statkraft brought together its business principles, principles for corporate governance and code of conduct in a publication called "Doing the Right Thing at Statkraft", which formed the basis of an awareness campaign conducted throughout large parts of the organisation. Emphasis was placed on raising awareness and establishing the right attitudes by means of dilemma training and management training in the various units. The training programmes have been designed to be as relevant as possible to the individual employee and to the company's overall management of non-financial risk. "Doing the Right Thing at Statkraft" emphasises the importance of maintaining a good corporate reputation and is linked to the company's core values. In 2006 the value of good business practice will be further emphasised throughout the group, as will be the importance of maintaining a high level of internal awareness of Statkraft's corporate reputation.

STATKRAFT'S VALUE-DRIVEN MANAGEMENT MODEL WITHOUT BUDGETS



MANAGEMENT MODEL

Statkraft has developed a value-driven management model that provides a complete framework encompassing its fundamental strategic platform, operational management and follow-up.

Strategic guidelines

A strategy process based on the company's vision provides the framework for operational management decisions. Strategic maps for various parts of the business form a strategic platform that specifies the priorities and goals that are 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 tools

With respect to operational management, emphasis has been placed on creating specially adapted tools which fulfil the three tasks, goal setting, coordination and cost control, as efficiently as possible.

-- Scorecards are used to communicate and implement the strategy.
-- Forecasts are used for coordination and financial planning.
-- Cost targets and financial trends are used to control costs.

Statkraft uses scorecards to set targets and monitor performance. A balanced scorecard is a tool that is used to communicate and implement the company's strategy throughout the organisation, and is a very effective way of monitoring whether its strategic goals are being reached. Monitoring performance using a group scorecard also provides input to future strategy processes. The scorecard system also includes the implementation of corrective measures if the required performance level is not reached. Specific and more detailed scorecards have been developed for the business areas and individual units. These scorecards also build on the company's overall strategy. Great emphasis is placed on ensuring a balance between the performance indicators, with regard to timelines, trends and scope. The scorecards are divided in relation to financial and operational activities, as well as targets for the organisation, HSE, company reputation and the environment.

Forecasts are used for coordination and planning purposes. Statkraft produces forecasts for the financial year and for a rolling 12-month forward period. Depending on the volatility of the accounting item, the forecast is updated on a monthly or quarterly basis. To facilitate long-term financial planning, balance sheet projections are drawn up. It is a fundamental principle that the forecasts shall reflect the expected situation, irrespective of the goals set in the group scorecard.

All the tools described above have also replaced the budget.

Cost control is achieved through the establishment of cost targets and the analysis of trends, while an authorisation system ensures control of individual transactions. In addition, a quality assurance system has been set up for all major investments, and intervention limits have been established for cost performance indicators.

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

--MANAGEMENT REPORT

FINANCIAL PERFORMANCE

THE STATKRAFT GROUP IS THE THIRD-LARGEST PRODUCER OF ELECTRICITY IN THE NORDIC REGION AND THE SECOND-LARGEST PRODUCER OF RENEWABLE ENERGY IN EUROPE. ELECTRICITY GENERATION AND TRADE ACCOUNTED FOR ALMOST 83 PER CENT OF A TOTAL BALANCE SHEET VALUE OF NOK 91 BILLION. THIS BUSINESS IS BEING EXPANDED OUTSIDE NORWAY. NORWAY REMAINS STATKRAFT'S MAIN MARKET FOR DISTRIBUTION GRID AND END-USER OPERATIONS. DISTRIBUTION GRID OPERATIONS REPRESENTS JUST OVER 11 PER CENT OF THE GROUP BALANCE SHEET VALUE.

Through its shareholdings in the four regional companies Trondheim Energiverk (TEV), Skagerak Energi, Bergenshalvøens Kommunale Kraftselskap (BKK) and Agder Energi, Statkraft is present in every step of the value chain. The first two companies are consolidated in the group's accounts. The second two are reported as associated companies due to the fact that Statkraft holds less than a 50 per cent share in each company. Competition-related limitations mean that Statkraft will have to increase the size of its shareholdings in the regional utilities to further expand its operations in Norway.

Expansion investments totalled NOK 6.3 billion in 2005. The group acquired hydropower plants in Sweden and Finland, and completed and opened a wind farm. In addition, construction work was begun on three gas-fired power plants, a wind farm and a district heating facility.

2005

The financial results achieved by Statkraft in 2005 were the best in the group's history. Profit before tax totalled NOK 8,449 million, while net profit amounted to NOK 5,620 million. Net profit rose by 27 per cent compared with 2004. Substantial non-recurring items were recorded in both 2004 and 2005. Profit from ordinary operations before non-recurring items in 2005 totalled NOK 8,107 million before tax and NOK 5,343 million after tax. This represents an improvement after tax of 69 per cent. The improvement is largely due to electricity output being 41 per cent higher in 2005 than in 2004, combined with a substantial reduction in financial expenses.

The Nordic power market

Both precipitation levels and water inflow to the reservoirs were higher than normal in 2005. For the year as a whole, water supplies in Norway and Sweden were some 17 per cent higher than normal. The average temperature was also somewhat higher than normal.

Seen in isolation, this put pressure on electricity prices. However, high fuel prices for thermal power generation and high carbon quota prices kept electricity prices up. The high level of water inflow did not therefore result in a decrease in the spot price as it has in earlier years. The average price for the year was NOK 235/MWh, compared with NOK 242/MWh in 2004 and NOK 294/MWh in 2003.

STATKRAFT GROUP'S FINANCIAL RESULTS, ORDINARY OPERATIONS[1]

NOK million	2005	2004[2]	2003[2]
Gross operating revenues	**14 015**	9 832	11 425
EBITDA	**9 505**	5 936	6 937
EBIT	**8 008**	4 522	5 647
Net profit	**5 343**	3 169	2 661
EBITDA margin	**68 %**	60 %	61 %
ROACE before tax	**19.3 %**	11.1 %	13.7 %
Return on total assets after tax	**7.8 %**	6.0 %	5.6 %

[1]Adjusted for material non-recurring items
[2]2003 and 2004 are pro forma figures

Total electricity consumption in the Nordic region was 4.2 TWh lower than in 2004, a decrease of 1.1 per cent. Total consumption in Norway rose by 1.5 per cent. Ordinary consumption in Norway totalled 83.3 TWh, a rise of 0.3 per cent. However, 2005 was milder than normal, and corrected for temperature, consumption amounted to 86.8 TWh, an increase of 2.8 per cent from 2004. This shows that underlying consumption continues to grow.

Nordic electricity output was 8.7 TWh higher in 2005 than in 2004, an increase of 2.3 per cent. Hydropower production in Norway was 25.7 TWh higher, which corresponds to a rise of 23.2 per cent. A total of 12.2 TWh of electricity was exported from Norway and 0.9 TWh from the Nordic market. The Nordic market has imported electricity largely from Russia, while exports have gone to Germany.

NORDIC POWER CONSUMPTION AND OUTPUT

TWh	2005	2004	2003	Change 2004–2005
Nordic consumption	**390.0**	394.2	377.7	-1.1 %
Nordic output	**391.0**	382.3	360.6	2.3 %
Nordic imports (+)/ exports (-)	**-0.9**	11.9	17.1	-
Norwegian consumption	**124.7**	122.9	114.2	1.5 %
Norwegian output	**136.9**	111.2	106.6	23.2 %
Norwegian imports (+)/ exports (-)	**-12.2**	11.7	7.7	-

Statkraft's power sales

Statkraft started the year with higher water levels than normal in its reservoirs. Furthermore, the inflow of water into Statkraft's hydropower system through the year was higher than normal, as it was in the rest of the Nordic region. The group generated 48.5 TWh of electricity, compared with 34.3 TWh in 2004. Annual output was 6.5 TWh higher than in a normal year.

Despite the high level of output, reservoir water levels at the end of the year were still slightly higher than normal.

The group supplied 14.6 TWh of statutory-priced electricity to industry, while 2.8 TWh was supplied to local and county authorities at concessionary prices. Power sales at prices determined by the public authorities thereby amounted to 36 per cent of the group's total output volume.

Statkraft's offices in Germany, the Netherlands and Sweden are active players in the European power markets. The bulk of this business is associated with the supply of green power, cross-border deliveries (including those via Baltic Cable between Sweden and Germany), portfolio management and structured contracts for individual customers.

Production

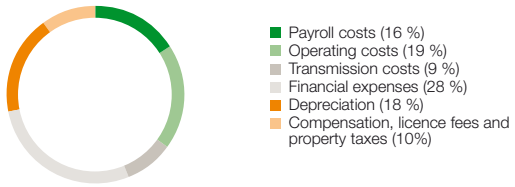
One of the most important tasks which the operating units have is to ensure that the right volume of electricity is generated and delivered via the distribution grid at the right time. Neither maintenance and modernisation programmes nor unplanned production outages placed significant restrictions on Statkraft's power market activities in 2005.

The costs associated with operating Statkraft's underlying power generating capacity have remained relatively stable in recent years, when non-recurring items have been corrected for, and changed little from 2004 to 2005. However, costs rose slightly due to the acquisition of new generating capacity in 2005, as well as to increased activity within new focus areas, such as environment-friendly energy technologies.

Only a relatively limited proportion of production costs is variable in the short term. This relates largely to payroll costs and other day-to-day operating costs, which in 2005 accounted for 35 per cent of total costs before tax. The other costs are to a large extent fixed so long as the production infrastructure and capital structure are retained.

COST STRUCTURE, ORDINARY OPERATIONS*

Share of total costs (NOK 8,319 mill.) before tax

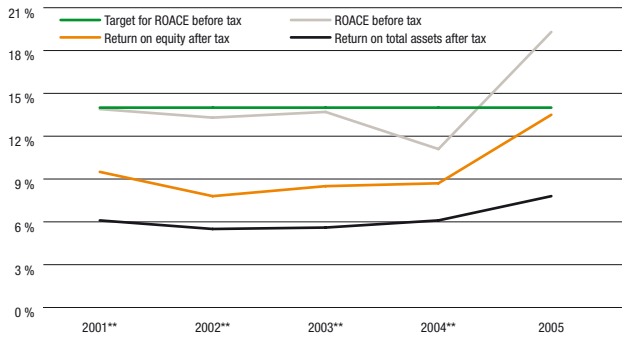


**Adjusted for non-recurring items*

Return on investment

The return on invested capital was substantially higher in 2005 than in previous years. After adjusting for material non-recurring items, ROACE (Return On Average Capital Employed) in 2005 was 19.3 per cent before tax. This is over eight percentage points higher than in 2004. Statkraft's target for ROACE is 14 per cent before tax.

RETURN ON INVESTMENT, ORDINARY OPERATIONS*



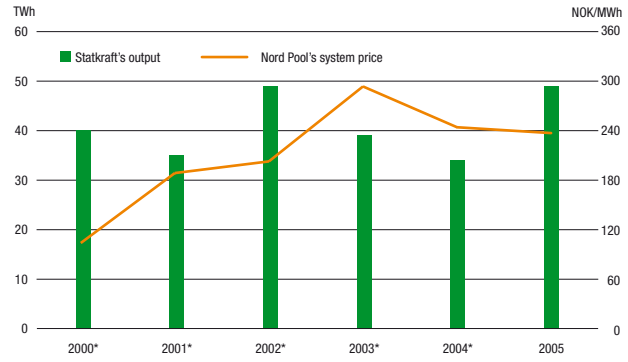
**Adjusted for material non-recurring items.*
***Figures for 2001 and 2002 apply to the Statkraft SF Group. Figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group.*

Around a third of Statkraft's assets are invested in associated companies. The return on these investments – measured by Statkraft's share of the net result from the associated companies compared to Statkraft's investment – was 6.7 per cent from ordinary operations. The associated companies have been acquired fairly recently, while Statkraft's own assets have to a great extent been written down. In addition, the share of profits from associated companies is calculated after tax. These are the main reasons why the return on associated companies is lower than the ROACE.

Characteristics of Statkraft's earnings

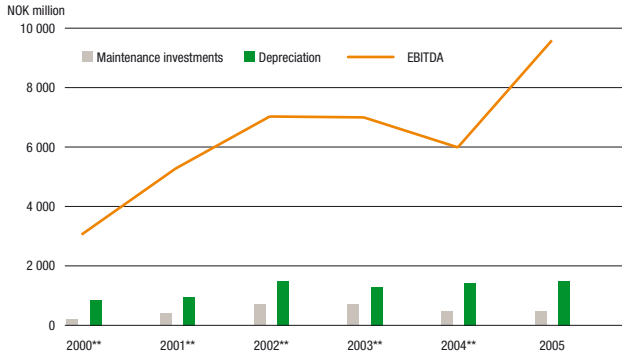
Statkraft's revenues from ordinary operations before depreciation, financial items and tax (EBITDA) totalled NOK 9.5 billion in 2005. The company's EBITDA has remained relatively strong even during years in which output was very low (2004) or prices were low (2000).

POWER PRICES AND OUTPUT



Figures for 2000, 2001 and 2002 apply to the Statkraft SF Group. Figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group.

EBITDA, MAINTENANCE INVESTMENTS AND DEPRECIATION, ORDINARY OPERATIONS*



*Adjusted for material non-recurring items.
**Figures for 2000, 2001 and 2002 apply to the Statkraft SF Group. Figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group.*

The temperature and level of precipitation are the most important factors for price setting of electricity in the Nordic region. Substantial precipitation increases output, which, seen in isolation, will cause prices to fall if there is no corresponding increase in demand. Little precipitation will normally cause prices to rise, but reduces available output. There is therefore a reasonable degree of natural balance between the price and volume of output for sale. Since nearly 100 per cent of the electricity generated in Norway is derived from hydropower, this effect is strongest for Norwegian hydropower producers.

Statkraft has very high EBITDA margins because operating costs associated with hydropower production are low. In 2005 the margin from ordinary operations was 68 per cent, and in the period 2000–2005 the margin has not been lower than 57 per cent. The production costs per MWh is about NOK 5. This means that electricity prices must drop to a very low level before the EBITDA margin is seriously affected.

Generally, hydropower facilities have a long technical lifespan. If the right maintenance investments are made and no technological revolution occurs, Statkraft's hydropower facilities may be expected to continue in operation for many years to come. In the period 2001–2005 maintenance investments totalled NOK 400–700 million annually. With effect from 2006, changes in accounting principles will result in a somewhat higher proportion of maintenance being capitalised and depreciated over time. Otherwise, no substantial increase in maintenance investments is expected.

Electricity tax in Norway is linked to market prices. The tax burden is reduced in step with falling market prices.

Statkraft also has a substantial ability to adjust output. Combined with a number of reservoirs with a multi-year capacity, this increases the group's possibility of optimising its water resources over periods longer than one year.

The impact of statutory-priced industrial contracts on earnings

14.6 TWh of Statkraft's mean output of 42 TWh is tied up in statutory-priced industrial contracts. The contracts, which expire gradually during the period to 2011, have an average price of NOK 115/MWh. Cash flow and results are therefore considerably lower than they would have been if the electricity had been sold on the open market. In 2005 the loss in revenues from these contracts was an estimated NOK 1.7 billion. Seen in isolation, therefore, the company's EBITDA and operating margin should improve considerably when these contracts are phased out and the electricity can be sold at market rates.

Value of assets

The Norwegian facilities under the business area Generation and Markets have a total mean output of 31.7 TWh. These facilities have a book value of NOK 21.5 billion.

The group owns 44.6 per cent of the shares in E.ON Sverige. The shares are recorded at a value of NOK 17.1 billion in the group balance sheet. In 2005 E.ON Sverige made a net profit of SEK 3.6 billion. The company has an annual mean output of 32 TWh, as well as 1.1 million retail electricity and distribution grid customers.

Statkraft acquired its shareholdings in regional companies in Norway in the period 1999–2001. These investments totalled NOK 21.8 billion. Together these companies have an annual mean output of 22.2 TWh, of which 8.3 TWh is generated by consolidated companies and 13.9 TWh by associated companies. The companies also have a large base of retail electricity and distribution grid customers.

In 2005 Statkraft acquired an annual mean output of 1.6 TWh in Sweden and Finland. The transaction price was NOK 4.1 billion.

All this indicates that there exists considerable value beyond the value recorded in the group's balance sheet.

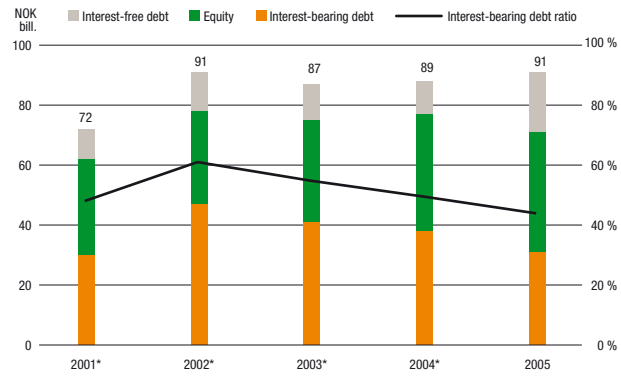
Cash flow and investment opportunities

In the past few years Statkraft has generated cash flow through the sale of shareholdings in other companies. In addition, the sale of production capacity north of Dovre in central Norway (price area NO2) has generated cash flow. The group released a total capital of just over NOK 6 billion in 2004 and 2005 through similar sales. The long-term leasing out of generating capacity contributed an additional NOK 2.2 billion to the cash flow in 2005. This shows that the group has the capability to reallocate resources. A compensation payment from Nuon in 2005 in connection with the termination of an agreement and compensation payments for projects that were shelved in 2001 generated a total of NOK 2.5 billion after tax.

This release of capital has enabled Statkraft to expand investments and further develop the business. After expansion investments totalling NOK 6.3 billion in 2005, the ratio of interest-bearing debt to the sum of interest-bearing debt and equity is 43.9 per cent.

Statkraft has committed around NOK 5 billion in 2006 and 2007 for expansion investments. These are investments in environment-friendly generating capacity, such as wind power, gas power and district heating. The group has a large portfolio of development projects. Through the business area New Energy the company is assessing possibilities in Norway and the rest of Europe. Seen in isolation and based on its income, cash flow and financial strength, Statkraft has the ability to invest in environment-friendly and profitable projects.

EQUITY AND DEBT



**Figures for 2001 and 2002 apply to the Statkraft SF Group. Figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group.*

STATKRAFT'S BORROWING PROFILE

Electricity generation is a capital-intensive business. To develop Statkraft further the company must have access to efficient credit markets, both nationally and internationally. At the end of 2005 the group had interest-bearing debt of NOK 31.3 billion, of which NOK 29.0 billion are long-term liabilities. Around 60 per cent of the debt has been raised in the Norwegian market and is listed on the Oslo Stock Exchange. The remainder of the debt has been raised in the international market and is primarily listed on European stock exchanges.

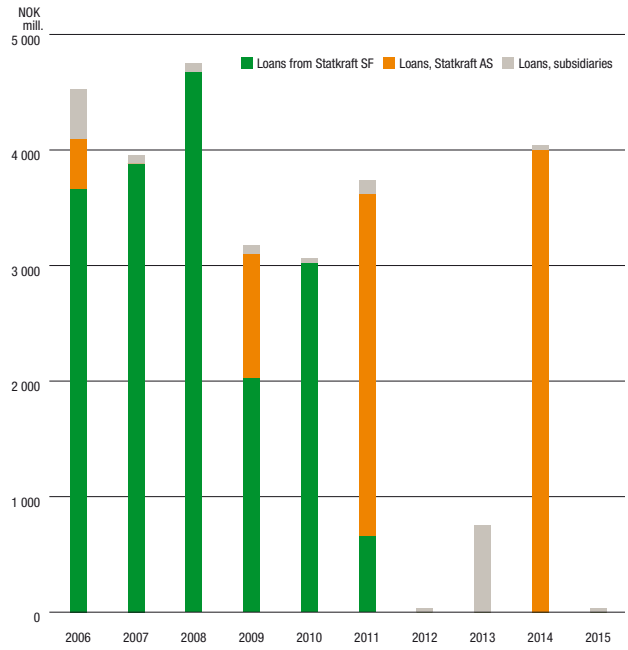
The Statkraft Group reduced its debt by NOK 8.5 billion in 2005. NOK 6.3 billion of this was bought back or redeemed in connection with offers to redeem state-guaranteed loans. State-guaranteed debt – for which Statkraft SF (the owner of Statkraft AS) is the named debtor – amounted to NOK 19.2 billion as at 1 January 2006. Loan agreements covering this debt have been established between Statkraft AS and Statkraft SF. Statkraft AS and its subsidiaries' balance of loans not guaranteed by the state amounted to NOK 9.8 billion at the end of the year.

THE STATKRAFT GROUP'S POWER PLANTS

	No. of power plants		Installed capacity MW		Annual mean output GWh	
Companies (including subsidiaries)	Total	Of which wholly owned	Total	Statkraft's share	Total	Statkraft's share
Statkraft Energi AS	81	42	12 909	8 280	47 285	31 747
Statkraft Development AS (wind)	2	2	205	205	600	600
Trondheim Energiverk AS	19	14	935	770	3 798	3 156
Skagerak Energi AS	44	20	5 516	1 303	17 085	5 120
Correction for co-owned plants[1]	(13)	-	(3 817)	(28)	(10 334)	(171)
Total Norway[1]	**133**	**78**	**15 748**	**10 530**	**58 434**	**40 452**
Statkraft Sverige AB	19	9	547	292	2 331	1 293
Statkraft Suomi Oy	4	3	132	66	639	297
Total Nordic region	**156**	**90**	**16 427**	**10 888**	**61 404**	**42 042**

[1]The total has been corrected for the fact that Statkraft Energi and Skagerak Energi have 13 co-owned power plants.

LONG-TERM LIABILITIES, DEBT REDEMPTION PROFILE



In addition, NOK 953 million will fall due in the period 2016–2019.

In 2005 Statkraft AS renegotiated its committed drawing rights. These have been expanded by NOK 1 billion to NOK 5 billion. The drawing rights have been entered into with a consortium of 10 national and international banks.

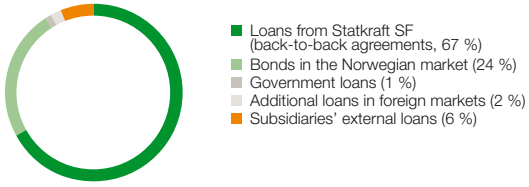
At the end of 2005 almost 80 per cent of Statkraft's interest was fixed for periods of less than one year. This is the same level as in 2004 and is in accordance with the group's financial strategy.

Financing strategy

Any new debt in the group will be issued by Statkraft AS. The financing requirement of group subsidiaries will therefore be met primarily through Statkraft AS. The duration of any new debt issued will 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.

DISTRIBUTION OF LOANS BY SOURCE OF FINANCING

Total long-term debt, NOK 29 billion



Statkraft will establish a Euro Medium Term Note (EMTN) programme during the first half of 2006. The EMTN programme will serve as a basis for raising new debt in Norwegian and international markets.

Rating

Both Standard & Poor's (S&P) and Moody's rated Statkraft AS in 2005. S&P did not change its long-term rating of Statkraft AS, while Moody's upgraded the company to Baa1 as a result of the new methodology for rating Governmental Related Issuers. Neither S&P nor Moody's changed their rating for Statkraft's state-guaranteed loans in 2005.

	Statkraft AS's corporate credit rating	Statkraft SF's guaranteed loans
S&P	BBB+ Stable Outlook	AA+ Stable Outlook
Moody's	Baa1 Stable Outlook	Aaa Stable Outlook

In its review of the Nordic region's leading power companies, S&P said that Statkraft is the company with the strongest business profile. This has been an important factor in S&P's credit rating of Statkraft AS. Moody's has said that any further upgrading will depend on an additional improvement in the group's key financial numbers.

Financial communications

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 STAKR07 (Statkraft AS) ticker on the Oslo Stock Exchange. All pertinent information is also published at www.statkraft.com.

PRESENTATION OF THE BUSINESS AREAS

Statkraft's business is divided into three business areas and three key group functions. The structure is based on Statkraft's strategic priorities and the development of each of the three main focus areas.

The business area Generation and Markets is responsible for Statkraft's core business of electricity generation and sales, and manages flexible generating assets and trading activities.

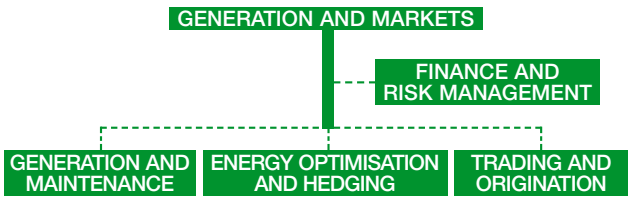
The business area New Energy is intended to ensure further growth in electricity output through the development and acquisition of environment-friendly generating capacity, as well as the development of wind power and other forms of renewable electricity production. The third core business area, Regional, is tasked with the further development of Statkraft's shareholdings in other energy utilities in Norway.

KEY FIGURES BUSINESS AREAS

NOK million	Statkraft AS Group	Generation and Markets	New Energy	Regional	Other*
From the Income Statement 2005					
Gross operating revenues	15 021	10 786	1 241	3 477	-483
Operating profit	8 375	6 880	199	1 400	-104
Share of profit from associated companies	1 577	-27	-5	412	1 198
Profit before financial items and tax	**9 953**	**6 853**	**194**	**1 812**	**1 094**
Net financial items	-1 504				
Profit before tax	8 449				
Net profit	**5 620**				
From the Balance Sheet 2005					
Property, plant and equipment and intangible assets	52 812	29 477	1 208	22 189	-62
Investments in associated companies	28 793	326	561	10 799	17 106
Other assets	9 249	10 000	1 608	4 322	-6 681
Total assets	**90 853**	**39 803**	**3 377**	**37 310**	**10 364**
Capital employed (basic)	41 363	26 231	2 005	18 812	-5 685
Maintenance investments	468	129	-	241	98
Investments in increased generating capacity	1 767	702	619	446	-
Investments in shareholdings	4 511	4 501	-	10	-

**Includes investments in E.ON Sverige.*

BUSINESS AREA GENERATION AND MARKETS



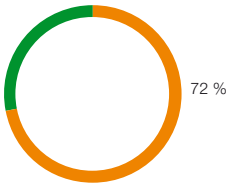
The business

The business area Generation and Markets has extensive European power trading activities. This business has been further strengthened by the takeover of 24 hydropower plants in Sweden (of which one has been sold) and Finland in 2005. In addition, two gas-fired power plants are under construction in Germany. These are important steps towards Statkraft reaching its vision of being a European leader in environment-friendly energy.

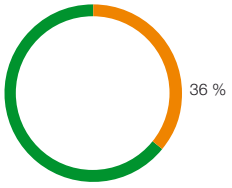
The business area owns and operates 78 hydropower plants in the Nordic region. In addition, it controls the output of 26 power plants operated by third parties. The operation and maintenance of the company's Norwegian power plants is controlled from regional offices in Narvik, Gaupne, Sauda and Dalen. The Swedish and Finnish facilities are operated by local staff, but are controlled by the regional office in Narvik. Shared services are provided by the company's head office in Oslo. The business area owns the group's three gas-fired power plants (Naturkraft's facility at Kårstø in Norway, and the Herdecke and Knapsack facilities in Germany), which are currently under construction.

Offices in Oslo, Stockholm, Düsseldorf and Amsterdam buy and sell power and structured power products, and supply tailor-made energy solutions to larger customers. Statkraft controls, through the company Baltic Cable AB, 2/3 of Baltic Cable, an undersea cable between Sweden and Germany with a capacity of 600 MW.

PERCENTAGE OF GROSS REVENUES



PERCENTAGE OF FULL-TIME JOBS (EQUIVALENT)



Strategy

Over many years Statkraft has developed a business concept which realises added value and reduces risk by means of energy optimisation and financial trading. Operations and maintenance are carefully balanced against market opportunities identified through comprehensive analyses. This is what Statkraft calls market-driven maintenance. Added value is created by means of well-regulated power plants and a dynamic hedging strategy based on analysis and extensive data collection and processing. Exploiting the full potential of the business concept depends on good cooperation between the operational, maintenance and market environments, and maintenance and market sides of the organisation, and, not least, having highly skilled employees in a wide range of professional fields.

Long-term production capacity is maintained by means of prudent financial and environmental dispositions. Society requires hydropower producers to manage the river systems affected by their schemes to an extremely high standard and preserve the natural functioning of the river environment. Statkraft shall meet its river management obligations in a professional manner that inspires public confidence.

Statkraft's presence in continental markets and ownership of assets there provides the company with information which increases its value creation in the Nordic region. At the same time, information

about how prices are set in the Nordic region leads to more profitable trading on the Continent. A substantial increase in continental trading is expected, as is closer integration between the European power markets and between the Nordic region and the Continent. This creates opportunities for trade based on price differences between countries and regions.

Organisational and competence development

Generation and Markets has the equivalent of 700 full-time jobs. Its staff are skilled individuals educated at technical colleges and universities who have extensive expertise and varied, relevant experience. This competence is necessary to fully exploit the potential of Statkraft's business concept. Great emphasis is therefore placed on maintaining and further developing it. The business area embodies the company's strong corporate culture, and maintaining professional excellence, delivering quality at all levels and contributing to continual development are matters of personal pride and commitment. Results in recent years show that this business concept is extremely profitable.

2005 was the first year in which generation and market operations were organised under a joint operative management. This is a natural extension of Statkraft's business concept, and such coordination is expected to open up new opportunities for further development and increased profitability.

As a result of the establishment of new businesses and the acquisition of power plants in 2005, the business area's headcount increased by the equivalent of 15 full-time jobs. Manning levels will rise further in 2006 as a result of increased activities outside Norway and the further development of existing business operations.

Financial performance

Generation and Markets made an operating profit of NOK 6,880 million, NOK 2,573 million more than in 2004.

Output in 2005 was a record 39.3 TWh. The high output level was due to high reservoir water levels at the start of the year, a high level of water inflow through the year, and relatively high spot prices. Power optimisation gave satisfactory results. Hedging trading continued to be extremely profitable in 2005. In recent years extensive trading has been based on the company's own analyses. The value added by optimisation and hedging totalled NOK 1,766 million in 2005. The business segment Trading and Origination made a profit before financial items and taxes of NOK 142 million in 2005.

Statkraft's change to limited company status has resulted in a liability for stamp duty on the transfer of assets. Statkraft Energi AS paid NOK 278 million in stamp duty in 2005. The bulk of this amount accrued in the fourth quarter. NOK 155 million in stamp duty was paid in 2004. Around NOK 50 million in stamp duty is expected to accrue in 2006.

KEY FIGURES GENERATION AND MARKETS*

2003 and 2004 are pro forma figures	Unit of measurement	2005	2004	2003
From the Income Statement				
Gross operating revenues	NOK mill.	**10 786**	7 638	8 519
EBITDA	NOK mill.	**7 545**	5 039	5 680
Operating profit	NOK mill.	**6 880**	4 307	5 055
From the Balance Sheet				
Property, plant & equipment & intangible assets	NOK mill.	**29 477**	24 502	24 378
Investments in associated companies	NOK mill.	**326**	-	253
Other assets	NOK mill.	**10 000**	6 602	4 340
Total assets	NOK mill.	**39 803**	31 103	28 971
From the Statement of Cash Flow				
Ordinary depreciation on property, plant & equipment	NOK mill.	**666**	731	625
Maintenance investments[2]	NOK mill.	**129**	233	366
Expansion investments in new generating capacity[3]	NOK mill.	**702**	32	20
Investments in shareholdings	NOK mill.	**4 501**	-	-
Key financial ratios				
EBITDA margin[8]	%	**70.0**	66.0	66.7
ROACE before tax[9]	%	**26.2**	22.5	24.3
Key figures, upstream business				
Production cost/MWh[14]	NOK/MWh	**48.0**	46.0	45.0
Power sales revenues				
Production sold at spot prices	NOK mill.	**9 025**	6 361	9 932
+ Value added from optimisation and hedging[15]	NOK mill.	**1 766**	1 901	1 416
- Value lost on statutory-priced and concessionary sales[20]	NOK mill.	**-2 020**	-2 578	-3 917
+ Trading and origination	NOK mill.	**494**	308	534
+ Other income and eliminations	NOK mill.	**1 099**	-50	304
Total power sales	NOK mill.	**10 363**	5 942	8 269

**Definitions of key figures can be found on fold-out page 2, cf cross-references to the Notes to the Financial Statements.*

Important events in 2005

On 1 October 2005 Statkraft took over 24 hydropower plants through the acquisition of parts of E.ON Sverige's power plant portfolio. Generation and market activities relating to these plants are now an integrated part of the business area's operations. Production has continued as normal after the takeover.

During the first half of 2005 new long-term commercial contracts were signed with two industrial companies in Mo i Rana in central Norway. These replace previous electricity supply contracts which expired in April. Statkraft is to supply electricity to Fesil Rana Metall AS and Rio Doce Manganese Norway through 2020. The contracts mean that Statkraft will supply all the electricity used by the smelting plants, partly at predefined prices and partly at current spot prices.

Performance – non-financial key figures

Considering the high output level in 2005, the low rate of unavailability is very satisfactory. The target for maximum utility-adjusted unavailability was 1.5 per cent. A number of maintenance operations were rescheduled during the year in response to market

and water inflow factors. The business area has worked actively to develop new capacity by means of upgrading and expansion projects. Several such projects were completed during the year. Together these gave a 58 GWh increase in output. In 2005 Statkraft was granted licences for new projects which will give a total of 95 GWh when they are realised. There was one serious environmental non-compliance in 2005. The failure of a generator at the Trollheim power plant led to reduced water flow and the stranding of fish. Measures to prevent such a failure happening in the future will be investigated. The business area had a sickness absence rate of 3.2 per cent, down from 3.9 per cent in 2004. There were eight lost-time injuries, though none of them were serious. The business area is working systematically to prevent HSE incidents, and HSE is followed up continually in the line organisation.

NON-FINANCIAL KEY FIGURES*

2003 and 2004 are pro forma figures	Unit of measure	2005	2004	2003
Utility-adjusted non-availability	%	**1.2**	1.5	1.5
Production, annual mean from generators	TWh	**33.3**	31.7	32.3
Production, sold volume	TWh	**39.3**	26.2	32.5
- of which statutory-priced and concessionary sales	TWh	**16.0**	19.3	20.2
- of which electricity with green certificates	TWh	**0.2**	-	-
Installed capacity	MW	**8 638**	8 281	8 397
Power plants, wholly and partly owned	No.	**104**	81	87
- of which operated by the business area Generation and Markets	No.	**78**	59	57
Personnel and HSE				
Full-time jobs (equivalent)	No.	**700**	685	687
- of which outside Norway	No.	**85**	60	60
Sickness absence rate	%	**3.2**	3.9	3.3
H1 (lost-time injuries)		**6.5**	9.3	11.6
Serious environmental non-compliances	No.	**1**	-	2

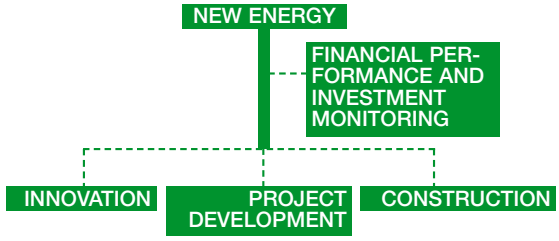
**The group's key figures can be found on fold-out page 2.*

Outlook for 2006

In 2006 the focus will be to exploit synergies in production by continuing existing cooperation agreements and integration projects with other group companies. A collaboration has been started with Skagerak Energi involving the division of responsibilities. The agreement covers planning and engineering, water flow management technology and the establishment of a joint operations centre at Dalen. Operations in Norway and the power plants in Sweden and Finland will be more closely integrated from both a production and sales point of view, with the harmonisation of systems and routines, and the adoption of joint standards. The three gas-fired power plants in Germany and Norway are due to go into operation in the autumn 2007. This will increase the business area's generating capacity by around 1,200 MW.

With effect from 1 January 2006, trading on Nord Pool will be conducted in EUR and Statkraft has chosen to treat the electricity market as a EUR market as of the same date.

BUSINESS AREA NEW ENERGY



The business

The business area New Energy is the group's spearhead for the development and construction of new generating capacity, and contributes actively to the realisation of Statkraft's vision of being a European leader in environment-friendly energy. The business area is responsible for identifying, developing and constructing all new generating capacity, irrespective of technology or geography. As a result of the group's ambitions and approved investment projects, the headcount is being expanded. New Energy is also responsible for monitoring the performance of Statkraft AS's investments in non-flexible generating assets, such as wind farms, as well as the group's investments in Småkraft AS and Statkraft Norfund Power Invest (SN Power). Furthermore, the business area will establish an active R&D structure to ensure that innovation continues apace and to strengthen the culture of innovation throughout the group.

Strategy

Statkraft has substantial competence in the development of power generating projects, and wishes to play a leading role in this area, both through the development of its own projects and by participating in or taking over projects initiated by others. The goal of the Norwegian authorities is to build wind power facilities with an annual output of 3 TWh by 2010[1]. Statkraft's target is to generate 3 TWh of wind power in Norway by 2015, of which 2 TWh by 2010. Internationally, the group aims to develop an equivalent generating capacity by 2015 in cooperation with external partners. The initial focus here will be on the British Isles.

In Norway, Statkraft will focus on improving the efficiency of existing power plants through the modernisation of existing facilities, the exploitation of height differences between existing reservoirs, and increase of catchment areas at existing facilities. This kind of project, combined with a small number of new projects, will result in the establishment of 1 TWh of new hydropower generating capacity by 2015. The group's investments in the construction of small-scale power plants are primarily managed by the subsidiary Småkraft AS. By 2015 Småkraft AS is expected to have built a large number of small-scale powerplants in Norway, with a total capacity of 2.5 TWh.

[1] *Report to the Storting no. 29 (1989-90) On Energy Policy.*

To support Statkraft's trading activities on the Continent and contribute to an increase in the production of environment-friendly energy outside Norway, the group has long been considering various investment possibilities in northern Europe – particularly with respect to gas power. The group's ambition is to control 4.5 TWh of generating capacity by 2010, a target Statkraft will meet through the construction of the gas-fired power plants at Herdecke and Knapsack in Germany.

Statkraft is participating in the construction of a gas-fired power plant at Kårstø in Norway through the company Naturkraft AS. Additional projects are being considered by Statkraft's associated companies. Any further investment in gas power facilities in Norway will depend on the experience which Statkraft gains from its existing projects, the financial and regulatory framework imposed by the government, as well as developments in gas prices.

As a consequence of the limited opportunities for expansion in Norway, the business area conducted a survey in the spring of 2005 to identify new geographic areas in Europe in which to invest. This study resulted in a decision to continue with the process of identifying and developing potential hydropower projects in southeast Europe.

Statkraft owns a 50 per cent stake in Statkraft Norfund Power Invest (SN Power). The company's objective is to construct or invest in hydropower schemes in selected growth markets. SN Power is active in Peru, Chile, India and Sri Lanka. In 2005 the company increased its shareholding in a hydropower company in India which has both existing generating capacity and new capacity under construction. SN Power has also approved the construction of a new power plant in Chile. Statkraft SF's 50.4 per cent shareholding in Himal Power Limited will be transferred to SN Power during the first half of 2006.

The business area New Energy is also responsible for initiating and providing competence and resources for the group's innovation effort, as well as for conducting technology development and R&D projects. Statkraft is heavily involved in such areas as osmotic power, marine technologies and hydrogen production from renewable energy sources.

Financial performance

The business area had gross operating revenues of NOK 1,241 million in 2005, an increase of NOK 1,177 million compared with 2004. Gross revenues for the year were boosted by the receipt of a lump-sum compensation payment from the Dutch company Nuon, amounting to NOK 1,006 million, in connection with the termination of contracts relating to the sale of green certificates from the Smøla and Hitra wind farms for the period 2006–2020. As a result of this, intangible assets and property, plant and equipment belonging to the wind power companies were written down by NOK 383 million (NOK 361 million in the consolidated accounts), while a non-recurring payment of NOK 400 million was made to the Generation and Markets business area as compensation for the cancellation of fixed-price agreements for the same period. Wind power will now be sold at spot price.

The sale of green certificates and power from the Smøla and Hitra wind farms generated revenues of NOK 142 million. Revenues relating to development activities amounted to NOK 89 million in 2005. New Energy made an operating profit of NOK 199 million in 2005, compared with a loss of NOK 70 million the year before. NOK 223 million of the NOK 269 million improvement can be ascribed to the cancellation of contracts and the write-down of fixed assets. NOK 19 million in write-downs relating to various projects is also included in the result. Of this, NOK 10 million in write-downs relate to wind power development projects in Norway where the likelihood of them being constructed has been reduced.

KEY FIGURES NEW ENERGY*

2003 and 2004 are pro forma figures	Unit of measurement	2005	2004	2003
From the Income Statement				
Gross operating revenues	NOK mill.	**1 241**	64	42
EBITDA	NOK mill.	**667**	-52	-15
Operating profit	NOK mill.	**199**	-70	-28
Share of profit from associated companies	NOK mill.	**-5**	-24	-17
From the Balance Sheet				
Property, plant & equipment & intangible assets	NOK mill.	**1 208**	913	330
Investments in associated companies	NOK mill.	**561**	492	482
Other assets	NOK mill.	**1 608**	381	378
Total assets	NOK mill.	**3 377**	1 786	1 190
From the Statement of Cash Flow				
Expansion investments in new generating capacity[3]	NOK mill.	**619**	610	101
Key figures, upstream business				
Production, actual	TWh	**0.4**	0.1	0.1
of which electricity with green certificates	TWh	**0.4**	0.1	0.1
Personnel				
Full-time jobs (equivalent)	No.	**29**	22	23
Sickness absence rate	%	**1.3**	1.8	2.3
H1 (lost-time injuries)		**-**	-	-

**Definitions of key figures can be found on fold-out page 2, cf cross-references to the Financial Statements.*

Important events in 2005

During 2005 Statkraft completed Phase 2 of the Smøla Wind Farm, making it the largest land-based wind farm in Europe. The expansion was completed on time and within budget. Statkraft now has a total annual generating capacity for wind power of around 600 GWh.

In 2005 the board of directors decided to invest in three gas power projects. The project for a 400 MW gas-fired power plant at Herdecke, Germany, is being undertaken as a 50-50 joint venture with the German energy company Mark-E, which is responsible for its construction. Through Naturkraft, a 50-50 joint venture between Statkraft AS and Hydro, an approx.

400 MW gas-fired power plant is being constructed at Kårstø, Norway. Statkraft wholly owns the project for an 800 MW gas-fired power plant at Knapsack, Germany, and the New Energy business area is responsible for its construction. A long-term sales agreement has been signed with the Dutch energy company Essent for 33 per cent of the facility's output. All three gas-fired power plants are due to go into production in the autumn of 2007.

Decisions were also made during 2005 to invest in two small hydropower plants and a medium-sized wind farm in Norway. The wind farm will be located at Kjøllefjord in Lebesby in Finnmark.

In April 2005 Statkraft entered into a research collaboration with Statoil and Det Norske Veritas with respect to the production of hydrogen and its practical application. Statkraft's focus is on hydrogen production from renewable energy sources.

In conjunction with the regional utilities TEV, Skagerak Energi, BKK and Agder Energi, a joint framework for structured innovation has been established, and earmarked funds totalling NOK 15 million set aside. The New Energy business area plays a coordinating role in this cooperative effort.

Outlook for 2006

In 2006 and 2007 the business area will focus strongly on ensuring the successful completion of the three gas-fired power plants currently under construction.

The lack of clarification with respect to reliable and long-term incentive schemes for the generation of more renewable energy in Norway means continued uncertainty for builders of new generating capacity, which could delay the phasing in of new renewable capacity in Norway.

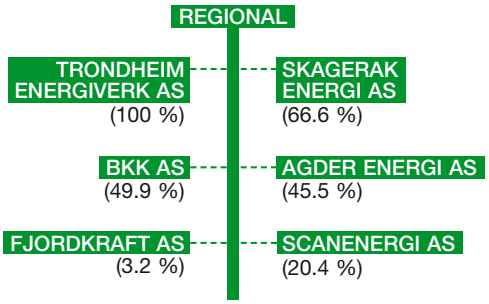
Growing scepticism with regard to wind farms, both locally and in sections of the public administration, is causing increased uncertainty and leading to costly, time-consuming processes before construction can begin. These circumstances mean that, despite Norway's good natural conditions for wind power production, it is not certain that the government's ambition of generating 3 TWh of wind power by 2010 can be realised. The framework conditions for the construction of new wind power facilities are negatively affected by the fact that a market for green certificates in Norway cannot be realised at this point in time.

Statkraft will continue to work actively to modernise and expand its existing hydropower schemes. Småkraft has developed a promising project portfolio, but the rate of construction of small-scale hydropower plants may be slowed down by a limited capacity to process licence applications.

The business area will continue its involvement in wind power projects in the UK through the establishment of a local representative office. The identification and development of hydropower projects in southeast Europe will also be a key activity in 2006.

Statkraft will, in conjunction with its associated companies, continue its efforts to develop a comprehensive platform for innovation and pilot new energy technologies.

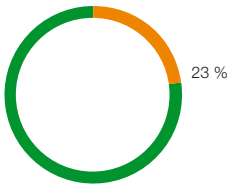
BUSINESS AREA REGIONAL



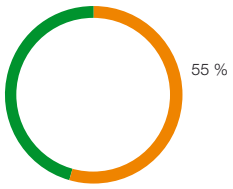
The business

The business area Regional manages Statkraft's shareholdings in regional Norwegian energy companies. Statkraft's shareholdings are owned through the subsidiary Statkraft Regional Holding AS. Statkraft owns 100 per cent of Trondheim Energiverk (TEV) and 66.6 per cent of Skagerak Energi, making them consolidated subsidiaries. The group also owns 49.9 per cent of the associated company Bergenshalvøens Kommunale Kraftselskap (BKK) and 45.5 per cent of Agder Energi. The other shareholders in Skagerak Energi, BKK and Agder Energi are all local authorities. The retail sales company Fjordkraft is also included in the business area. Statkraft itself has a 3.2 per cent direct stake in the company, while the other shareholders are Skagerak Energi and BKK. The business area also owns shares in the Danish retail sales company Scanenergi.

PERCENTAGE OF GROSS REVENUES



PERCENTAGE OF FULL-TIME JOBS (EQUIVALENT)



Strategy

Through its shareholdings in regional electricity utilities, Statkraft has sizeable operations within the generation, distribution and sale of electricity and heat, as well as gas power and wind power.

Some of the regional companies are also active in the telecoms/ broadband field, among others. Statkraft's goal is to further develop and improve the efficiency of all parts of the value chain, and thereby meet customers' energy requirements in the best way possible.

In the short term Statkraft's main objective is to improve the operating profits of the regional companies. This will be achieved by identifying and realising efficiency gains internally within each company and the synergies between them. Internal improvement measures, including the restructuring of distribution grid operations, have already produced good results. Improvements have also been achieved through closer cooperation in the area of energy optimisation between Statkraft, TEV and Skagerak Energi.

Future developments will continue to be based on local value creation and strong regional companies, whose business operations will be further developed in accordance with their areas of expertise and business focus. To improve their financial performance still further, Statkraft will continue to seek sensible cooperative solutions between the companies in those business areas that they have in common.

Financial performance

The business area had gross operating revenues of NOK 3,477 million in 2005, an increase of NOK 175 million compared with 2004. Operating profit rose by NOK 122 million to NOK 1,400 million, while Statkraft's share of the profits from associated companies rose by NOK 151 million. The business area made an overall profit before financial items and tax of NOK 1,812 million in 2005, an increase of NOK 273 million from the year before.

The improvement in profits compared with 2004 can largely be explained by the fact that BKK and TEV posted their best ever results. Both companies generated record amounts of electricity in 2005, due to extremely high levels of water inflow.

The segment generation and sales accounted for the bulk of the business area's profits, which amounted to NOK 1,637 million or 90 per cent of its profit before financial items and tax. This is NOK 350 million more than in 2004. The improvement can largely be ascribed to a very large water supply and a record high level of output by TEV. Profit before financial items and tax from distribution grid operations, the second largest business segment, fell by NOK 35 million to NOK 294 million in 2005. This decline is the result of a reduction in the revenue ceiling. The remaining business operations made more modest contributions to the overall profit. Results from retail electricity sales and district heating operations improved by NOK 55 million.

The financial performance of the subsidiaries and associated companies is presented as gross figures in the table on the next page. The figures are presented according to the companies' own books before consolidation into Statkraft's group accounts. The companies' ROACE before tax, measured against their own balance sheets, stood at between 8.6 and 15.6 per cent.

KEY FIGURES REGIONAL*

2003 and 2004 are pro forma figures	Unit of measurement	2005	2004	2003
From the Income Statement				
Gross operating revenues	NOK mill.	**3 477**	3 302	3 044
EBITDA	NOK mill.	**2 066**	1 942	1 600
Operating profit / EBIT	NOK mill.	**1 400**	1 278	949
Share of profit from associated companies	NOK mill.	**412**	261	282
From the Balance Sheet				
Property, plant & equipment & intangible assets	NOK mill.	**22 189**	22 207	22 378
Investments in associated companies	NOK mill.	**10 799**	10 757	11 070
Other assets	NOK mill.	**4 322**	3 625	6 066
Assets	NOK mill.	**37 310**	36 589	39 514
From the Statement of Cash Flow				
Ordinary depreciation on property, plant & equipment	NOK mill.	**666**	664	651
Maintenance investments[2]	NOK mill.	**241**	234	274
Expansion investments in new generating capacity[3]	NOK mill.	**446**	402	398
Investments in shareholdings[4]	NOK mill.	**10**	84	-
Key financial ratios				
EBITDA margin[8]	%	**59.4**	58.5	52.3
ROACE before tax[9]	%	**6.9**	7.5	5.7
Key figures, upstream business				
Production cost/MWh[14]	NOK/MWh	**76.4**	78.8	82.5
Production, annual mean	TWh	**8.3**	8.2	8.2
Production, actual	TWh	**8.8**	8.1	6.7
Installed capacity	MW	**2 073**	2 052	2 052
Reservoir capacity	TWh	**5.7**	5.7	5.7
Key figures, downstream business				
No. of distribution grid customers	1 000	**265**	266	263
Energy supplied	TWh	**9.0**	8.7	9.1
Distribution grid capital (NVE capital)[16]	NOK mill.	**3 721**	3 721	3 708
Return on NVE capital	%	**8.4**	9.1	6.7
No. of end-user customers	1 000	**82**	79	75
Total volume supplied	TWh	**2.0**	1.8	1.6
Volume of district heating energy sold	TWh	**0.4**	0.4	0.4
Installed capacity district heating	MW	**262**	262	261
Personnel				
Full-time jobs (equivalent)	No.	**1 085**	1 027	1 093
Sickness absence rate	%	**4.4**	4.5	4.9
H1 (lost-time injuries)		**8.0**	6.2	4.4

**Definitions of key figures can be found on fold-out page 2, cf cross-references to the Notes to the Financial Statements.*

KEY FIGURES SUBSIDIARIES AND ASSOCIATED COMPANIES (100 PER CENT)

NOK million	TEV	Skagerak Energi	BKK	Agder Energi
From the Income Statement 2005				
Gross operating revenues	1 546	1 903	3 291	3 076
Operating profit	748	709	1 444	891
Share of profit from associated companies	2	8	143	-
Net financial items	-130	-48	-397	-279
Profit before tax	619	669	1 190	612
Net profit 2005	413	406	655	395
Net profit 2004	231	434	477	439
From the Balance Sheet 2005				
Property, plant & equipment & intangible assets	5 186	8 738	10 164	9 399
Other fixed and current assets	1 047	1 461	5 910	1 313
Total assets	6 233	10 199	16 074	10 712
Key financial ratios				
ROACE before tax	15.0 %	8.6 %	15.6 %	10.5 %
Statkraft's shareholding	100 %	66.6 %	49.9 %	45.5 %

Important events in 2005

As a condition of its acquisition of TEV in 2002, Statkraft was ordered to sell off some of its generating capacity north of Dovre in central Norway (price area NO2). In response to this directive, Statkraft has implemented several measures to comply with the conditions set, and has been engaged in a lengthy process vis-à-vis the Norwegian Competition Authority to clarify the status of the acquisition. The acquisition was finally approved in November.

One of Statkraft's objectives is to contribute to regional industrial development. Among the regional companies' most important activities in 2005 were:

- The completion of several inter-company development projects within the Statkraft Group. These projects resulted in the identification of major opportunities for improved cooperation, and a number of improvement measures have already been fully or partly implemented.
- The acquisition of shares in Telenor Cinclus by Skagerak Energi during the summer of 2005. Together, these companies will offer products and services which will allow distribution grid owners and electricity suppliers to meter electricity consumption on an ongoing basis. This is an interesting project, with a substantial potential with respect to offering more cost-effective electricity delivery solutions, as well as sales to other distribution grid operators in Norway and abroad. The first contracts with customers have already been signed.
- The establishment of the wind power company Vestavind Kraft by BKK and the companies of the Vestlandsalliansen (West Country Alliance).
- The start of work by TEV to expand the Heimdal district heating facility and construct a new district heating pipeline. The test period is scheduled to start in July 2007.
- The major reorganisation of Agder Energi's business model for distribution grid operations, involving competitive tendering for the business's operational and maintenance activities. Agder Energi has also entered into a strategic alliance with NextGenTel with respect to telecoms and broadband.

Outlook for 2006

At the start of 2006 the water level in the reservoirs of Statkraft's regional companies are higher than normal, and it seems likely that output levels and power sales revenues will continue to make satisfactory progress through the year.

TEV is planning to make an investment decision and commence construction of the Leirfossene power plant in 2006. For several years Skagerak Energi has been working on plans for a gas-fired power plant in the Grenland region of southeast Norway, and is in the final stages of preparing a licence application. The progress of this project towards a final investment decision will depend on clarification of such important factors as gas supply and carbon capture regulations. These issues are currently being examined by expert committees comprising representatives of both the private and public sectors. The government has also taken the initiative for an inquiry into the implications of carbon dioxide injection for increased oil recovery. This will be decisive for profitability calculation and project implementation, and is expected to be clarified later in 2006.

Statkraft has good relations with the regional companies' other shareholders and looks forward to continuing to develop this area in 2006.

--MANAGEMENT REPORT

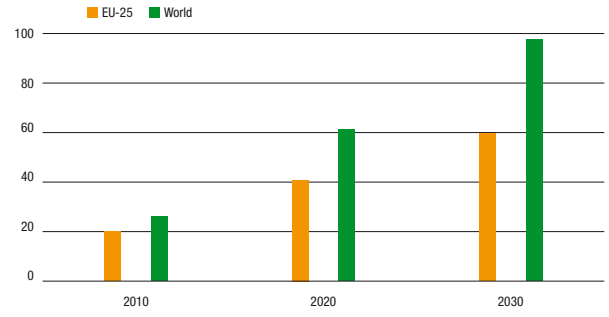
ENVIRONMENT

STATKRAFT GENERATES ENVIRONMENT-FRIENDLY ELECTRICITY, ALMOST ENTIRELY FROM RENEWABLE RESOURCES AND WITH ZERO CARBON EMISSIONS. THE GROUP'S PRODUCT IS THEREFORE OF GREAT VALUE IN MEETING THE MAJOR CHALLENGES POSED BY GLOBAL WARMING AND SUSTAINABLE ENERGY PRODUCTION. AT THE SAME TIME, STATKRAFT'S OPERATIONS HAVE A DIRECT IMPACT ON THE ENVIRONMENT THROUGH INTERVENTIONS IN THE LANDSCAPE AND RIVER SYSTEMS, WASTE AND EMISSIONS CAUSED BY POWER PLANT CONSTRUCTION AND OPERATIONS, TRANSPORT, AND OTHER ACTIVITIES RESULTING FROM THE SCALE AND SCOPE OF ITS BUSINESS. TAKING THE ENVIRONMENT INTO CONSIDERATION IS AN INTEGRAL PART OF STATKRAFT'S MANAGEMENT SYSTEMS, AND PLAYS A NATURAL ROLE IN DAY-TO-DAY OPERATIONS AND THE DEVELOPMENT OF NEW GENERATING CAPACITY.

THE ROAD TO A SUSTAINABLE ENERGY SUPPLY

Access to energy is a basic requirement for economic growth, and thereby for social development on a global scale. The world's population is growing rapidly, while economic development means that more and more people can afford to buy energy for lighting, heating, transport and other activities. During the past 20 years global energy consumption has risen by almost 50 per cent, and could double or triple in the period to 2050, depending on which forecasts for economic and population growth are used[1].

EXPECTED INCREASE IN THE DEMAND FOR ELECTRICITY IN THE EU-25 AND THE WORLD



Sources: European Energy and Transport - Trends to 2030, European Commission 2003
World Energy Outlook 2004, IEA

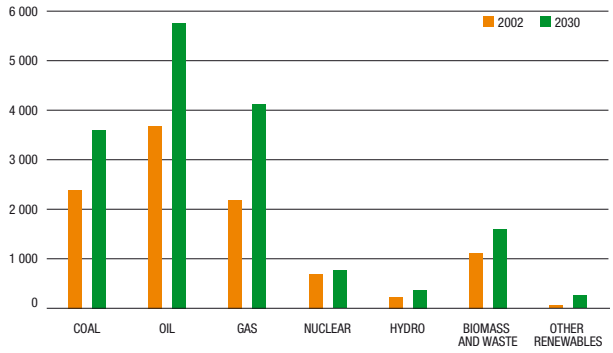
This level of energy consumption brings with it a considerable increase in carbon dioxide emissions, and the link between increased carbon dioxide emissions and global warming is well documented. One future scenario[2] shows that the average temperature in 2100 could be 2–4°C higher than it is today, which would result in serious and unpredictable consequences for the earth's climate and environment. A stabilisation of carbon emissions at a sustainable level is therefore one of the most important challenges of our age.

The Kyoto Protocol, which was adopted in 1997 by 37 industrial countries and came into effect in 2005, defines clear targets for reducing the volume of greenhouse gas emissions. In the period 2008–2012 these countries must meet individual emission targets involving an average 5.2 per cent reduction compared with the 1990 level. But so far, the trend has been the opposite. In 2003 emissions had increased by 9 per cent compared with 1990, and the forecasts indicate that this could rise to almost 20 per cent by 2010[1]. This is largely due to the substantial growth in energy consumption throughout the world, but also shows that it takes a long time to switch to new energy sources and new technological solutions in an area in which existing installations, technologies and structures are extremely capital intensive and have a long economic lifespan. There is no sign that the world will become less dependent on fossil-based energy during the coming decades. In 2002 coal, oil and natural gas accounted for just over 80 per cent of the world's energy supply. According to the International Energy Agency (IEA), the increase in the energy supply until 2030 will mainly be produced from these sources. This is a serious matter since these sources contribute the most to climate change.

[1] *World Business Council for Sustainable Development.*
[2] *Intergovernmental Panel on Climate Change.*

TOTAL PRIMARY ENERGY SUPPLY IN 2002 AND 2030

Mill. tonnes oil equivalents



Kilde: World Energy Outlook 2004, IEA.

There is broad agreement in the international community that the challenges posed by global warming cannot be met by individual measures. A coordinated effort on the part of governments, businesses and individuals, both locally and globally, is required, with the measures implemented combining more efficient use of energy and a transition to energy with a lower carbon content. Key tools will include emissions trading schemes, the Clean Development Mechanism (CDM) and Joint Implementation (JI), as well as measures to improve technology development and energy efficiency. Statkraft sees opportunities to exploit the growing demand for more environment-friendly energy by developing new technologies and constructing commercially attractive new energy sources.

POLICY

Statkraft's environment policy is set out in its business principles, and is part of "Doing the Right Thing at Statkraft". The group's environmental contribution is threefold: Statkraft helps supply Europe with environment-friendly energy, it exploits the natural resources upon which its business is based in a sustainable way, and it limits the impact of its operations on the environment. Important aspects of its environmental impact are included as parameters in the business area and group scorecards. Its operations are continually being monitored through an environmental management system which applies to the bulk of the business and which is certified in accordance with the ISO 14001:2004 standard.

IMPORTANT ENVIRONMENTAL ASPECTS

Statkraft reports its impact on the environment in accordance with the overarching principle of materiality. This means that the emphasis is placed on reporting those aspects where Statkraft's actions have a real and material impact on global, national or local stakeholders.

In accordance with the requirements of the ISO 14001 standard, management reviews the group's environmental management system annually. In connection with the review undertaken in 2005, management selected the most important environmental aspects of Statkraft's operations. These reviews currently encompass those parts of the company which are ISO certified. The following are the most important environmental aspects:

- Interventions in the landscape and the course of river systems
- Local pollution
- Waste management
- Energy and resource utilisation
- Greenhouse gases

The most important environmental aspects of the group's operations apply to various business processes, such as technology and project development, construction site and power plant management, office administration, power trading, acquisitions and purchasing. By clarifying these environmental aspects and processes, a framework has been created which also highlights more clearly

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 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.

the relationship between the various environment-related activities being undertaken at various levels in the organisation and the overarching targets and policies applying to the group as a whole.

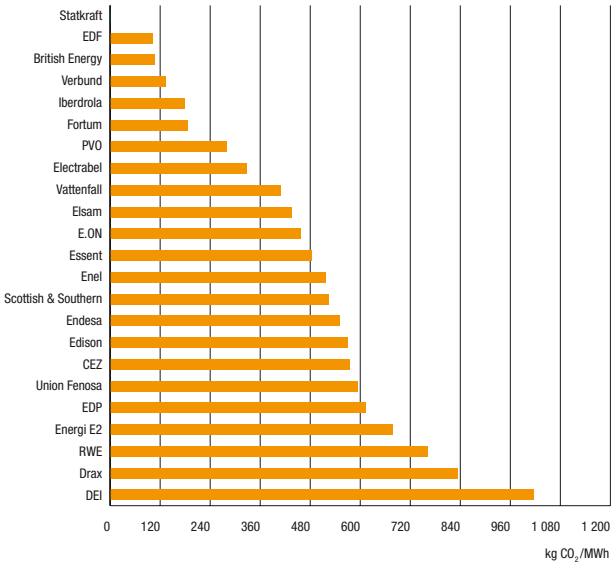
ENVIRONMENT-FRIENDLY ENERGY

Almost 100 per cent of Statkraft's electricity generation comes from renewable energy sources, and produces no greenhouse gas emissions. Hydropower and wind power are both attractive technologies which combine commercial potential with excellent environmental performance. The generation of environment-friendly energy is Statkraft's most important contribution to the environment.

Environment-friendly energy production

Today, 99 per cent of Statkraft's total energy production comes from the renewable resources wind and water, with hydropower production accounting for 41.4 TWh of a mean annual output of 42.0 TWh. Neither hydropower nor wind power generation produces any emissions of carbon dioxide or other greenhouse gases, apart from those resulting from the use of petrol and oil for transport, business travel and other small-scale processes and equipment driven by diesel or petrol engines. Statkraft is involved in district heating through Trondheim Energiverk Fjernvarme. Parts of the heat production are based on energy sources that are not renewable, although biofuels and heat pumps are also utilised. The issue of whether dammed reservoirs could provide a net release of greenhouse gas emissions, over and above the naturally occurring level, is currently being investigated.

EUROPEAN ENERGY COMPANIES' CARBON INTENSITY



Source: Facteur Carbone Européen, Novembre 2005. PricewaterhouseCoopers/Enerpresse.

A comparison of the 23 largest European energy companies shows that Statkraft has the lowest carbon factor, ie the lowest emissions of carbon dioxide per MWh. These 23 companies generate 70 per cent of the electricity and 55 per cent of the greenhouse gas emissions in the European power and heating industry. Carbon emissions from these companies totalled 790 million tonnes in 2004.

This picture will change somewhat in the coming years, when the three gas-fired power plants in which Statkraft has shares go into operation. Natural gas is not a renewable resource and, with the current best available technology, its use to generate electricity will result in carbon dioxide emissions. Statkraft's existing and planned hydropower, wind power and gas power capacity will give it a total mean output of approx. 50 TWh in 2007, of which some 85 per cent will be from emission-free, renewable sources.

Environmental products

Statkraft's environment-friendly production profile is further underlined by the carbon quota and green certificate trading schemes launched by the EU in 2005 as a way of reducing greenhouse gas emissions. The quota trading system means that emission-heavy operations which exceed their given individual emission quotas can buy quotas from third parties. In this way emissions are reduced where it is most cost-effective to do so. Green certificates, issued by independent certification bodies via the Renewable Energy Certificate System (RECS), prove that the energy has been produced from renewable sources. These certificates can be bought and sold, and stimulate investment in renewable energy sources. In a pilot project, production at the Trollheim power plant in Norway was declared green in 2005 by the German certification body TÜV on the basis of an environmental declaration (EPD, ISO DIS 14025) which had been prepared for the plant. Electricity from Høyanger, Haukeli, Reinfossen, Stegaros, Norddalen, Øvre and Nedre Bersåvatn, Jostedal, Langvatn, Bjerka, Øvre Røssåga, Rana, Trollheim, Bjølvo, Hitra and Smøla has been approved for sale as green through the RECS and other schemes. 2.6 TWh of the electricity sold in 2005 was sold with environmental value linked to such schemes.

Claims of "green electricity" must be documented. The International Chamber of Commerce (ICC), EU guidelines and Nordic consumer ombudsmen all demand that lifecycle assessments and documented claims be verified by a third party if a product is to be marketed as green. Statkraft has been working on this type of documentation for some time. The company has tested environmental declarations (EPD, ISO DIS 14025), environmental cost estimates (Extern E) and lifecycle assessments (LCA, ISO 14040-43) for selected power plants. In 2005 a new, quantitative test of the Trollheim power plant's' environmental performance was undertaken using a scorecard created by the International Hydropower Association (Sustainability Guidelines). In an earlier cooperative effort Statkraft and Hydro prepared LCAs, EPDs and environmental cost estimates for an average portfolio of Norwegian hydropower plants.

Further expansion of Norway's hydropower potential

One of Statkraft's important tasks is to operate its power plants in a way that provides society with as much energy as possible, with

as little impact on the environment as possible. Another obligation to society is to point out the best possible opportunities for increasing the country's electricity production. Statkraft wishes to develop projects which can provide environment-friendly energy while safeguarding the valuable natural habitat of river systems. Such development could also have a substantial, positive economic knock-on effect.

The modernisation and expansion of existing hydropower facilities provides an excellent opportunity to create a good balance between the amount of energy produced, the impact on the environment and profitability. Modernisation projects resulting in greater operational efficiency led to a 19 GWh increase in theoretical electricity production in 2005. This increase in operational efficiency was achieved through turbine improvements at the Nea, Høyanger and Mår power plants. The projects at Høyanger and Mår were carried out over a three-year period and resulted in a 44 GWh increase in efficiency.

In 2005 the Norwegian Storting (parliament) approved the supplementation of the conservation plan for river systems. The unexploited hydropower potential in Norway today is illustrated in the table below.

Unexploited hydropower potential	TWh
For schemes with an installed effect under 10 MW	23.8
For schemes with an installed effect over 10 MW	15.4
Protected against hydropower schemes	44.2

Small-scale power plants are those with an installed capacity of 1–10 MW. Statkraft's subsidiary Småkraft AS invests in and develops this kind of project. Statkraft also cooperates with independent, small-scale power producers by providing financial assistance and offering insurance against uncertainties of water inflow and, by extension, production capacity. The Øvre and Nedre Bersåvatn power plants at Tyssedal are examples of innovative projects which illustrate the potential for increased hydropower production. Here it is the height difference between three existing reservoirs which is exploited by two new small-scale power plants. The facilities therefore have a minimal impact on the environment and none of the river stretches concerned have had their water flow levels changed. The annual output of 43 GWh is enough to meet the electricity needs of some 2,100 households.

Further expansion of Norway's wind power potential

Norway has substantial wind resources. The country's total wind power potential is estimated at approx. 10–15 TWh. Generating capacity can be constructed at a production cost of NOK 300–400/MWh, depending on wind conditions and proximity to existing infrastructure. Documented wind resources are the greatest in Finnmark County, which has over half the country's resources, followed by Troms County and Sør-Trøndelag County. There is also wind power potential at sea. However, there is great uncertainty concerning the size of this potential.

Wind farm construction faces a number of limitations and restrictions which are both technical, financial and environmental. In Norway's northernmost counties these are primarily associated with transmission capacity. The goal of the Norwegian authorities is to build wind power facilities with an annual output of 3 TWh by 2010. Statkraft has realised two wind power projects, one at Smøla and one at Hitra. A third is under construction in Lebesby in Finnmark County. In addition, there are ongoing reviews of and licence applications for several wind power projects, which together will meet Statkraft's target of generating 2 TWh of wind power annually by 2010. The projects currently under development must nevertheless be assessed in relation to future profitability. Incentive schemes for renewable energy will be of importance in this matter.

New, environment-friendly technologies

Statkraft is concentrating its innovation efforts on projects which can help boost value creation in Statkraft's core areas. Such projects include new energy sources, improvements in existing operational activities and the general monitoring of new and relevant technologies.

Statkraft has been working on technology to exploit the power of the tides for electricity generation for some time. This is a renewable and emission-free energy source which is based on exploiting the ocean currents created by the ebb and flow of the tides and which is used to drive turbines. The density of water is nearly 1,000 times higher than the density of air, and a lot of energy can be harvested even at low velocities. Another advantage is the fact that tidal currents are cyclical, thus ensuring predictable power production. A floating tidal power plant will take up very little space, and with the turbines and generator under the waterline, only a small proportion of the installation will be visible. The installations themselves will not be fixed to the seabed, and the whole facility will be easy to move from one site to another. An important objective is to identify this type of power plant's impact on the local environment as a result of changes in ocean currents and the removal of crustaceans and algae from the facility.

Osmotic power, which uses the osmotic pressure difference between salt water and freshwater, is another promising business opportunity. Typically, osmotic power plants can be located where freshwater and seawater meet, eg at the mouth of a river. These installations will not be very big, and can easily be adapted to local environmental conditions and the local landscape.

Statkraft's innovation effort also focuses on hydrogen production based on renewable energy sources. It is expected that hydrogen will play an important role as an energy carrier in the future. Hydrogen can be used as a vehicle fuel and to drive combined power and heat generation systems. The only local emission it produces is water. Hydrogen can be made from natural gas or from water using electricity. In the project Hydrogen Technology Research Centre (HYTREC), hydrogen will be produced from natural gas with carbon capture and using electricity generated

from renewable energy sources. Hydrogen production will therefore result in zero greenhouse gas emissions.

Environmental considerations in the planning process

Environmental considerations play a key role in the development of new generating capacity. Statkraft places great emphasis on thorough and professional processes which highlight all potential consequences of a project, and which take into account the interests of and close interactions with all stakeholders.

The first step in the evaluation of a new energy project is to conduct a screening to uncover whether it may potentially conflict with such environmental parameters as vulnerable biotopes, cultural monuments and landscapes, as well as reindeer farming and other commercial activities. Based on this evaluation, a report is produced for large-scale projects which proposes a programme for further investigation. For small projects it is possible to proceed directly to an impact assessment and licence application. An impact assessment is conducted by impartial specialists whose task is to investigate the various environmental aspects of the project and propose measures to compensate for any negative consequences. For example, when building a wind farm it is particularly important to adapt it to the local landscape, minimise turbine noise and shadow, and analyse the facility's impact on bird populations, wildlife and reindeer farming. In its licence application, Statkraft will define the environmental measures it proposes to implement. A consultation process may reveal the need for further adaptation to the environment. If a licence is granted, Statkraft will draw up an environmental follow-up programme that complies with the terms of the licence, and which Statkraft and its suppliers will abide by during the construction and operation of the plant. The Smøla Wind Farm, which was opened in 2005, is an example of how the environment has been systematically taken in to consideration during the whole process. An important precondition for good planning and construction processes is the establishment of a good, close dialogue with local government authorities and other affected stakeholders.

LANDSCAPE AND RIVER BASIN INTERVENTION

Statkraft's portfolio of hydropower and wind power facilities means that local landscape and river basin interventions represent a significant consequence of its business activities. Such interventions are of great importance to society and affect many people, both directly and indirectly. The need for more renewable energy is obvious, both globally and nationally. However, there is often local opposition in communities where new production facilities are proposed because of such interventions. In 2005 environmental considerations played a significant role in the non-realisation of several energy projects, eg the expansion of hydropower production on the Vefsna river system.

Statkraft's environment policy states that the company's objective is to reduce the negative environmental impact of its activities through compensatory measures and the development of acceptable solutions, resulting from company initiatives, thorough planning processes, and close cooperation with the regulatory and local government authorities and other interested parties.

Water flow regulation

At the end of 2005 Statkraft owned shares in 133 power plants in Norway and 23 in Sweden and Finland. The group is responsible for operating 80 of these facilities.

In 2005 Statkraft Energi's activities affected a total of 53 river systems in Norway. As part of each operating licence, the authorities lay down how the flow of water from reservoirs and rivers is to be regulated. In addition, Statkraft has chosen to comply with a number of voluntary environmental measures extending beyond the official water flow regulations, eg with respect to biological diversity, outdoor leisure pursuits or aesthetic considerations.

The flush flooding of the Suldalslågen river in October 2005 is an example of a voluntary environmental measure. Flush flooding is a short period of high water flow which is used to clean up the watercourse and thereby improve conditions for the river's fish. The measure was implemented after Statkraft had conducted a comprehensive research and monitoring programme to identify the factors affecting salmon's ability to thrive in western Norway's major river systems. The research on spawning fish, fry density, habitat overgrowth and sediment transportation has been part of the process of creating a new water flow regulation scheme which is better suited from an environmental point of view.

River husbandry and fish populations

Regulating a river's water flow can affect its fish population. Spawning and living conditions for fish are primarily affected by the fact that the water level and rate of flow fluctuates. Statkraft's objective is to maintain healthy river systems with self-recruiting fish populations, and a number of measures are implemented to contribute to this. Some of these measures follow from conditions laid down in the operating licence, while others are the result of the fact that Statkraft itself has identified a need and an opportunity for improvement. All measures are implemented in cooperation with the regulatory authorities and other interested parties.

The measures cover a wide range and include moderate river adjustments, the addition of suitable spawning and growth substrates, restocking, the construction of salmon ladders and the removal of thresholds and migration obstacles, careful regulation of the water level and rate of flow, as well as the safeguarding of wetland areas for spawning and growth.

Statkraft is a major producer and purchaser of fish for restocking. Each year around 600,000 salmon, sea trout and inland trout are released. In 2005 682,000 salmon and 76,000 sea trout were released. The number of fish used for restocking is expected to fall somewhat in the years ahead, as self-recruitment in the fish populations in the river systems increases. Statkraft operates two

of the country's three gene banks to safeguard the Norwegian salmon populations' unique genetic material. Extensive monitoring of the fish populations is also conducted, with test fishing and biological surveys often continuing over several years.

River husbandry also provides positive benefits for fishing. A number of the best salmon rivers in Norway are affected by water flow regulation, including the Numedalslågen and Alta rivers, of which Statkraft is the regulator.

Maintaining healthy river systems is important both to remain in compliance with the terms of the company's operating licences and to live up to the obligations inherent in Statkraft's brand name and vision of being a European leader in environment-friendly energy. Good river husbandry and other compensatory measures are therefore important elements in Statkraft's operations.

Localisation of wind farms

A number of factors are taken into consideration when selecting the location for a wind farm. These include access to stable and relative strong winds, suitable terrain and proximity to existing roads and power lines. Great emphasis is also placed on finding a location which conflicts as little as possible with biodiversity, leisure pursuits and existing residential areas. Local support is also important. Furthermore, it is important to avoid intervention in areas protected by the Nature Conservation Act as well as direct contact with cultural monuments protected by the Cultural Heritage Act. By carrying out field studies in collaboration with research institutes, Statkraft shall ensure that the individual project will have access to the best, most up-to-date knowledge with regard to planning and the relationship between wind turbines and the environment in which they are located. Since 2003 Statkraft has contributed to ongoing research on the sea eagle population at Smøla and its relationship to the wind turbines. The first collisions between sea eagles and wind turbines occurred in 2005. As of 2006 Statkraft has therefore increased its research activities at Smøla, focusing in particular on measures that can reduce the danger of collisions. This knowledge will also be put to use when selecting the locations for new wind farms. Wind power generates climate-friendly energy, and most interventions associated with wind power generation are reversible. A wind farm has a lifespan of 20–25 years, after which most of the traces left by the wind farm can be erased and the landscape returned to its natural state.

Placement of power lines

Through the companies Trondheim Energiverk and Skagerak Energi, Statkraft distributes energy via a comprehensive distribution grid. Great emphasis is placed on thorough impact assessments and dialogue with affected stakeholders in the same way it is when constructing power plants. This is particularly important with regard to the placement of power lines near residential areas, the effect of barriers, and the relationship between power lines and bird populations and other wildlife.

LOCAL POLLUTION

Statkraft's operations produce very little pollution. Hydropower and wind power generation do not produce any systematic emissions to air or water. Nevertheless, the size of the company's operations does result in some emissions to the soil, air or water from the loss of gases, eg halon and SF_6, as well as from spillages of oil-based products from vehicles, construction equipment or generating equipment. All loss is measured and reported in a non-compliance system, and is presented in the materials accounting system, which tracks consumption and loss of environmentally hazardous substances from their acquisition to their disposal.

At an early stage Statkraft became aware of possible soil pollution at the site where the gas-fired power plant at Knapsack is being constructed. The soil pollutants were largely PCB and cyanide from a coal-fired power plant and associated carbide plant that were bombed in 1944. In cooperation with the landowner, Infraserv Knapsack and Det Norske Veritas, Statkraft investigated the conditions surrounding the documented soil pollution. The investigations led to the removal and disposal of point sources of PCB in accordance with German regulations. No further measures have been deemed necessary. Infraserv Knapsack is monitoring the area through a network of groundwater wells, and surface run-off and groundwater are being directed to a special treatment facility. The danger of leakages from as-yet-undiscovered sources in the area is considered to be very slight.

With operations located throughout Norway, and in Sweden, Finland, Germany, the UK and the Netherlands, a not inconsiderable amount of business travel is undertaken by Statkraft employees. Statkraft does not record the environmental impact of this travel activity.

WASTE MANAGEMENT

With some 2,000 employees, 3,000 large-scale technical installations and nationwide operations, Statkraft generated over 1,800 tonnes of waste in 2005. Around 340 tonnes of the waste is classified as hazardous. The bulk of the waste is metal originating from the maintenance and replacement of equipment parts, some is electronic waste (disused computers and other equipment), and a small proportion is made up of used lubricating oil. Statkraft's routines for handling hazardous waste comply with public regulations and established systems for collection and recycling.

55 per cent of Statkraft's total waste was sent for recycling in 2005. The target for 2006 is to increase the recycling rate by 5 percentage points.

In connection with large maintenance, modernisation and construction projects, waste management is followed up through separate environmental plans. These plans require that suppliers report their waste levels on a monthly basis. In 2006 Statkraft will further develop systems for environmental follow-up of purchases and suppliers.

WASTE

Type of waste	Unit of measurement	2005	2004*	2003*
Hazardous waste	Tonnes	342	66	65
Other waste	Tonnes	1 467	551	313**
Percentage of waste recycled	%	55	66	50

**Does not include TEV and Skagerak Energi.*
***Reporting partially incomplete.*

ENERGY AND RESOURCE CONSUMPTION

The most important input factors for Statkraft's energy production are wind and water – renewable resources. The optimisation of water flow and reservoirs levels is an important method of resource management, which has a major impact on energy production and value creation. With this as its starting point, Statkraft defines energy and resource consumption as purchased energy and resources for use in its power generating and administrative facilities.

Statkraft has not previously undertaken the systematic measurement of the energy and resource consumption of its day-to-day operations and projects under construction, beyond what has been presented in its materials and waste accounting data. In 2005, for the first time, the total electricity consumption of installations and offices has been measured.

Statkraft aims to optimise its energy and resource consumption through the right choice of purchased products and services, increased reuse and cuts in consumption.

SUBSTANCE CONSUMPTION AND LOSS

Substance	Unit of measurement	2005	2004*	2003*
Oil products, loss	Litre	2 515	1 700	2 300
Fuel, consumption	Litre	1 499 253	327 400	297 000
Chemicals, consumption	Litre	4 797**	4 100	3 700
Gases, loss	Kg	416**	73	78

**Does not include TEV and Skagerak Energi.*
***Does not include TEV.*

GREENHOUSE GASES

Statkraft's new gas-fired power plants will produce carbon emissions. Nevertheless, the electricity they generate will be environment-friendly, since it will primarily replace electricity generated in much more polluting coal-fired power plants. The emissions from gas-fired power plants built with the best available technology contain approx. 50 per cent less carbon dioxide (CO_2) and up to nine times less nitrogen oxide (NO_x) than the emissions from coal-fired power plants.[3] The Norwegian government has announced that it will facilitate total carbon capture by establishing a value chain for carbon dioxide. In Norway inland gas-fired power generation will reduce the demand for imports of electricity generated by coal-fired power plants during periods of peak demand, while the European gas-fired power plants will represent a direct alternative to coal power. A Norwegian community of specialists in gas power will also actively contribute to technological innovations for the emission-free facilities of the future. One great advantage of modern gas-fired power plants is flexible production, so that output can be easily adjusted to meet current demand.

[3]*Naturkraft.*

Carbon quotas totalling 132,082 tonnes have been allocated to Trondheim Energiverk Fjernvarme for the period 2005–2007, and quotas totalling 575,894 tonnes have been allocated to Naturkraft's facility at Kårstø for 2007. Statkraft is an active player in the carbon market.

Emissions from reservoirs

Methane, nitrogen oxide and carbon dioxide are formed through naturally occurring processes in all ecosystems. Water reservoirs can also be a source of methane emissions. Dammed areas can contain vegetation which undergoes anaerobic decomposition resulting in the release of both carbon dioxide and methane into the atmosphere. In Norway this is less of a problem than in countries farther south, due to low atmospheric temperatures and little vegetation in the reservoirs, which are often located high in the mountains. Moreover, many of the hydropower reservoirs are natural lakes, which require little damming. Research on emissions of greenhouse gases from reservoirs has revealed gross emissions primarily in warm areas. However, little knowledge exists of the change in the emission level (net emission level) as a result of damming.

To identify whether net emissions of greenhouse gases, primarily methane and carbon dioxide, increase as a result of the regulation of the water flowing out of the reservoirs, Statkraft initiated a research project at the Follsjøen reservoir in 2003. Follsjøen is situated at the edge of the Trollheim mountain range, and the reservoir was created in 1968 by damming areas which had previously been bog, scrubland and mountain pasture. The reservoir's lowest regulated point is just 385 m above sea level, which is relatively low. It therefore represents the type of Norwegian reservoir where the possibility of methane generation is greatest.

Follsjøen has been studied and an analysis of the vegetation and use of the area has formed the basis for calculating the net emission level, ie the difference between the actual emission level and the emission level which would occur naturally if the area had not been dammed. The calculation was made by the SINTEF research institute, and the results show a low to zero net release of methane from Follsjøen. The emissions, including carbon dioxide emissions, were relatively speaking lower than in the unregulated reference lake Resvatn.

ENVIRONMENTAL TARGETS FOR 2006

Statkraft has defined the following overarching environmental targets for 2006:

- Zero serious environmental non-compliances
- Increase waste recycling rate by 5 percentage points
- Define specific criteria and targets for environment-friendly purchasing
- Further improve the environment-friendliness of river management operations

ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS

All environmental non-compliances and incidents are registered, reported and followed up in accordance with the requirements of the ISO 14001 standard. Serious environmental non-compliances are defined as violations of licence conditions, water flow regulations, legislation, environment plans and self-imposed requirements, which have serious consequences for the environment and/or the company's reputation.

One serious environmental non-compliance occurred in 2005. In August a technical fault in the transformer at the Trollheim power plant in Møre og Romsdal led to an immediate halt in power production. As a result the water flow in the Surna river was substantially reduced for a brief period. Sections of the riverbank dried up, causing the death of stranded salmon fry. SINTEF Energy Research and the Norwegian Institute for Nature Research have calculated that the incident may have led to the deaths of 15,000–19,000 salmon fry. The researchers estimate that there were approx. 920,000 salmon fry in the area downstream from the power plant. In December, another incident of the same type occurred. This has been defined as a serious environmental incident because there was no violation of minimum water flow requirements. Incidents of this kind are extremely regrettable. Statkraft is conducting research into and evaluating measures which could reduce the possibilities of serious consequences resulting from this kind of incident. The installation of an additional generator in the Surna is one of several measures being considered.

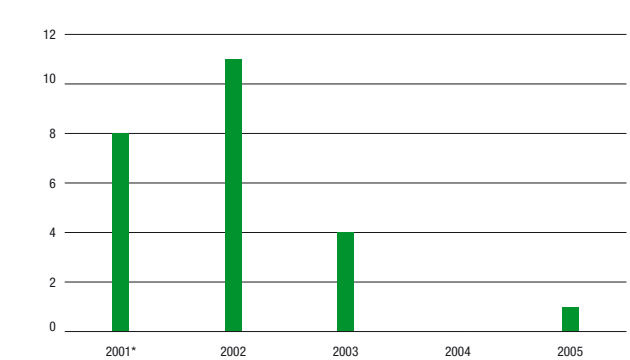
Serious environmental incidents are defined as incidents with potentially serious consequences for the environment and/or the company's reputation and which do not fall under the definition of an environmental non-compliance. Two serious environmental incidents were registered in 2005. In addition to the incident in the Surna river, there was a landslide in the water transfer tunnel between the Bleikvatn and Røssvatn reservoirs in Hemnes, Nordland County, in 2004, which led to a substantial reduction in its total capacity. As a result it was feared that water would spill over the Bleikvassdammen dam during the spring of 2005. The overflow channel passes through an area of slag deposits from the Bleikvassli Gruber mines, containing high concentrations of heavy metals. Statkraft informed all affected parties of the incident.

A project group was set up to assess the potential pollution hazard in the river system, and evaluate measures to prevent sludge from the slag deposits being washed downstream in the event of a dam overflow. To prevent contaminated mass being washed away, the flood channel through the area was extended before the spring floods. The flood channel is now constructed to withstand a 1,000-year flood, and no traces of heavy metals were found in the river system after the spring floods.

Less serious environmental non-compliances are all violations of licence conditions, water flow regulations, legislation, environment plans and self-imposed requirements, which have moderate or minimal consequences on the environment and no impact on the company's reputation. A total of 23 less serious environmental non-compliances were registered in 2005. The majority of these occurred in connection with brief violations of the minimum water flow regulations. There were also some minor discharges of oil and halon.

In the spring of 2005, after three years in operation, the Smøla Wind Farm registered the first death of a sea eagle as a result of a collision with a wind turbine. Three more sea eagles died in the same manner by the end of the year. The incidents are being investigated by the Norwegian Institute for Nature Research.

SERIOUS ENVIRONMENTAL NON-COMPLIANCES



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

--MANAGEMENT REPORT

SOCIETY

STATKRAFT CREATES CONSIDERABLE VALUE FOR SOCIETY THROUGH THE ENVIRONMENT-FRIENDLY ENERGY IT DELIVERS AND THE DIRECT AND INDIRECT ECONOMIC BENEFITS IT PROVIDES. THE SECURE PRODUCTION AND SUPPLY OF ENERGY AND THE INNOVATIVE DEVELOPMENT OF ENERGY SOLUTIONS FOR THE FUTURE ARE ALSO IMPORTANT CONTRIBUTIONS TO SOCIETY. AS A RESPONSIBLE RESOURCE MANAGER AND AN ENVIRONMENT-FRIENDLY CHALLENGER IN THE EUROPEAN ENERGY MARKET, STATKRAFT WISHES TO MAKE A POSITIVE CONTRIBUTION OVER AND ABOVE MERE COMPLIANCE WITH ITS STATUTORY AND REGULATORY OBLIGATIONS.

POLICY

The group's corporate social responsibility policy is part of what constitutes "Doing the Right Thing at Statkraft". Statkraft contributes to sustainable social development by providing environment-friendly energy, which has been generated and supplied according to the highest safety standards, and by making a positive contribution to the local communities in which the company has operations. Corporate social responsibility is one of the performance parameters included in Statkraft's overall group scorecard.

HOW STATKRAFT CREATES VALUE

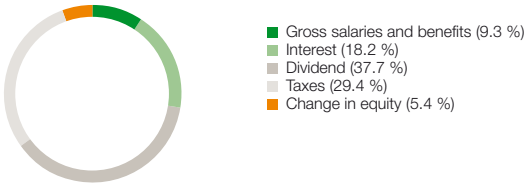
Statkraft's articles of association and the document "Doing the Right Thing at Statkraft" define the group as a commercial company which will deliver the rate of return, growth and development expected of a leading European energy company. Statkraft generated a total added value (distributable funds) of NOK 12,704 million in 2005. NOK 4,788 million of this was returned to the company's owner as dividends. This represents a dividend ratio of 38 per cent of the total wealth creation.

Central and local government taxes totalled NOK 3,735 million. NOK 958 million of this was local tax, with an aggregate of NOK 514 million, or 54 per cent, being paid to the ten largest local authorities. The local authority to which Statkraft paid the largest amount in local tax received NOK 78 million.

The group's just over 2,000 employees received NOK 1,185 million in salaries and pensions in 2005.

Statkraft currently has an extensive portfolio of electricity supply contracts at commercial terms and conditions, which have been entered into with industrial companies in Norway and abroad. In the period to 2020 Statkraft is committed to supplying 165 TWh under the terms of such contracts. Commercial contracts will gradually replace existing statutory-priced contracts, which will be gradually phased out in the period to 2011. Industrial contracts will in future total approx. 17.5 TWh per year. Statutory-priced contracts from the 1950s with customers in Mo i Rana expired in April 2005. During the year the company signed long-term agreements with two key companies in Mo i Rana, which replace these older agreements.

DISTRIBUTION OF VALUE ADDED



OPERATIONAL SAFETY AND PREPAREDNESS

Statkraft manages substantial physical assets, such as power plants, reservoirs, distribution grids and other technical installations. Its operations are important for the smooth running of society. With daily revenues of over NOK 40 million, operational safety and preparedness in the event of a serious emergency have a very high priority at Statkraft.

Statkraft has separate contingency plans for its most important functional areas, in addition to an overall plan which ensures uniform control of the entire group's emergency response effort. Statkraft

complies with the regulations issued by the Norwegian Water Resources and Energy Directorate (NVE), and all operative levels have their own contingency plans. Experiences gained from emergency response exercises will be incorporated into the contingency plans as these are updated.

One serious incident occurred in 2005 which resulted in the mobilisation of the company's contingency plans. This was an environmental non-compliance caused by a technical fault at the Trollheim power plant which led to a brief period of low water flow, resulting in the death of stranded salmon fry.

REPUTATION AND BRAND STRATEGY

Statkraft wishes to build a good reputation by operating profitably and for the benefit of society in a long-term perspective and exercising good business practice in all it does. A good reputation will make it easier for the company to reach its business goals. Reputation surveys are carried out each year, among both a target group of professionals and the public at large. The surveys show that Statkraft has a good reputation among policymakers and the financial community. The general public, however, does not know very much about Statkraft and its operations.

In 2005 Statkraft improved its procedures to survey reputation. The target group of professionals is surveyed annually, and comprises nationwide political groups, public administration, mayors, county authority chief executives, professional communities, the media and journalists, and financial communities. The survey carried out in 2005 shows that 77 per cent of this group had a good overall impression of Statkraft. This is a very good result in relation to the target of 75 per cent. The society at large is surveyed quarterly. The survey carried out in the fourth quarter 2005 shows that 45 per cent of the general public had a good overall impression of Statkraft, while the figure in the first quarter 2006 is 42 per cent. This is a fairly decent result in relation to the target of 50 per cent.

Specific measures, such as employee training programmes, contact with the media and the authorities, and implementation of a brand strategy, will be utilised with regard to both target groups.

To strengthen awareness, both internally and externally, of Statkraft's unique character and qualities, support its efforts to strengthen its reputation and create a clearer platform for external communications and marketing, a brand strategy was developed in 2005. Systematic efforts to build the company's brand identity are important to boost internal motivation, recruit the best staff, maintain and enhance Statkraft's environmental profile, and, not least, secure the goodwill of decision-makers and customers.

The brand strategy strengthens and clarifies the strategic direction and obligations which are expressed in the company's existing vision, core values, business idea and business principles. The group companies in Norway will continue to be marketed as individual brands with a well-established brand value, while companies outside Norway in which Statkraft holds a controlling share will be established under the Statkraft brand.

STAKEHOLDER DIALOGUE

Statkraft is keen to have a constructive relationship with all its stakeholders. Particular emphasis is placed on involving all those affected by construction projects in open and thorough planning processes. This includes local and central government representatives, regulatory authorities, the local population and environmental organisations. Statkraft is particularly keen to maintain clear lines of communication and interaction with the local communities in which its power plants are located. The company's business activities depend on good relations with local authorities, for whom Statkraft's operations are of substantial financial importance, as well as local businesses and the general public. Statkraft wishes to be a "good neighbour", and supports local cultural, sporting and educational organisations.

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 that 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.

Statkraft currently sponsors Det Norske Teateret, the Nobel Peace Prize Concert, the Oslo Jazz Festival, the Alta Canyon Festival, Songs by the Canal, the Hardanger Music Festival, cultural events/festivals at Smøla and Sunndalsøra, Sogndal Football Club, the National Energy Centre, Bellona B-7 and World Watch Institute, among others. In addition, Statkraft awards a total of NOK 10,000 to 12 clubs or associations on the basis of an application.

Statkraft wishes to play a part in increasing public awareness of energy and environmental issues at both a local and national level. Its Power School[1], an interactive online learning scheme for pupils at all levels, is extremely popular and had a record high of 50,000 participants in 2005.

In connection with its international projects, Statkraft seeks to develop the same systematic relationship with stakeholders as it does in Norway, when meeting the new expectations and requirements arising from doing business in other countries and other cultures.

Statkraft has been a member of the World Business Council for Sustainable Development (WBCSD) since 2004. This is a coalition of some 180 large international companies which share a common view that sustainable development through economic growth, ecological balance and social progress is necessary in order for business to continue developing. Statkraft participates in working groups in the focus area Energy and Climate where it points out the advantages of hydropower when meeting climate challenges. Statkraft's delegates also promote new, secure and environment-friendly energy solutions and use the WBCSD as an arena for learning and sharing experiences in order to strengthen the company's sustainability.

Statkraft is also a member of Transparency International, which works to combat corruption around the world. Statkraft considers free competition, market transparency and good business practice to be important factors for sustainable development. Now that Statkraft is exploring business opportunities in new markets in southeast Europe and Russia, Transparency International's network and anti-corruption tools will be very useful in the effort to ensure good business practice across cultural and language boundaries and national regulations.

SUPPLIERS

In 2005 Statkraft purchased goods and services worth some NOK 1.5 billion from a total of 2,500 suppliers.

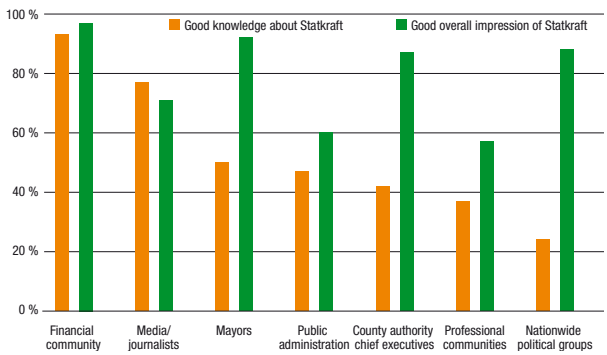
Statkraft's guidelines for "Doing the Right Thing", as well as its detailed procurement guidelines, make it clear that the company shall always act in accordance with good business practice, shall maintain a high ethical standard in its internal administrative processes and shall ensure that all suppliers and business connections receive equal treatment. The conduct of Statkraft's employees shall reflect the fact that suppliers are considered to be valuable external resources. Statkraft prefers to use suppliers which are approved in accordance with the energy industry's Sellicha procurement scheme. Furthermore, Statkraft's suppliers are made aware of the company's purchasing ethics guidelines, special guidelines for gifts and other kinds of customer relationship building.

In 2005 Statkraft focused on developing requirements for documented, satisfactory environmental performance and corporate social responsibility on the part of its suppliers. This will be incorporated into policies and quality systems during 2006.

GENERAL PUBLIC'S IMPRESSION OF STATKRAFT

Source: MMI, December 2005.

PROFESSIONAL TARGET GROUPS' KNOWLEDGE ABOUT AND IMPRESSION OF STATKRAFT



Source: MMI, December 2005.

[1] *www.kraftskolen.no*

THE STATKRAFT FUND – TEAMING UP WITH NATURE

The "Statkraft Fund – Teaming up with Nature" was set up in 2005 to support worthy causes. The Fund awards up to NOK 5 million each year to voluntary organisations, charities, etc, either on the basis of an application from the organisation itself or after a decision by Statkraft's management. An internal jury proposes candidates according to stipulated criteria, such as making the countryside more accessible to the local population and various user groups, stimulating a more sustainable use of the natural environment, promoting the use of environment-friendly energy, and promoting local involvement in areas in which Statkraft has operations.

The Statkraft Fund for 2005 was awarded to Norwegian People's Aid and the Norwegian Red Cross's Mountain Rescue Service. Both organisations received NOK 2.5 million. At the same time, Statkraft signed an agreement with both organisations to provide first-aid courses for all Statkraft employees. The Statkraft Fund for 2006 has been awarded to the Norwegian Mountain Tourist Association (DNT), Save the Children Norway, the Norwegian YMCA/YWCA scout troops in Alta and Inderøy, the Norwegian Society for the Conservation of Nature/Friends of the Earth Norway's branch in Vest-Agder, and Blekkulf's Eco-detectives' club in Telemark. Statkraft will collaborate with the DNT to encourage the use of environment-friendly energy at selected mountain cabins, thereby promoting well-balanced outdoor leisure activities. Statkraft's joint venture Statkraft Norfund Power Invest (SN Power) will collaborate with Save the Children to educate children in conflict-ridden areas of Nepal and Uganda where SN Power will operate hydropower plants.

INNOVATION FOR ENERGY SOLUTIONS FOR THE FUTURE

National competence building in the form of innovation is an important part of Statkraft's contribution to society. The aim of the company's innovation effort is to strengthen its future competitiveness by developing new technologies and business opportunities. Statkaft's vision and business principles underpin its activities in this area.

Statkraft's activities cover the monitoring of technological developments, the development and optimisation of environment-friendly power generating technologies and associated services, as well as the development of new energy sources. Tidal power, osmotic power and hydrogen are key areas of focus.

In connection with the acquisition of Trondheim Energiverk, an agreement was entered into regarding a strategic R&D partnership with the SINTEF Energy Research institute in Trondheim. The agreement runs for five years (2002–2006) and involves an investment of NOK 50 million. Important areas covered by the frame agreement are hydrology and energy optimisation, river system ecology, maintenance and renewal, as well as new energy technologies. Some 15 projects are or have been included in the portfolio.

Statkraft has been working on technology to exploit the power of the tides for some time, and in 2005 it received a "statement of feasibility" with respect to this technology from Det Norske Veritas. Statkraft is planning to install a pilot plant in 2007 and has received a licence to do so in the Kvalsundet sound in Troms. In addition, Statkraft has signed agreements with rights owners to construct 10 tidal power turbines along the coast of northern Norway at a total cost of approx. NOK 200 million.

Osmotic power is another promising business opportunity within the area of renewable energy. Calculations show that it can meet up to 20 per cent of Norway's electricity demand. Statkraft places particular emphasis on research into osmotic membranes, in cooperation with membrane developers in Germany, Finland and Portugal. Statkraft aims to commercialise this technology at some time between 2010 and 2015.

Efforts to develop hydrogen as an energy carrier are being conducted in conjunction with Statoil and Det Norske Veritas. The partners plan to set up a research and demonstration centre for hydrogen in Trondheim, which will make an important contribution to a national effort directed towards a future hydrogen market. The centre, HYRTREC, will develop environment-friendly, profitable and secure solutions for the production of hydrogen to fuel vehicles and for use in combined heat and electricity production. The centre is due for completion in 2007 at a total cost of NOK 55 million.

Statkraft is also involved in several fish studies and research projects, both on its own and in partnership with other research establishments. The aim of this scientific effort is to increase available knowledge of fish populations in regulated river systems, which will help optimise biotope protection measures, restocking, artificial egg laying and water flow management.

Statkraft, Shell Technology Norway and Lyse Energi, in conjunction with the Research Council of Norway and SWAY A/S, launched a research project in 2005 to develop offshore wind turbines. The partners will invest a total of NOK 11 million in a three-year research project, whose objective is to develop offshore wind turbine technology that is both economically viable and can compete against land-based turbines. Offshore wind turbines will be less visible, and it will be possible to avoid conflicts with environmental and outdoor leisure interests. In addition, offshore wind turbines can generate up to 50 per cent more wind power than land-based wind turbines.

--MANAGEMENT REPORT

COMPETENCE

STATKRAFT CONSIDERS ITS EMPLOYEES AND THEIR COMPETENCE TO BE A COMPETITIVE ADVANTAGE IN A CHANGING ENERGY MARKET. THE COMPANY FOCUSES SYSTEMATICALLY ON ORGANISATIONAL AND COMPETENCE DEVELOPMENT, HEALTH AND SAFETY, EQUALITY AND DIVERSITY. BY MONITORING ITS PERFORMANCE IN THESE AREAS AND ACTIVELY MANAGING ITS STRUCTURAL CAPITAL, STATKRAFT WILL CONTINUE TO DEVELOP ITSELF AS AN ATTRACTIVE, SAFE AND SECURE WORKPLACE. THE GROUP'S CORE VALUES – BOLDNESS AND RESPONSIBILITY, COMMITMENT AND COMPETENCE – REFLECT A BALANCED CORPORATE CULTURE.

COMPETENCE POLICY

Statkraft defines "competence building" as one of its four business principles. The principle states that Statkraft shall value and further develop its employees, and maintain high standards for competence development, as well as promoting a motivational corporate culture. The internal term "the committed concern" sums up Statkraft's attitudes and ambitions in this area and expresses that emphasis is placed on performance monitoring, both for the individual unit and the individual employee.

ORGANISATIONAL DEVELOPMENT

Each year Statkraft carries out an evaluation of its organisation and managers which covers areas such as strategy, objectives, competence and the working environment. The overall result is included in the group scorecard. In 2005 the overall result was 4.0 on a scale of 1 to 5. The response rate was also very high, with 89 per cent of employees taking part. This shows that the identification of improvement areas and systematic follow-up do have positive results.

In connection with the group's ongoing business development, great emphasis is placed on the establishment and development of cost-effective systems, procedures and patterns of interaction between the various units. The importance of sharing best practice was underlined in 2005 in connection with the increased internationalisation of the group's activities, following the acquisition of the Graninge power plants in Sweden and the start of building work on the two gas-fired power plants in Germany, as well as the fact that Trondheim Energiverk will continue to be part of the Statkraft Group.

COMPETENCE DEVELOPMENT

Years of experience in the construction and operation of hydropower and wind power facilities, and power trading in the Nordic region and on the Continent has given Statkraft a specialist knowledge of these areas. Close integration of its various areas of competence represents a competitive advantage for the company. This provides a solid platform for the further systematic development of the competence needed to meet the challenges posed by business development, internationalisation and the build-up of new operations based on new, environment-friendly forms of energy.

Competence profile

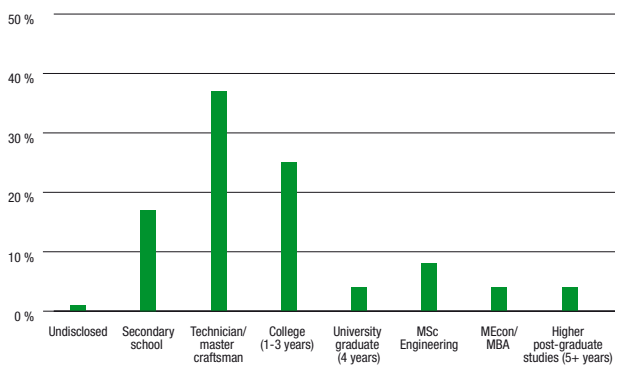
The range of competences at Statkraft's disposal is well adapted to the tasks it undertakes. Around 20 per cent of its employees are educated to degree level, around 25 per cent have an engineering diploma, while some 40 per cent are qualified skilled workers.

The average age of Statkraft's employees is 45. 36 per cent of the workforce is aged between 40 and 50. The average length of service is 16 years, and the annual rate of staff turnover is 1.5 per cent. These statistics underline that Statkraft's employees are highly skilled, with long experience and a high degree of loyalty to the company. At the same time, they reveal a need for a long-term adjustment in the company's competence profile and recruitment to meet the challenges it will face in the future.

Recruitment

Ensuring the adequate recruitment of skilled workers at the company's power plants will be a challenge in the longer term. The average age of Statkraft's skilled workers is higher than elsewhere in the company, and the natural level of external replacements will

EDUCATION



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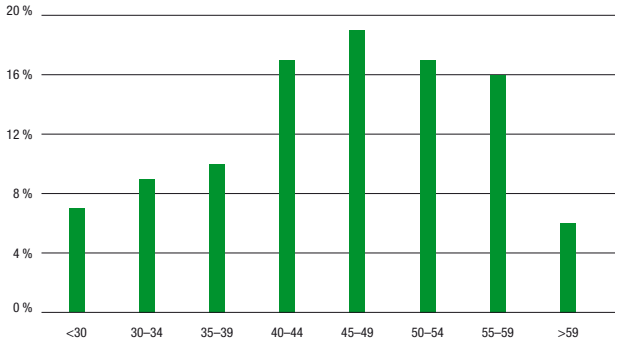


probably not be sufficient in the future. As a result, Statkraft offers an apprenticeship scheme. Some 25 apprentices join the group each year. In conjunction with the Norwegian Energy Industry Association and other energy companies, Statkraft also contributes actively to the efforts being made to secure the industry's access to skilled workers in the future.

Statkraft also aims to establish itself as one of the country's 25 most attractive employers among recent graduates of Norwegian universities and colleges. To achieve this, the company makes presentations and provides information to students at relevant higher educational establishments. Statkraft also offers a trainee programme, which allows candidates to get to know the business by working in various departments and project teams over a two-year period. The company had six such trainees on staff in 2005. In 2005, according to a survey in which 2,500 final-year students indicated who they most wanted to work for, Statkraft was ranked in 28th place by business students and 29th place by engineering students[1]. In sum this is a slight improvement on the year before. Nevertheless, it represents a substantial improvement on the 81st place the company achieved in 2001, when Statkraft first participated in the survey.

BUILDING COMPETENCE – "PEOPLE FIRST"

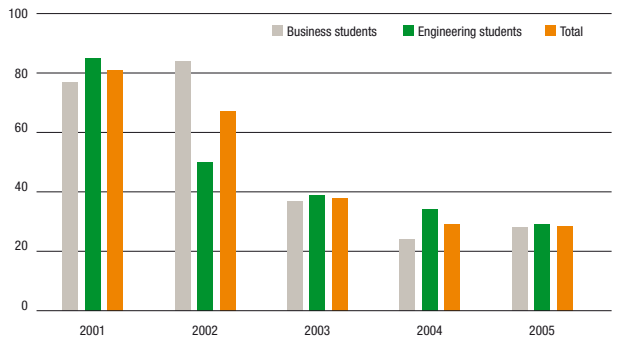
Statkraft will promote competence at all levels and will value and further develop its employees. We will provide a healthy workplace and a corporate culture that encourages active employee involvement and commitment.

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 employees.
-- 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 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 put the intentions behind these provisions into practice.
-- we will support our managers to develop their skills, with a focus on leadership, business development, and performance 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.

[1] *Source: Universum Graduate Survey.*

STATKRAFT AS A PREFERRED EMPLOYER (RANKING)



Source: Universum Graduate Survey.

Competence-building measures

A number of internal measures have been implemented to ensure systematic and effective competence building. This is primarily a key issue in the annual performance review meetings which all employees have with their managers. An internal "competence web" is a tool for identifying competences within the group and helping managers and the individual employee plan competence-building measures. Over 60 per cent of group employees now use this tool.

Internal mobility is also an important tool for ensuring the effective sharing and development of competences, particularly since the staff turnover rate is relatively low. Statkraft is to a large extent a project-driven organisation, and puts together unit-specific as well as cross-unit project teams. Internationalisation makes this even more relevant, and opens new opportunities for employees to gain experience from international projects. The rate of internal mobility, measured in terms of temporary and permanent postings across business area boundaries, as well as job changes, was 5 per cent in 2005, up from 3 per cent the year before.

Management development programmes

Statkraft runs three management development programmes. JUST is aimed primarily at new managers and other managers who wish to update themselves with regard to the latest management processes and monitoring systems. 18 employees completed this programme in 2005. NEXT is aimed at young managers and talented individuals from the whole group as well as from BKK and Agder Energi. This one-year programme provides individual and group follow-up, and covers such issues as the participants' own management behaviour, organisational psychology and management, social influence, communications and management in an international environment. The participants must present a paper on management challenges to the group management. A total of 65 employees have now completed the programme. REFLEXION is primarily aimed at experienced managers who are responsible for strategic and high-level business decisions. Emphasis is placed on analysis and the strategy process, communicating the strategy and dealing with its consequences, personal leadership skills, power and ethics. Statkraft also focuses on project management training and individual studies at such educational establishments as IMD, NTNU, NHH and BI.

Incentive schemes

Statkraft, with the exception of TEV and Skagerak Energi which have their own agreements, operates a collective, variable bonus scheme for all employees. The scheme was established as a management tool to increase management and employees' focus on business-critical activities throughout the group. The scheme is based on performance indicators relating to power trading and energy optimisation, the HSE index, power plant uptime, and operational efficiency. Each of the four performance indicators can give a variable bonus of up to NOK 10,000 a year. Employees received a total of NOK 24,000 under the collective bonus scheme in 2005. Statkraft has also established an individual, performance-based bonus scheme based on the employee's contribution to target realisation and compliance with Statkraft's values. The framework for the individual bonus scheme is drawn up by group management and corresponds to around 2–3 per cent of salary costs, with a ceiling for each employee of 10 per cent of own salary. Both bonus schemes entail a one-off annual payment and are not included in the employee's pensionable income.

HEALTH AND SAFETY

Statkraft's HSE vision is that there should be no lost-time injuries resulting from its business activities. The H1 indicator, which measures the number of lost-time injuries per million hours worked, was 6.6 in 2005. This is a fall of 8 per cent compared with the year before, and shows that the strong focus directed at this area through the year gave results. There was one serious injury at Skagerak Energi. An electrician was subject to an electric shock and is now on long-term sick leave. A focused and long-term effort to realise the company's zero lost-time injuries vision is also highlighted by the fact that Statkraft's group scorecard includes HSE performance indicators, and the fact that the collective, performance-related bonus scheme is also determined by a five-point HSE index. The index comprises five performance indicators, among others, to prevent the under-reporting of one individual HSE area. Statkraft places emphasis on openness when reporting near-misses and hazardous situations, which is important to the effort to prevent injury. The biggest challenge is still to reduce the number of day-to-day injuries by promoting good attitudes and implementing preventive measures. For this reason an internal awareness campaign was again in focus in 2005, with special emphasis being placed on following up the suggestions and comments arising from a wide-ranging HSE campaign the year before. In connection with the awarding of the Statkraft Fund for 2005, all employees also attended first-aid courses, which has increased their level of competence and strengthened the company's safety culture. In addition, further work has been done to follow up reporting

routines for injuries incurred by employees of suppliers under contract to Statkraft. This has included the completion of a compulsory online safety course and tougher HSE standards in requests for quotes (RFQs) and contracts.

The ordinary sickness absence rate was 3.8 per cent in 2005, slightly less than the year before. The target is for a sickness absence rate of under 4 per cent. All group companies have signed up to the Inclusive Working Life (IA) scheme.

EQUALITY AND DIVERSITY

Statkraft's operations are characterised by increasing international expansion. The group already has employees from some 20 countries. This results in a wide range of competences, from broad knowledge to specialist expertise, as well as in a diverse workplace. In the hiring process, Statkraft seeks to facilitate the consideration of persons with a multicultural background for relevant positions. The group promotes equal treatment in recruitment, competence building and retirement, and will ensure that the freedom of speech and employee rights are upheld.

Statkraft aims to achieve a greater balance between the number of male and female employees, and increase the number of women managers. The gender balance in Statkraft's workforce is roughly the same as in the rest of the energy industry: 21 per cent of the workforce are women and 79 per cent are men. The percentage of women managers is lower than in the workforce as a whole, 16 per cent, but has risen slightly compared with 2004. In the future, emphasis will be placed on recruiting women to management positions. Of the first four groups to complete the NEXT management programme, up to 44 per cent of the participants were women. This figure fell to 19 per cent in 2005, due to increased international participation. Two out of the seven members of Statkraft's group management team are women, which corresponds to 29 per cent. Four out of the company's nine board members are women, which corresponds to 44 per cent.

Statkraft also introduced a life-course policy for employees over the age of 62, which affords greater flexibility for the company and a greater incentive for those employees concerned to remain at work for longer.

STRUCTURAL CAPITAL

Statkraft has established robust and well-integrated IT solutions to support effective work processes. These solutions now form a vital part of the company's day-to-day operations, and particular emphasis is placed on IT security, stability and uptime. The operation, construction and development of hydropower and wind power facilities, including the management of complex projects, is supported by IT solutions which provide for efficient information flow and task completion, as well as the availability and reuse of previously acquired data. Solutions have also been developed which allow good production optimisation and ensure satisfactory risk management in all parts of the business. The group's technical solutions for physical and financial power trading, which have been built up over many years of operating in the Nordic region's deregulated energy market, also provide a good overview and decision support for Statkraft's employees. The solutions also clarify the links between price setting in the Nordic and continental markets. Statkraft also has extensive solutions for the collection and processing of hydrological and other market data.

Statkraft has built up IT solutions in other, less business-critical areas, which make day-to-day operations both efficient and safe. These include process maps, procedures, personnel and information systems, archives, forums for collaboration and a competence system.

Statkraft's long-term IT goal is to develop a flexible and easily modifiable IT platform which supports the coordination of business processes and IT solutions across the group, and which can be expanded to keep pace with Statkraft's business growth.

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--FINANCIAL STATEMENTS
--SUSTAINABILITY STATEMENT

--STATKRAFT GROUP ACCOUNTS

INCOME STATEMENT

PRO FORMA FIGURES (UNAUDITED)				ACTUAL FIGURES	
2004	2003	NOK million	NOTE	**2005**	2004*
7 110	9 122	Power sales revenues	3	**11 386**	1 695
3 732	2 303	Other operating revenues	5	**3 635**	1 733
10 842	11 425	**Gross operating revenues**		**15 021**	3 428
-651	-927	Transmission costs		**-746**	-213
10 191	10 498	**Net operating revenues**		**14 275**	3 215
1 236	1 402	Salaries and payroll costs	6,7	**1 342**	455
354	328	Compensation and licence fees	8	**342**	89
1 443	1 504	Other operating costs	9	**1 865**	456
1 414	1 290	Depreciation and write-downs	14,15	**1 858**	391
367	327	Property tax		**493**	90
4 814	4 851	**Operating expenses**		**5 899**	1 481
5 377	5 647	**Operating profit**		**8 375**	1 734
1 493	1 086	**Share of profit from associated companies**	16	**1 577**	502
714	469	Financial income	11	**808**	539
-2 954	-3 033	Financial expenses	11	**-2 312**	-982
-2 240	-2 564	**Net financial items**		**-1 504**	-443
4 630	4 169	**Profit before tax**		**8 449**	1 793
-215	-1 508	Taxes	12	**-2 829**	261
4 415	2 661	**Net profit**		**5 620**	2 054
118	78	Of which minority interests	21	**147**	14
4 297	2 583	Of which majority interests	21	**5 473**	2 040

**Applies to the period 01.10–31.12.*

--STATKRAFT GROUP ACCOUNTS

BALANCE SHEET

PRO FORMA FIGURES (UNAUDITED)			ACTUAL FIGURES	
31.12.03	NOK million	NOTE	**31.12.2005**	31.12.2004
	ASSETS			
2 887	Intangible assets	14	**5 976**	2 580
44 249	Property, plant and equipment	15	**46 836**	45 236
28 297	Investments in associated companies	16	**28 793**	28 751
5 277	Other long-term financial assets	17	**1 110**	2 535
80 710	**Fixed assets**		**82 715**	79 102
41	Inventory		**50**	44
3 792	Receivables	18	**3 380**	3 747
254	Short-term financial investments	19	**335**	330
1 815	Cash and cash equivalents	20	**4 374**	5 292
5 902	**Current assets**		**8 139**	9 413
86 612	**Assets**		**90 854**	88 515
	EQUITY AND LIABILITIES			
30 090	Paid-in capital	21	**31 553**	31 553
-	Retained earnings	21	**4 689**	3 675
3 498	Minority interests	21	**3 752**	3 787
33 588	**Total equity**		**39 994**	39 015
6 694	Provisions	22	**10 300**	7 018
39 895	Long-term interest-bearing debt	23	**29 011**	38 268
46 589	**Long-term liabilities**		**39 311**	45 286
776	Short-term interest-bearing debt	24	**2 240**	1 559
312	Taxes payable	12	**2 197**	610
5 347	Other interest-free liabilities	24	**7 111**	2 045
6 435	**Current liabilities**		**11 548**	4 214
86 612	**Equity and liabilities**		**90 854**	88 515
	Pledges	25	**2 150**	2 249
	Guarantees	25	**8 275**	4 496

THE BOARD OF DIRECTORS OF STATKRAFT AS
Oslo, 8 March 2006

Gunn Wærsted

Arvid Grundekjøn
CHAIR

Marit Büch-Holm
DEPUTY CHAIR

Halvor Stenstadvold

Aud Mork

Olav Fjell

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
PRESIDENT & CEO

--STATKRAFT GROUP ACCOUNTS

STATEMENT OF CASH FLOW

PRO FORMA FIGURES (UNAUDITED)				ACTUAL FIGURES	
2004	2003	NOK million		**2005**	2004*
		CASH FLOW FROM OPERATING ACTIVITIES			
4 630	4 169	Profit before tax		**8 449**	1 793
-1 311	-2	Gains on the sale of fixed assets		**-276**	-1 302
1 434	1 290	Depreciation and write-downs		**1 858**	391
-1 493	-1 086	Share of profit from associated companies		**-1 577**	-502
-1 237	-1 567	Taxes paid		**-448**	-45
2 023	2 804	**Cash flow from operating activites**		**8 006**	335
442	319	Change in long-term items		**1 776**	758
638	4 322	Change in short-term items		**1 523**	-1 237
910	742	Dividend from associated companies		**945**	6
4 013	8 187	**Net cash flow from operating activities**	**A**	**12 250**	-138
		CASH FLOW FROM INVESTING ACTIVITIES			
-1 548	-1 277	Investments in property, plant and equipment		**-2 235**	-539
1 416	50	Sale of fixed assets (gross proceeds)		**39**	1 394
-98	-45	Loans to third parties		**-42**	-98
569	430	Repayment of loans to third parties		**98**	569
-287	-424	Investments in other companies		**-4 511**	-44
2 764	-	Proceeds from the sale of other companies		**2 029**	2 741
2 816	-1 266	**Net cash flow from investing activities**	**B**	**-4 622**	4 023
		CASH FLOW FROM FINANCING ACTIVITIES			
7 016	1 141	New long-term borrowings		**992**	4 177
-8 269	-8 466	Repayment of long-term borrowings and subordinated loans		**-9 428**	-4 985
-	4 000	Receipts of new equity		**-**	-
-2 769	-2 192	Dividend paid		**-72**	-
-4 022	-5 517	**Net cash flow from financing activities**	**C**	**-8 508**	-808
2 807	1 404	**Net change in cash and cash equivalents**	**A+B+C**	**-880**	3 077
		Impact of foreign exchange differences on cash flow		**-38**	3
		Cash and cash equivalents as at 1 Jan.		**5 292**	-
		Cash received relating to formation of the Group		**-**	2 212
		Cash and cash equivalents as at 31 Dec.		**4 374**	5 292

**Applies to the period 1.10–31.12.*

--STATKRAFT GROUP ACCOUNTS

ACCOUNTING PRINCIPLES

Accounting regulations

The annual accounts have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. With effect from 1 January 2007, Statkraft's accounts will be prepared in accordance with the IFRS, cf. Note 30.

Pro forma figures

On 1 October 2004 the parent company, Statkraft SF, transferred all its shares in Statkraft Energi AS to Statkraft AS. This contribution in kind increased Statkraft AS's share capital by NOK 31,553 million. The accounts for the Statkraft Group therefore include the operations of Statkraft Energi AS and its underlying subsidiaries for the last three months of the 2004 calendar year.

To facilitate comparison with figures from 2005 and earlier years, pro forma figures have been prepared for the Income Statement, Balance Sheet and Statement of Cash Flow for 2003 and 2004. These pro forma figures have been calculated on the assumption that the reorganisation applied to the entire accounting period. The pro forma figures are unaudited.

CONSOLIDATION PRINCIPLES AND GROUP ACCOUNTS

Subsidiaries

The group accounts show the total financial results and the total financial situation for the parent company Statkraft AS and its controlling shareholdings in other companies, presented as though they were a single financial entity. Intra-company sales revenues 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 owns shares, 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 third parties 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. Profits from subsidiaries are recognised in the year 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 expenses.

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. Physical and financial trading for the purpose of hedging future production output is recorded as hedging in the accounts. 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 lower 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 a revenue 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.

The "Quality Adjusted Revenue Ceiling" (KILE) was introduced in 2001. The scheme allows the revenue 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. Distribution grid revenues recorded after deducting transmission costs from the overlying grid will therefore correspond to the revenue 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 8.

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 8.

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 liability 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 liabilities, 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.

Research and Development (R&D) costs

R&D costs are charged as current expenses. R&D costs are capitalised to the extent that a future financial benefit may be identified as deriving from the development of an identifiable intangible asset.

Maintenance costs

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

Property tax

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

Property tax has been classified as an operating cost with effect from the 2005 financial year. The comparable figures for 2004 have been correspondingly modified.

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, and resource rent 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 tax loss carried forwards. 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 a profit-independent tax that is calculated on the basis of the individual power plant's average output 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 (interest-bearing receivable).

Resource rent tax is a profit-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 production hour by hour, multiplied by the spot price for the corresponding hour. With respect to deliveries of licence 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 the net resource rent revenue tax base. 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 2005 was set at 7.4 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 differences 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, the basis being the power plants where future positive resource rent revenues have been identified in the forseeable future.

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, including waterfall rights and goodwill, are recorded on the balance sheet to the extent to which the requirements for doing so have been met. Goodwill deriving from the acquisition of business entities is depreciated in a straight line over its expected economic life. Waterfall rights are not depreciated, since there is no right of reversion to state ownership and the assets are deemed to have perpetual value.

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 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 FIFO at 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 Note 4. 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. Provision for bad debts is made on the basis of an individual assessment of the receivable concerned.

Short-term financial investments. Shares, bonds, certificates, etc, that have been classified as current assets are recorded at fair value.

Cash and cash equivalents. The item "Bank deposits, cash and cash equivalents" also includes certificates and bonds with short-term remaining life. The settlement of financial instruments (cash collateral) is capitalised.

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.

Contingent liabilities are recorded in the income statement if it is probable that they will have to be settled. A best estimate is used to calculate the value of the settlement sum.

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.

Long-term liabilities. With respect to fixed-rate loans, borrowing costs and over or undervaluations are recorded in accordance with the effective interest-rate method (amortised cost).

Hedging

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

--STATKRAFT GROUP ACCOUNTS

NOTES

IMPORTANT EVENTS 1

2006

Transfer of investments in Himal Power Ltd. (HPL)

Statkraft Norfund Power Invest AS (SN Power) is a 50-50 joint venture between Statkraft AS and Norfund. Statkraft SF owns shares in the Nepalese energy company HPL. In 2006 Statkraft SF intends to use its investment as a contribution in kind to SN Power. The shareholding in SN Power will then be transferred to Statkraft AS. Statkraft AS's shareholding in SN Power will nevertheless remain unchanged after these transactions because the company's other shareholders will invest an equivalent amount in the company as the contribution in kind invested by Statkraft.

2005

Reorganisation

Following Statkraft's change of status to a limited company, it was further reorganised into a group. As part of this process Statkraft undertook an internal refinancing programme, with effect from 1 January 2005. This has reduced the size of the outstanding inter-company balances between Statkraft AS and Statkraft Energi AS. At the same time, most of the companies which were owned by Statkraft Energi AS have been transferred to Statkraft AS with effect from 1 January 2005. Operations associated with the New Energy business area were transferred to Statkraft Development AS with effect from 1 April 2005. These measures complete the implementation of the legislation relating to Statkraft's limited-company status and the establishment of a group structure.

Long-term leasing out of power production at the Rana power plant

Statkraft has leased out 65 per cent of the power generated by the Rana power plant for a period of 15 years. In return, Statkraft received a lump-sum payment of NOK 2.2 billion in January 2005. This sum will be taken to income as power sales revenues over the term of the contract. Statkraft will, in addition, receive an annual operating fee of NOK 65 million.

Acquisition of hydropower plants in Sweden and Finland

Statkraft has acquired 24 hydropower plants in Sweden and Finland, with an annual mean output of 1.6 TWh, from E.ON Sverige (previously Sydkraft). The companies have been consolidated into Statkraft's accounts with effect from 1 October 2005. The transaction cost Statkraft NOK 4.1 billion.

Sale of shares in Hedmark Energi Holding AS

Statkraft sold its 49 per cent stake in Hedmark Energi Holding AS (previously Hedmark Energiverk AS) to Eidsiva energi Holding AS for the sum of NOK 2 billion. This gave Statkraft a net profit of NOK 272 million. Furthermore, Statkraft received NOK 62 million in compensation for renouncing its right to exercise an option associated with a power plant. Both sums are recorded under "Financial income".

Investment in gas power projects in Germany

Statkraft decided to invest in the construction of two gas-fired power plants at Knapsack and Herdecke in Germany, with a capacity of 800 MW and 400 MW respectively. As at today's date the Knapsack project is wholly owned, but Statkraft has opened the door for external, industrial investors. Statkraft, however, wishes to remain the majority shareholder. Statkraft has a 50 per cent stake in the Herdecke project. These power plants will give Statkraft a combined annual output of 5-6 TWh at an investment cost of approx. EUR 500 million. Construction work commenced in the second half of 2005 and is expected to be finished in the second half of 2007.

Naturkraft – investment in a gas power project in Norway

Naturkraft, a 50-50 joint venture between Statkraft and Hydro, has begun construction of a gas-fired power plant with a capacity of 400 MW at Kårstø, in Rogaland, southwest Norway. Statkraft's share will give it a production capacity of 1.75 TWh at an investment cost of NOK 1 billion. Construction work commenced in the second half of 2005 and is expected to be finished in the second half of 2007.

Reversal of the Norwegian Competition Authority's directive to sell Trondheim Energiverk (TEV)

Following its acquisition of TEV in 2001, Statkraft was ordered to implement certain measures. These included the divestment of all its shares in TEV, divestment of TEV-generated power or the divestment of other power production in the NO2 price area (central and northern Norway). The Ministry of Government Administration and Reform reversed this directive in November 2005, and TEV will now be retained as part of the Statkraft Group. With this decision, all the directives issued to Statkraft by the Norwegian Competition Authority have now been met.

Termination of the agreement with Nuon for the sale of green certificates

In December 2005 Statkraft agreed to the termination of contracts regarding the sale of green certificates by the group's operational wind farms (Hitra and Smøla 1 and 2). The Dutch company Nuon had contracted to buy these certificates from the wind farms for a period of 15 years from the date on which each farm went into operation. Nuon retains the rights to 50 per cent of the profit from future sales of green certificates by the wind farms. The agreement

to terminate resulted in Statkraft receiving a NOK 1,006 million compensation payment, which has been recorded under "Other operating revenues".

Termination of the green certificates sales contract also resulted in a reassessment of the wind farms' total value. Based on a net present value calculation, the wind farms were written down by NOK 361 million in Statkraft's consolidated accounts in December 2005.

2004

Creation of Statkraft AS

Statkraft AS was incorporated on 25 June 2004, with NOK 100,000 in paid-in equity. All the shares in the company are owned by Statkraft SF, which is in turn owned by the Ministry of Trade and Industry on behalf of the Norwegian state. The creation of the company was part of the reorganisation of Statkraft into a limited company.

Reorganisation

Statkraft became a limited company on 1 October 2004. In connection with the reorganisation, Statkraft SF's existing operations, with certain exceptions, were transferred to a newly created subsidiary, Statkraft Energi AS. The reorganisation was undertaken with no impact on accounting continuity.

Capital increase in Statkraft AS and the creation of the Statkraft AS Group

On 1 October 2004 the parent company, Statkraft SF, transferred all its shares in Statkraft Energi AS to Statkraft AS. This contribution in kind increased Statkraft AS's share capital by NOK 31,553 million. The accounts for the Statkraft AS Group therefore include the operations of Statkraft Energi AS and its underlying subsidiaries for the last three months of the calendar year.

Major sales transactions

Statkraft sold its 20 per cent stake in E-CO Vannkraft AS in December for NOK 2,550 million. This gave a net profit for the group of NOK 296 million. This sum is recorded under "Financial income".

Statkraft sold its 50 per cent stake in the Øvre Namsen power plants (KØN) in December for NOK 1,265 million. This gave a net profit for the group of NOK 1,010 million. This sum is recorded under "Other operating revenues".

New wind farm

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

SEGMENT INFORMATION 2

The Statkraft Group reported the following figures for its most important business segments. Segment information is gathered across legal units and business areas.

Around 93 per cent of the group's operating revenues are generated in Norway. Transactions between business segments are entered into on commercial terms.

NOK million	GROUP	GENERATION AND HEDGING	TRADING AND ORIGINATION	DISTRIBUTION GRID	END-USER	OTHER	SHARED SERVICES AND ELIMINATIONS
2005							
Gross operating revenues	15 021	13 192	579	1 634	536	478	-1 397
Depreciation and write-downs	1 858	1 288	8	377	15	67	105
Other operating expenses	4 788	3 727	436	774	531	488	-1 169
Operating profit	8 375	8 177	135	482	-10	-77	-333
Share of profit from associated companies	1 578	399	3	30	-1	1 175	-28
Profit before financial items and tax	9 952	8 575	138	512	-11	1 098	-361
2004*							
Gross operating revenues	3 428	2 803	96	481	146	128	-226
Depreciation and write-downs	391	254	1	107	4	16	10
Other operating expenses	1 303	1 008	127	306	139	-53	-224
Operating profit	1 734	1 541	-32	68	3	165	-12
Share of profit from associated companies	502	64	9	-21	-53	508	-4
Profit before financial items and tax	2 236	1 605	-23	47	-50	673	-16

**Applies to the period 01.10-31.12.*

NOK million	GROUP	GENERATION AND HEDGING	TRADING AND ORIGINATION	DISTRIBUTION GRID	END-USER	OTHER	SHARED SERVICES AND ELIMINATIONS
Balance sheet as at 31.12.2005							
Investments in associated companies	28 793	9 123	7	1 914	347	17 040	361
Other assets	62 061	55 167	703	5 985	303	3 742	-3 839
Total assets	**90 854**	**64 290**	**710**	**7 899**	**650**	**20 782**	**-3 478**
Current liabilities	11 548	5 723	1 185	621	79	1 178	2 763
Long-term interest-free liabilities	10 300	9 314	4	639	45	114	184
Long-term interest-bearing debt	29 011	-	-	-	-	-	29 011
Total liabilities	**50 859**	**15 037**	**1 188**	**1 260**	**124**	**1 292**	**31 958**
Maintenance investments	468	251	-	132	-	42	43
Investments in new generating capacity	1 767	1 388	-	147	-	232	-
Investments in shares	4 511	4 501	-	-	-	10	-

Interest-bearing debt has not been allocated to the various segments, since financial items are not broken down.

POWER SALES 3

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).

NOK million	2005	2004*
Production sold at spot prices	10 648	1 976
Difference between spot price and statutory-priced contracts[1]	-2 252	-718
Revenues from commercial contracts	1 442	610
Other net power sales revenues[2]	1 548	-173
Total	**11 386**	**1 695**

**Applies to the period 01.10–31.12.*
[1]Industrial contracts at prices determined by the Norwegian Storting, as well as electricity sold at concessionary prices to local authorities. In 2005 these were NOK 115 and NOK 83/MWh respectively. The majority of statutory-priced industrial contracts are due to expire in the years to 2011.
[2]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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Statutory-priced industrial contracts	13.1	10.9	8.9	8.9	8.9	1.1	0.1	0.1	0.1	0.1
Concessionary power sales	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Total fixed-price contracts	15.4	13.2	11.2	11.2	11.2	3.4	2.4	2.4	2.4	2.4

Commercial contracts will gradually replace existing statutory-priced contracts, which will be gradually phased. The total volume which will be supplied to industry under commercial contracts in the period 2006-2020 is just under 165 TWh.

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.

RESERVOIR WATER LEVELS AND POWER OUTPUT (UNAUDITED) 4

Figures in TWh	WATER LEVEL AS AT 31.12 2005	2004	MAX. CAPACITY	POWER GENERATION[1] 2005	2004	MIDDEL
Group	29.8	30.1	37.5	48.5	9.4	42

[1]After losses. Output in 2004 relates to the period 01.10–31.12.

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 2005 was substantially higher than in a normal year. Despite high output levels throughout the year, the reservoir water level as at 31 December 2005 was still higher than normal.

OTHER OPERATING REVENUES 5

NOK million	2005	2004*
Power plant leasing revenues	104	17
Net revenues from distribution grid operations	1 295	426
End-user sales revenues	531	144
District heating revenues	234	76
Other leasing and service sales revenues	417	66
Gains/losses on sale of property, plant and equipment	36	997
Compensation payments	1 018	7
Total	**3 635**	**1 733**

**Applies to the period 01.10–31.12.*

The item "Compensation payments" includes NOK 1,006 million paid by the Dutch company Nuon in connection with the termination of contracts which the group's operational wind farms had to sell green certificates. Nuon had contracted to buy green certificates from these wind farms for a period of 15 years from the date of operational start-up of each facility. Nuon retains the rights to 50 per cent of the profits from future sales of green certificates from the wind farms.

SALARIES AND OTHER PAYROLL COSTS 6

NOK million	2005	2004*
Salaries	838	287
Employers' national insurance contributions	157	50
Pension costs	265	71
Other benefits	82	47
Total	**1 342**	**455**

**Applies to the period 01.10–31.12.*

The CEO received a salary of NOK 2,510,518 in 2005. Other benefits amounted to NOK 221,968. 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 2,326,884.

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, are covered by a bonus scheme under which they 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 severence 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 1,725,000 has been paid in directors' fees, of which NOK 275,000 was paid to the board chair.

On average the group had the equivalent of 1,930 full-time jobs in 2005.

PENSIONS 7

Occupational pension schemes operated by group companies

Statkraft and Trondheim Energiverk (TEV) have occupational pension schemes for their employees through the National Pension Fund. The benefits include retirement, disability, surviving spouse 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 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 on 1 May 2000 since the National Pension Fund provided the same benefits from this date. The Statkraft scheme also provided a surviving spouse's pension in excess of the National Pension Fund's benefits for employees who joined the pension scheme after 1976. This scheme has also been terminated, with effect from 1 October 2003. Free paid-up policies were issued in 2005 to cover the pension fund's

remaining liaibilities. Following the issue of these free paid-up policies, the outstanding balance of the pension fund has been taken to income, such that the Statkraft Pension Fund had zero net liabilities/assets as at 31 December 2005.

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 and child's pension. These pensions are funded out of the company's current income. In addition, Statkraft has a surviving spouse and child's scheme, which is a continuation of the Statkraft Pension Fund (which was terminated in 2003). The scheme does not cover employees who joined Statkraft after 1 October 2003.

Investment of pension fund assets. The investment strategies and yields for the group's various occupational pension schemes in 2005 are described in the table below.

PORTFOLIO	PERCENTAGE	DESCRIPTION OF INVESTMENT STRATEGY	YIELD IN 2005
National Pension Fund - Statkraft	33.9 %	Pension contributions paid into the National Pension Fund are placed in a fictive fund for the purposes of calculating the annual yield. The annual pension contribution and any excess yield from the fictive fund is invested in 10-year government bonds. The reinvestment of assets in the fictive fund is carried out in accordance with established regulations. Assets can be reinvested in 1-, 3-, 5- or 10-year government bonds, while 35 per cent of the assets can be invested in the Government Pension Fund (previously the Petroleum Fund).	4.5 %
National Pension Fund - TEV	1.9 %	As described above	4.5 %
Trondheim Municipal Pension Fund on behalf of Trondheim Energiverk	16.8 %	Interest-bearing Norwegian and foreign securities and shares, as well as loans to members	7.6 %
Statkraft Pension Fund	7.2 %	Interest-bearing Norwegian securities through an external manager	3.4 %
Skagerak Pension Fund	40.2 %	Diversified portfolio of Norwegian and foreign interest-bearing securities, secured loans to members, shares (max. 20 per cent), hedge funds (max. 7 per cent) and real property (max. 8 per cent) through external managers	10.1 %
Total	100 %		

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

	2005	2004
Annual discount rate	4.5 %	5.1 %
Salary adjustment	2.7 %	3.3 %
Adjustment of current pensions	2.4 %	2.9 %
Adjustment of National Insurance Scheme's basic amount (G)	2.4 %	2.9 %
Forecast voluntary exit		
• Up to age 45	2.5 %	2.5 %
• Between age 45 and 60	0.5 %	0.5 %
• Over age 60	-	-
Projected yield	4.5 %	5.7 %
Rate of inflation	1.5 %	2.5 %
Tendency to take early retirement (AFP)	20-25 %	20-25 %

Pension cost breakdown

NOK million	2005	2004*
Net present value of accrued pension entitlements for the year	94	16
Interest costs on pension liabilities	102	27
Gross pension cost for the year	196	43
Projected yield on pension fund assets	-82	-23
Recognised effect of estimate deviations	97	50
Recognised effect of plan changes	2	1
Termination of the Statkraft Pension Fund	53	-
Net pension cost for the year	**265**	**71**

**Applies to the period 01.10–31.12.*

NOK million	2005	2004
Gross pension liabilities	2 339	2 138
Pension fund assets	-1 887	-1 802
Net pension liabilities	452	336
Unamortised estimate deviations	-199	-178
Unrecognised plan changes	-17	-17
Employers' national insurance contribution	39	29
Net pension liabilities on the balance sheet	275	170
Pension liabilities	-312	-260
Pension assets	37	90

COMPENSATION AND LICENCE FEES 8

NOK million	2005	2004*
Licence fees	256	58
Compensation payments	86	31
Total	**342**	**89**

**Applies to the period 01.10–31.12.*

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 6,400 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.

OTHER OPERATING EXPENSES 9

NOK million	2005	2004*
Materials	141	41
Consultants and temporary employees	789	215
Costs, power plants operated by third parties	193	70
Other operating expenses	742	130
Total	**1 865**	**456**

**Applies to the period 01.10–31.12.*

FEES PAID TO EXTERNAL AUDITORS 10

Deloitte Statsautoriserte Revisorer is the Statkraft Group's auditor and audits all subsidiaries.

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

NOK	2005
Statutory auditing	5 415 000
Other attestation services	1 205 000
Tax advisory services	672 000
Other services	599 000
Total	**7 891 000**

Fees paid for compulsory auditing of the parent company totalled NOK 995,000.

FINANCIAL INCOME AND EXPENSES 11

Financial income

NOK million	2005	2004*
Interest received	190	112
Other financial income	618	427
Total	**808**	**539**

**Applies to the period 01.10–31.12.*

The item "Other financial income" in 2005 includes NOK 272 million in gains on the sale of Hedmark Energi AS, as well as NOK 62 million in compensation for renouncing the right to exercise an option related to a power plant. The item "Other financial income" for 2004 includes NOK 296 million in gains on the sale of shares in E-CO Vannkraft AS.

Financial expenses

NOK million	2005	2004*
Interest expenses relating to Statkraft SF	1 423	460
Other interest expenses	556	193
Other financial expenses	333	329
Total	**2 312**	**982**

**Applies to the period 01.10–31.12.*

The item "Other financial expenses" in 2005 includes NOK 207 million in net realised losses in connection with the buyback of bonds and their underlying interest rate swaps. In 2004 "Other financial expenses" included net realised losses of NOK 239 million in connection with a similar transaction.

TAXES 12

The total tax expense is calculated as follows:

NOK million	2005	2004*
Income tax	1 898	47
Resource rent tax	680	64
Corrections from previous years	17	-1
Change in deferred tax	234	-371
Total tax expense in the Income Statement	**2 829**	**-261**
Income tax payable:		
Taxes payable on the group's profit for the year	1973	47
Effect of group contributions on tax liability	-474	-
Income tax payable before offsetting against natural resource tax for the year	1 499	47
Taxes payable in the Balance Sheet:		
Natural resource tax	561	140
Resource rent tax	680	64
Income tax exceeding natural resource tax	938	406
Tax due from previous financial year	18	-
Taxes payable in the Balance Sheet	**2 197**	**610**

**Applies to the period 01.10–31.12.*

Reconciliation of nominal tax rates and effective tax rates

NOK million	2005	2004*
Profit before tax	8 449	1 793
Expected tax expense at a nominal rate of 28 %	2 366	502
Effect on taxes of:		
Resource rent tax	842	64
Tax rate differences outside Norway	2	-
Share of profit from associated companies	-445	-20
Effect of abolition of dividend tax	-	-399
Tax-free income	-69	-94
Corrections from previous years	17	-1
Other permanent differences – net	116	-313
Total tax expense	**2 829**	**-261**
Effective tax rate	33.5 %	-15 %

**Applies to the period 01.10–31.12.*

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 fixed assets 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 deferred tax in acquired companies the change in deferred tax liabilities/assets from 2004 to 2005 at group level does not correspond with the change in temporary differences.

For the group, deferred tax assets and liabilities relating to different tax entities/regimes are presented separately.

NOK million	2005	2004*
Current assets/current liabilities	990	292
Fixed assets	-1 804	-1 441
Pension liabilities	-358	-270
Other long-term items	-403	-291
Tax loss carryforward/credit	-609	-121
Sum of temporary differences and tax loss carryforward	-2 184	-1 831
Temporary differences, resource rent tax	262	128
Negative resource rent carryforward	-183	-1 530
Sum of temporary differences and resource rent carryforward	-2 105	-3 233
Total deferred tax asset	**-744**	**-794**
Tax rates	40/28/20 %	40/28/20 %

Specification of temporary differences that cannot be offset

The following is a specification of temporary differences and deferred tax within the group that are not offset against deferred tax assets, cf. Note 22.

NOK million	2005	2004*
Excess value, acquired companies	11 691	8 337
Current liabilities	309	-
Fixed assets	492	-
Other long-term items	1 383	1 100
Temporary differences, resource rent tax	1 011	1 275
Negative resource rent carryforward	-115	-159
Sum temporary differences and resource rent carryforward	14 771	10 553
Total deferred tax (15/26/27/28/55%)	**5 204**	**3 944**

The 15 per cent, 28 per cent and 26 per cent tax rates are applied to excess value on power generating assets in acquired Norwegian, Swedish and Finnish companies respectively.

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

With respect to power utilities in which Statkraft Energi AS 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'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 utility'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 revenues and costs 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. The figures are included on separate lines in the income statement.

NOK million	2005	2004*
Power sales revenues	856	162
Other operating revenues	9	4
Transmission costs	-42	-4
Net operating revenues	823	162
Compensation and licence fees	20	4
Other operating expenses	122	47
Depreciation	72	19
Property tax	33	7
Net operating expenses	247	77
Operating profit	576	85

**Applies to the period 01.10–31.12.*

INTANGIBLE ASSETS 14

NOK million	2005	2004
Waterfall rights,etc	5 083	1 650
Deferred tax assets	744	794
Goodwill	149	136
Total	**5 976**	**2 580**

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

NOK million	RIGHTS	GOODWILL	TOTAL
Acquisition cost 01.01.2005	1 757	271	2 028
Consolidation of new companies	3 448	-	3 448
Additions 2005	11	21	32
Accumulated depreciation 31.12.2005	-133	-143	-276
Book value 31.12.2005	**5 083**	**149**	**5 232**
Depreciation for the year	24	14	38
Estimated useful economic life	7 years to perpetuity	5–25 years	

PROPERTY, PLANT AND EQUIPMENT 15

NOK million	WATER REGULATION FACILITIES	TURBINES, GENERATORS, ETC	DISTRIBUTION GRID FACILITIES	SHARE IN POWER PLANTS OPERATED BY THIRD PARTIES	UNDERGROUND FACILITIES, BUILDINGS, ROADS, BRIDGES AND QUAYS	PLANTS UNDER CONSTRUCTION	OTHER [1]	TOTAL
Acquisition cost 01.01.2005	23 894	17 632	9 489	3 117	5 382	828	2 441	62 783
Consolidation of new companies	331	394	-	-	663	15	2	1 405
Additions 2005	24	718	185	6	60	982	228	2 203
Disposals 2005	-	-6	-74	-	-3	-21	-32	-136
Foreign exchange effects	-22	-23	-80	-	-37	-1	-	-163
Acc. depreciation and write-downs 31.12.2005	-3 953	-7 527	-4 146	-776	-1 429	-7	-1 418	-19 256
Book value 31.12.2005	**20 274**	**11 188**	**5 374**	**2 347**	**4 636**	**1 796**	**1 221**	**46 836**
Depreciation and write-downs	249	782	332	83	108	7	259	1 820
Depreciation period	30–75 years	15–40 years	25–35 years	5–50 years	50–75 years		3–40 years	

[1]Comprises mainly district heating facilities, buildings, office and computer equipment, electrical installations and vehicles.

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

	DEPRECIATION PERIOD		DEPRECIATION PERIOD
Waterfall rights	perpetual	**Distribution grid installations**	
Dams		- transformers	35
- riprap dams, concrete dams	75	- switchgear (high voltage)	35
- other dams	30	**Buildings (admin., etc)**	50
Tunnel systems	75	**Other fixed installations**	
Mechanical installations		- permanent	20
- pipe trenches	40	- less permanent	10
- generators (turbines, valves)	40	**Miscellaneous moveables**	5
- other mechanical installations	15	**Land**	perpetual
Underground facilities	75	**Office and computer equipment**	3
Roads, bridges and quays	75	**Furnishings and equipment**	5
Electrical installations		**Vehicles**	8
- transformers/generators	40	**Construction equipment**	12
- switchgear (high voltage)	35	**Small craft**	10
- 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	26.50 %
Vikfalli	12.00 %

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

NOK million	SHAREHOLDING	SHARE OF PROPERTY, PLANT & EQUIPMENT
Aurlandsverkene[1]	7.00 %	354
Mørkfoss-Solbergfoss[1]	33.33 %	46
Røldal-Suldal Kraft AS[1, 2]	8.74 %	-
I/S Sira-Kvina kraftselskap[3]	46.70 %	1 261
Kraftverkene i Orkla[4]	48.60 %	686
Total		**2 347**

[1]Owned by Statkraft Energi AS.
[2]Statkraft Energi AS owns 8.74 per cent of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79 per cent of the IS Røldal-Suldal Kraft power plant. Statkraft's indirect shareholdling in the company is therefore 4.79 per cent.
[3]Owned by Statkraft Energi AS and Skagerak Energi AS.
[4]Owned by TEV.

SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES 16

Shares in consolidated subsidiaries

NAME	REGISTERED OFFICE	PARENT COMPANY	SHAREHOLDING & VOTING RIGHTS
Statkraft Energi AS	Oslo	Statkraft AS	100.0 %
Baltic Cable AS	Malmö	Statkraft Energi AS	66.7 %
Statkraft Carbon Invest AS	Oslo	Statkraft AS	100.0 %
Statkraft Energy Europe AS	Oslo	Statkraft AS	100.0 %
Statkraft Financial Energy AB	Stockholm	Statkraft Energy Europe AS	100.0 %
Statkraft Markets GmbH	Düsseldorf	Statkraft Energy Europe AS	100.0 %
Statkraft Markets Austria GmbH	Vienna	Statkraft Markets GmbH	100.0 %
Statkraft Markets BV	Amsterdam	Statkraft Markets GmbH	100.0 %
Statkraft Markets Financial Services GmbH	Düsseldorf	Statkraft Markets GmbH	100.0 %
Statkraft Holding Knapsack GmbH	Düsseldorf	Statkraft Markets GmbH	100.0 %
Knapsack Power GmbH & Co KG	Düsseldorf	Statkraft Holding Knapsack GmbH	100.0 %
Statkraft Holding Herdecke GmbH	Düsseldorf	Statkraft Markets GmbH	100.0 %
Statkraft Suomi Oy	Kotka	Statkraft AS	100.0 %
Ahvionkoski Oy	Kotka	Statkraft Suomi Oy	100.0 %
Statkraft Sverige AB	Stockholm	Statkraft AS	100.0 %
AB Graninge Ett	Stockholm	Statkraft Sverige AB	100.0 %
AB Graninge Tre	Stockholm	Statkraft Sverige AB	100.0 %
AB Graninge Fem	Stockholm	Statkraft Sverige AB	100.0 %
Gidekraft AB	Stockholm	Statkraft Sverige AB	90.1 %
Statkraft Development AS	Oslo	Statkraft AS	100.0 %
Smøla Vind AS	Oslo	Statkraft Development AS	100.0 %
Smøla Vind 2 AS	Oslo	Statkraft Development AS	100.0 %
Hitra Vind AS	Oslo	Statkraft Development AS	100.0 %
Statkraft Regional Holding AS	Oslo	Statkraft AS	100.0 %
Statkraft Hedmark AS	Oslo	Statkraft Regional Holding AS	100.0 %
Skagerak Energi AS	Porsgrunn	Statkraft Regional Holding AS	66.6 %
Skagerak Kraft AS	Porsgrunn	Skagerak Energi AS	100.0 %
Skagerak Nett AS	Sandefjord	Skagerak Energi AS	100.0 %
Skagerak Elektro AS	Porsgrunn	Skagerak Energi AS	100.0 %
Telekraft AS	Porsgrunn	Skagerak Energi AS	100.0 %
Skagerak Linje Team AS	Porsgrunn	Skagerak Energi AS	100.0 %
Nota AS	Porsgrunn	Skagerak Energi AS	100.0 %
Grunnåi Kraftverk AS	Porsgrunn	Skagerak Energi AS	55.0 %
Trondheim Energiverk AS	Trondheim	Statkraft Regional Holding AS	100.0 %
Enita AS	Trondheim	Trondheim Energiverk AS	100.0 %
Trondheim Energiverk Fjernvarme AS	Trondheim	Trondheim Energiverk AS	100.0 %
Trondheim Energiverk Kraft AS	Trondheim	Trondheim Energiverk AS	100.0 %
Itene AS	Trondheim	Trondheim Energiverk AS	100.0 %
Trondheim Energiverk Kraftsalg AS	Trondheim	Trondheim Energiverk AS	100.0 %
Trondheim Energiverk Nett AS	Trondheim	Trondheim Energiverk AS	100.0 %
Statkraft Energy Enterprise AS	Oslo	Statkraft AS	100.0 %
Statkraft Invest AB	Malmö	Statkraft Energy Enterprise AS	100.0 %
Statkraft Forsikring AS	Oslo	Statkraft AS	100.0 %
Småkraft AS	Oslo	[1]	

[1] Småkraft is jointly owned by Statkraft AS, Skagerak Kraft AS, Trondheim Energiverk Kraft AS, Agder Energi AS and Bergenshalvøens Kommunale Kraftselskap AS, which each have a 20 per cent shareholding.

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
Bergenshalvøens Kommunale Kraftselskap AS (BKK)	Bergen	49.9 %	49.9 %
Agder Energi AS	Kristiansand	45.5 %	45.5 %
Fjordkraft AS[1]	Bergen	3.2 %	3.2 %
E.ON Sverige AB[2]	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 %
Kraftwerksgesellschaft Herdecke GmbH & Co KG	Düsseldorf	50.0 %	50.0 %

[1]Fjordkraft AS is jointly owned by Statkraft Regional Holding AS (3.15 per cent), Bergenshalvøens Kommunale Kraftselskap 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 according to the equity method in the consolidated accounts.
[2]Statkraft has an option to sell its shares in E.ON Sverige AB to the majority owner E.ON by 2007 for the sum of approx. EUR 2 billion.

NOK million	BKK	AGDER	FJORDKRAFT	SN POWER	NATURKRAFT
Opening balance	5 891	4 224	299	462	17
Share of profit	328	156	22	-5	-15
Amortisation of excess value	-27	-44	-29	-	-
Investments/asset sales	-	-	-	100	303
Dividend	-171	-182	-	-	-
Translation differences[1]	-	-	-	-	-
Other	-	-	-3	-	-
Closing balance	**6 021**	**4 154**	**289**	**557**	**305**
Excess value 31.12.2005	2 406	2 652	201	-	-
Of which unamortised waterfall rights	1 818	333	-	-	-

NOK million	E.ON SVERIGE	ISTAD	HERDECKE	ANDRE	TOTAL
Opening balance	17 502	315	-	5	28 715
Share of profit	1 380	17	-12	-	1 871
Amortisation of excess value	-182	-12	-	-	-294
Investments/asset sales	-	-	33	25	461
Dividend	-582	-10	-	-	-945
Translation differences[1]	-1012	-	-	-	-1 012
Other	-	-	-	-	-3
Closing balance	**17 106**	**310**	**21**	**30**	**28 793**
Excess value 31.12.2005	5 058	146	-	-	10 463
Of which unamortised waterfall rights	1 729	-	-	-	3 880

[1]Unrealised gains/losses resulting from foreign exchange fluctuations on investments are recorded as translation differences against equity. Unrealised gains/losses on loans with SEK as the effective foreign currency, which were raised in connection with Statkraft's investment in E.ON Sverige AB, are also recorded against equity, since these are considered as hedging the net investment in foreign currency.

Associated companies - 100 per cent basis

The following key figures relate to Statkraft's investments in associated companies on a 100 per cent basis. The figures are presented in accordance with the individual company's accounting principles.

INCOME STATEMENT (UNAUDITED)	E.ON SVERIGE (SEK)		AGDER (NOK)		BKK (NOK)	
Figures in million	**2005**	2004	**2005**	2004	**2005**	2004
Gross operating revenues	26 133	24 578	3 076	2 726	3 291	2 852
Operating profit	6 164	6 232	891	1 021	1 444	1 162
Profit before tax and minority interests	5 181	4 815	612	679	1 190	797
Net profit	**3 591**	**3 479**	**395**	**439**	**655**	**477**

BALANCE SHEET (UNAUDITED)	E.ON SVERIGE (SEK)		AGDER (NOK)		BKK (NOK)	
Figures in million	**2005**	2004	**2005**	2004	**2005**	2004
Fixed assets	69 304	73 129	9 778	9 732	14 638	14 929
Current assets	10 019	9 045	934	792	1 436	840
Total assets	**79 323**	**82 174**	**10 712**	**10 524**	**16 074**	**15 769**
Equity	32 232	29 784	3 555	3 558	7 540	7 665
Minority interests	2 039	2 036	-	-	18	26
Long-term liabilities	36 724	42 038	4 694	4 369	6 845	6 832
Current liabilities	8 328	8 316	2 463	2 597	1 671	1 246
Total equity and liabilities	**79 323**	**82 174**	**10 712**	**10 524**	**16 074**	**15 769**

OTHER LONG-TERM FINANCIAL ASSETS 17

NOK million	2005	2004
Loans to associated companies	28	-
Loans to Statkraft SF	439	-
Bonds and other long-term receivables	364	599
Pension fund assets	37	90
Other shares and securities	242	1 846
Total	**1 110**	**2 535**

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

RECEIVABLES 18

NOK million	2005	2004
Accounts receivable	1 377	512
Accrued revenues, etc	896	1 224
Interest-bearing restricted funds	64	426
Other receivables	1 022	907
Current receivables from group companies	21	678
Total	**3 380**	**3 747**

Accounts receivable are net of a NOK 12.2 million provision 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.

SHORT-TERM FINANCIAL INVESTMENTS 19

NOK million	2005	2004
Money market funds	62	11
Shares and financial investments	46	16
Bonds	227	303
Total	**335**	**330**

Bonds by debtor category:

NOK million	2005	2004
Commercial and savings banks	65	84
Industrial sector	49	19
Public sector	113	200
Total	**227**	**303**

2005	MODIFIED DURATION	AVERAGE RATE OF INTEREST (%)
Commercial and savings banks	2.05	3.95
Industrial sector	1.64	4.66
Public sector	3.21	5.96

All bonds are in NOK and are recorded at their market value on 31.12.

CASH AND CASH EQUIVALENTS 20

NOK million	2005	2004
Money market funds, certificates, promissory notes and bonds[1]	489	2 000
Cash in hand and bank deposits	3 885	3 241
Foreign certificates	-	51
Total	**4 374**	**5 292**

[1]NOK 185 million of the group's cash reserve is invested in bonds which are available for sale.

Cash in hand and bank deposits for 2005 includes NOK 2,183 million in cash collateral (including capitalised interest) and NOK 310 million in restricted funds, largely placed in custody accounts associated with the sale of electricity on power exchanges. Cash collateral represents payments made by contractual parties as security for net unrealised gains Statkraft has on interest rate and currency swap agreements. Since such gains are not taken to income, a contra entry in the amount of NOK 2,240 million has been recorded under other interest-free liabilities, while NOK 64 million has been recorded under receivables.

The Statkraft Group had unused long-term committed credit lines of up to NOK 5 billion and overdraft facilities totalling NOK 350 million. As at 31 December 2005 Statkraft had an outstanding overdraft of NOK 15.9 million.

EQUITY 21

NOK million	PAID-IN CAPITAL	RETAINED EARNINGS	MINORITY INTERESTS	TOTAL EQUITY
Initial capital	0.1	-	-	0.1
Effect of group formation 01.10.2004	31 553	1 303	3 860	36 716
Profit 2004	-	2 040	14	2 054
Group contribution paid after tax	-	-5	-	-5
Group contribution received after tax	-	462	-	462
Change in translation differences	-	-125	5	-120
Reduction in minority interests	-	-	-20	-20
Allocated to dividend for 2004	-	-	-72	-72
Equity as at 31.12.2004	**31 553**	**3 675**	**3 787**	**39 015**
Profit 2005	-	5 473	147	5 620
Group contribution paid after tax	-	-1 343	-	-1 343
Change in translation differences	-	-138	10	-128
Allocated to dividend for 2005	-	-3 100	-68	-3 168
Change resulting from acquisitions	-	122	-124	-2
Equity as at 31.12.2005	**31 553**	**4 689**	**3 752**	**39 994**

The parent company has a share capital of NOK 20 billion, divided into 200 million shares, each with a face value of NOK 100. All the shares have the same voting rights and all are owned by Statkraft SF.

Statkraft's minority share in Skagerak Energi accounts for NOK 3,599 million of Minority Interests' total equity as at 31 December 2005.

PROVISIONS 22

NOK million	2005	2004
Pension liabilities	312	260
Deferred tax	5 204	3 944
Other provisions	4 784	2 814
Total	**10 300**	**7 018**

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

The item "Other provisions" for 2005 includes prepayments of NOK 3,980 million in connection with future power sales agreements. The largest of these are the exchange agreements with Elsam and the Rana power leasing contract.

Furthermore, a gain of NOK 360 million linked to terminated foreign exchange contracts which are amortised in the period to 2010 has been recorded on the balance sheet.

LONG-TERM INTEREST-BEARING DEBT 23

NOK million	2005	2004
Loans from Statkraft SF (back-to back agreements)	19 225	28 236
Bond issues in the Norwegian market	7 088	7 000
Loans from the Norwegian state	425	850
Other loans raised in non-Norwegian markets	469	213
External debt in subsidiaries	1 804	1 969
Total	**29 011**	**38 268**

The figures include the effect of underlying currency swaps.

Breakdown of debt by currency:

NOK million	2005	2004
Debt in NOK	13 622	21 919
Debt in SEK	14 960	16 349
Debt in USD	429	-
Total	**29 011**	**38 268**
Nominal average interest rate NOK, including the effect of terminations	6.36 %	6.88 %
Nominal average interest rate SEK	2.04 %	2.53 %
Nominal average interest rate USD	3.23 %	-

The foreign currency breakdown in the table above takes into consideration the underlying currency swap agreements. The nominal rate for NOK includes accrued net losses associated with previous terminations.

Debt with SEK as the effective currency has been raised in connection with Statkraft's investment in E.ON Sverige AB. The 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.

Fixed-interest debt portfolio:

		DATE OF INTEREST RATE ADJUSTMENT			
NOK million	2006[1]	1-3 YEARS	3-5 YEARS	5 YEARS OR LATER	TOTAL
Debt in NOK	5 937	44	269	5 849	12 098
Debt in SEK	14 875	-	-	85	14 960
Debt in USD	23	68	-	338	429
Total for the group	**20 834**	**112**	**269**	**6 273**	**27 487**

[1] *The interest rate exposure takes into account a cash reserve of NOK 1,535 million which reduces the interest rate exposure in 2006 correspondingly. This also takes into account currency converted to NOK.*

The above breakdown takes into account underlying currency and interest rate swaps. The above breakdown does not take into account the amortisation of transaction costs.

Repayment schedule

NOK million	2006	2007	2008	2009	2010	AFTER 2010	SUM
Loans from Statkraft SF (back-to back agreements)	4 021	4 063	4 857	2 021	3 208	1 053	19 224
Bonds issued in the Norwegian market	-	-	-	1 080	-	6 020	7 100
Loans from the Norwegian state	425	-	-	-	-	-	425
Other loans raised in non-Norwegian markets	-	-	-	-	-	1 385	1 385
Exchange rate regulation, currency and interest rate swaps	-358	-184	-187	-	-191	4	-916
Total for the parent company	**4 087**	**3 879**	**4 670**	**3 101**	**3 018**	**8 463**	**27 218**
External debt in subsidiaries:							
Bonds issued in the Norwegian market	75	22	30	41	36	955	1 159
Other debt	363	54	48	35	14	131	645
Total for the group	**4 525**	**3 955**	**4 749**	**3 177**	**3 067**	**9 548**	**29 022**

The recognised effect of underlying currency swaps has been allocated to their respective dates of maturity. The breakdown does not take into account the amortisation of transaction costs.

CURRENT LIABILITIES 24

Short-term interest-bearing debt

NOK 2,240 million in short-term interest-bearing debt relates to cash collateral (see Note 20).

Taxes payable

NOK 2,197 million in taxes payable is described in more detail in Note 12.

Other interest-free liabilities

NOK million	2005	2004
Accounts payable	447	378
Public charges payable	566	313
Accrued costs	695	601
Other interest-free liabilities	152	99
Dividend payable	3 168	74
Current liabilities to group companies	2 083	580
Total	**7 111**	**2 045**

PLEDGES, OBLIGATIONS AND GUARANTEES 25

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 1,901 million. As at 31 December 2005, the book value of the pledged assets in Statkraft Energi AS totalled NOK 6,264 million. Other subsidiaries have a total of NOK 249 million in correspondingly pledged assets.

Obligations and guarantees

The Statkraft Group has off-balance-sheet obligations and guarantees totalling NOK 8,275 million. Of this NOK 5,058 million are parent company guarantees, NOK 1,704 million power swap agreements, NOK 902 million property rental obligations, NOK 459 million bank guarantees, NOK 75 million security for employee taxes, while NOK 77 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 16 years with an option to renew for a further 10 years. The annual rent totals NOK 56.2 million.

FINANCIAL INSTRUMENTS 26

CURRENCY AND INTEREST RATE AGREEMENTS

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.

Book value and fair value of interest rate and currency instruments

	2005		2004	
NOK million	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Interest rate swaps	-	598	-	570
Forward rate agreements	-	-1	-	-
Interest rate and cross currency swaps	916	1 403	198	855
FX forwards	47	43	-26	39
Total	**963**	**2 043**	**172**	**1 464**

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.

Interest rate derivatives (including the interest portion of interest rate and cross currency swaps) are used to manage the company's interest rate risk, and are therefore recorded as hedging instruments. They are recorded at acquisition cost, zero, on the balance sheet. Unrealised gains on these contracts are largely offset against off-balance-sheet unrealised losses on fixed-interest loans. The fair value stated in the table does not include accrued interest.

The currency component of cross currency swap agreements is recorded at the exchange rate in effect on the balance sheet day. The change in value recorded in the Income Statement is accompanied by a comparable change in value of underlying loans in the same currency. The difference between book value and fair value for FX forwards is due to FX forwards that have been entered into as cash-flow hedging instruments where unrealised gains/losses are not recorded in the accounts.

POWER CONTRACTS

Derivatives are recorded at fair value

NOK million	FAIR VALUE 2005	RECOGNISED CHANGE IN VALUE 2005	FAIR VALUE 2004
Trading portfolio	36	-31	67

With respect to power trading, it is the trading portfolios that are valued at fair value in accordance with Section 5-8 of the Accounting Act. 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 2005 this amounted to a net of NOK 22.2 million in received premiums.

With respect to the trading portfolios, contracts are traded within a three-year timeframe. As at 31 December 2005 fair value was broken down as follows per future time period:

NOK million	
2006	21
2007	15
2008	-
Total fair value 31 December 2005	**36**

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 GmbH.

Statkraft Energi AS

Statkraft Energi AS has four 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	Accounting Act, Section 4-1, Paragraph 1, no. 5
Origination	Lower value principle	Accounting Act, Section 5-2
Statkraft Financial Energy	Lower value principle	Accounting Act, Section 5-2
Baltic Cable	Lower value principle	Accounting Act, Section 5-2

Here 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 December 2005, the hedge portfolio had a net financial short 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 December 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 metals and foreign exchange (USD, EUR and GBP).

Financial contracts in the hedge 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 2015 (see 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 June 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 has a 53.46 per cent share of the above-mentioned volume. The associated company Agder Energi AS also has a share in the cooperation agreement.

Origination

This portfolio largely consists of customised bilateral physical and financial contracts. As a rule efforts are made to offset the bulk of the volume exposure (ie the risk which can be directly ascribed to price fluctuations in forward system price agreements traded in the market) against corresponding standardised financial contracts. The risk associated with the portfolio is therefore primarily derived from the area price risk, profiles, volatility (options and user time contracts), load, temperature and foreign exchange. Foreign exchange risk is partially hedged by means of internal currency forward contracts. The majority of contracts in the portfolio have terms of up to five years, but certain contracts run until 2015.

As at 31 December 2005, 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 December 2005, 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 December 2005, fair value was higher than acquisition cost.

Baltic Cable

Statkraft Energi AS's 66.7 per cent shareholding in Baltic Cable AB entitles the company to import or export up to 400 MW a day between Sweden and Germany. This allows for a profit to be made on the difference in price between the two areas. The Baltic Cable portfolio also comprises financial hedging contracts whose purpose is to hedge individual price differences over a timeframe of 3-5 years.

As at 31 December 2005, fair value was higher than acquisition cost.

Statkraft Markets Continental

Statkraft Markets Continental (Statkraft Markets GmbH og Statkraft Markets BV) 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 (Germany) and APX (the Netherlands), 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.

MARKET RISK, FINANCIAL RISK AND INSURANCE RISK
27

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 Risk

Statkraft's main activities are 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 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 2005 the company had presold more than 40 per cent of its mean production up to and including 2015.

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 (the IFRS) with effect from 1 January 2007 could result in a significant discrepancy between the results recorded in the company's accounts and its actual cash flow. In this case the company's financial statements might not repesent such an accurate reflection of 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 rate agreements 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 cross currency swaps. FX forward contracts are used to hedge cash flows in foreign currencies and occasionally to establish 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 E.ON Sverige. Statkraft's markets division converted 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 E.ON Sverige shares, which is in SEK, interest rate management will be subject to the same risk framework as each individual currency. The E.ON Sverige investment is financed entirely at a floating interest rate.

In addition to interest rate swap 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+ with a “stable outlook” and Baa1 with a “stable outlook” respectively. Statkraft has good opportunities for borrowing in the Norwegian money market and in the banking market. Revolving credit facilities are used to secure access to short-term financing. Statkraft's revolving credit facilities are large enough to cope with a significant increase in the collateral required for financial contracts in the forward market (Nord Pool).

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 revolving credit facilities, plus projected receipts for the next six months, divided by projected payments for the next six months.

Credit risk. Statkraft assumes a credit risk through power trading, investing its surplus liquidity, and 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-to-market value of the financial instruments with the majority of its debtors (cash collateral). 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 relating to its own assets and subsequent production loss, as well as damage to third-party lives and property.

Statkraft has established insurance schemes for the group which cover all material types of damage/loss. The group's captive insurance company Statkraft Forsikring AS is used as a tool in the group's risk financing. Statkraft Forsikring retains only a limited risk per claim, with the excess risk being covered in the reinsurance market.

RELATED PARTIES 28

Statkraft acquired 24 hydropower plants in Sweden and Finland for the sum of NOK 4.1 billion. The takeover took place on 1 October 2005 in accordance with the terms of the agreement signed on 1 July 2005. The selling party was E.ON Sverige AB, of which Statkraft owns a 44.6 per cent stake.

Statkraft owns shares in a number of energy companies. For further details see Note 16. Transactions with these energy companies are carried out at market terms. Statkraft Energi AS also has the responsibility of operating the power plants in Nepal and Laos in which Statkraft SF owns shares. The agreements have been entered into at market terms and conditions.

Statkraft has entered into an agreement for the purchase of transport services from the company Helikopterdrift AS. Statkraft's CEO is a shareholder in a company which leased a helicopter to Helikopterdrift AS. This leasing contract expired in June 2005. The agreement relating to the purchase of transport services was entered into on commercial terms and conditions. NOK 25,000 was paid under the contract in 2005.

CONTRACTUAL OBLIGATIONS 29

The group has contractual obligations to subcontractors in connection with its construction projects. The largest project to which these apply is the gas-fired power plant at Knapsack. The group also has obligations through its joint ventures Herdecke and Naturkraft.

In connection with the construction of its gas-fired power plants in Norway and Germany, Statkraft has entered into long-term agreements for the purchase of gas with Statoil and Wingas respectively.

One-third of the output volume from the gas-fired power plant at Knapsack has already been sold to the Dutch energy company Essent.

IFRS 30

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 1 January 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 instruments and hedging.

As a result of the transition to the IFRS in 2007, Statkraft will consider, with effect from 1 January 2006, adjusting its accounting principles to the IFRS, where the generally accepted accounting principles in Norway allow IFRS solutions.

--STATKRAFT AS ACCOUNTS

INCOME STATEMENT

NOK million	NOTE	2005	2004*
Gross operating revenues	1	**305**	-
Salaries and payroll costs	2,3	**227**	-
Other operating costs	4,5	**238**	5
Depreciation	8	**83**	-
Operating expenses		**548**	5
Operating loss		**-243**	-5
Financial income	6	**5 467**	1 095
Financial expenses	6	**-1 866**	-1 076
Net financial items		**3 601**	19
Profit before tax		**3 358**	14
Taxes	7	**-255**	-12
Net profit		**3 103**	2
Allocation of net profit for the year			
Dividend	13	**3 100**	-
To other equity	13	**3**	2

**Applies to the period 01.10–31.12.*

--STATKRAFT AS ACCOUNTS

BALANCE SHEET

NOK million	NOTE	31.12.2005	31.12.2004
ASSETS			
Property, plant and equipment	8	**85**	-
Investments in subsidiaries and associated companies	9	**40 600**	31 580
Other long-term financial assets	10	**26 750**	55 985
Fixed assets		**67 435**	87 565
Receivables	11	**5 179**	7 807
Cash and cash equivalents	12	**3 157**	4 132
Current assets		**8 336**	11 939
Assets		**75 771**	99 504
EQUITY AND LIABILITIES			
Paid-in capital	13	**31 553**	31 553
Retained earnings	13	**5**	2
Total equity		**31 558**	31 555
Provisions	14	**607**	5
Long-term interest-bearing debt	15	**27 207**	58 625
Long-term liabilities		**27 814**	58 630
Short-term interest-bearing debt	16	**11 700**	8 178
Other interest-free liabilities	17	**4 699**	1 141
Current liabilities		**16 399**	9 319
Equity and liabilities		**75 771**	99 504
Guarantees	18	**5 800**	-

THE BOARD OF DIRECTORS OF STATKRAFT AS
Oslo, 8 March 2006

Gunn Wærsted

Arvid Gründekjøn
CHAIR

Marit Büch-Holm
DEPUTY CHAIR

Halvor Stenstadvold

Aud Mork

Olav Fjell

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
PRESIDENT & CEO

--STATKRAFT AS ACCOUNTS

STATEMENT OF CASH FLOW

NOK million		2005	2004*
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**3 358**	14
Depreciation		**83**	-
Tax paid		**-1**	-
Cash flow from operating activities		**3 440**	14
Change in short-term items		**7 709**	-3 736
Net cash flow from operating activities	**A**	**11 149**	-3 722
CASH FLOW FROM INVESTING ACTIVITIES			
Loans to third parties		**-400**	-454
Repayment of loans to third parties		**860**	4 737
Investments in other companies		**-4 495**	-4
Net cash flow from investing activities	**B**	**-4 035**	4 279
CASH FLOW FROM FINANCING ACTIVITIES			
New long-term borrowings		**963**	4 000
Repayment of long-term debt		**-9 051**	-425
Net cash flow from financing activities	**C**	**-8 088**	3 575
Net change in cash and cash equivalents	**A+B+C**	**-975**	4 132
Cash and cash equivalents as at 1 Jan.		**4 132**	-
Cash and cash equivalents as at 31 Dec.		**3 157**	4 132

**Applies to the period 01.10-31.12*

As a part of the process to establish a group after the reorganisation of Statkraft into a limited company, Statkraft AS took part in several major transactions that have not affected the cash flow. An internal refinancing took place with effect from 1 January 2005. As a result Statkraft AS reduced its receivables to Statkraft Energi AS by around NOK 39 billion. At the same time its debt to the same company was reduced by around NOK 30 billion. After this net receivables totalled NOK 9 billion.

A reduction of NOK 23 billion in capital in Statkraft Energi AS took place. This has not affected the cash flow either since Statkraft AS bought the majority of the companies owned by Statkraft Energi AS for around NOK 28 billion. The difference of NOK 5 billion reduced Statkraft AS's receivables to Statkraft Energi AS after the refinancing. The remaining receivables total around NOK 4 billion.

--STATKRAFT AS ACCOUNTS

ACCOUNTING PRINCIPLES

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

Statkraft's accounting principles are described in association with the consolidated financial statements.

Shares in subsidiaries, associated companies and joint ventures are treated in accordance with the cost method in Statkraft AS's accounts. Group contributions received are included under dividends from subsidiaries.

Statkraft AS was established on 25 June 2004 with a start capital of NOK 100,000. All shares in the company are owned by Statkraft SF, which in turn is owned by the Norwegian state through the Ministry of Trade and Industry. The establishment of the company was a step in the reorganisation of Statkraft into a limited company.

Statkraft AS's share capital was increased by NOK 31,533 million on 1 October 2004, when the parent company Statkraft SF transferred its shares in Statkraft Energi AS to Statkraft AS as a contribution in kind. In 2004 Statkraft AS was operational during the last three months of the calender year.

For information relating to important events, please see Note 1 to the consolidated financial statements.

--STATKRAFT AS ACCOUNTS

NOTES

OPERATING REVENUES 1

NOK million	2005	2004*
Other leasing and service sales revenues	305	-
Total	**305**	**-**

**Applies to the period 01.10–31.12.*

SALARIES AND OTHER PAYROLL COSTS 2

NOK million	2005	2004*
Salaries	112	-
Employers' national insurance contributions	20	-
Pension costs	88	-
Other benefits	7	-
Total	**227**	**-**

**Applies to the period 01.10–31.12.*

As a result of Statkraft's reorganisation, group management and staff employees were transferred from Statkraft Energi AS and Statkraft SF to Statkraft AS with effect from 1 January 2005.

The CEO received a salary of NOK 2,510,518 in 2005. Other benefits amounted to NOK 221,986. 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 2,326,884.

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, are covered by a bonus scheme under which they 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 severence 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 1,725,000 has been paid in directors' fees, of which NOK 275,000 was paid to the board chair.

On average the parent company had the equivalent of 161 full-time jobs in 2005.

PENSIONS 3

Transfer of pension schemes from Statkraft Energi AS and Statkraft SF

As a result of Statkraft's reorganisation, group management and staff employees were transferred from Statkraft SF and Statkraft Energi AS respectively to Statkraft AS with effect from 1 January 2005. The transfer of pension liabilities and assets has been undertaken at fair value, based on actuarial estimates as at 1 January 2005.

Occupational pension schemes operated by group companies

Statkraft operates occupational pension schemes for its employees through the National Pension Fund. The benefits include retirement, disability, surviving spouse 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). Employees are also entitled to take early retirement under the AFP scheme from the age of 62.

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 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 and child's pension equivalent to 44 per cent of pensionable income in the interval from 8 to 12G. The scheme was terminated on 1 May 2000, since the National Pension Fund provided the same benefits from this date. The Statkraft scheme also provided a surviving spouse and child's pension in excess of the National Pension Fund's benefits for employees who joined the pension scheme after 1976. This scheme has also been terminated, with effect from 1 October 2003. Free paid-up policies were issued in 2005 to cover the pension fund's remaining liaibilities. Following the issue of these free paid-up policies, the outstanding balance of the pension fund has been taken to income, such that the Statkraft Pension Fund had zero net liabilities/assets as at 31 December 2005.

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 and child's pension. These pensions are funded out of the company's current income.

In addition, Statkraft has a surviving spouse and child's scheme, which is a continuation of the Statkraft Pension Fund (which was terminated in 2003). The scheme does not cover employees who joined Statkraft after 1 October 2003.

Assumptions

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

	2005	2004
Annual discount rate	4.5 %	5.1 %
Salary adjustment	2.7 %	3.3 %
Adjustment of current pensions	2.4 %	2.9 %
Adjustment of National Insurance Scheme's basic amount (G)	2.4 %	2.9 %
Forecast voluntary exit		
• Up to age 45	2.5 %	2.5 %
• Between age 45 and 60	0.5 %	0.5 %
• Over age 60	-	-
Projected yield	4.5 %	5.7 %
Rate of inflation	1.5 %	2.5 %
Tendency to take early retirement (AFP)	20-25 %	20-25 %

Pension cost breakdown

NOK million	2005	2004*
Net present value of accrued pension entitlements for the year	22	-
Interest costs on pension liabilities	8	-
Gross pension cost for the year	30	-
Projected yield on pension fund assets	-4	-
Recognised effect of estimate deviations	10	-
Termination of the Statkraft Pension Fund	53	-
Net pension cost for the year	**88**	**-**

**Applies to the period 01.10–31.12.*

NOK million	2005	2 004
Gross pension liabilities	207	-
Pension fund assets	-103	-
Net pension liabilities	103	-
Unamortised estimate deviations	-12	-
Employers' national insurance contribution	13	-
Net pension liabilities on the balance sheet	**104**	**-**

OTHER OPERATING EXPENSES 4

NOK million	2005	2004*
Materials	2	-
Consultants and temporary employees	92	5
Other operating expenses	144	-
Total	**238**	**5**

**Applies to the period 01.10–31.12.*

FEES PAID TO EXTERNAL AUDITORS 5

Deloitte Statsautoriserte Revisorer is the auditor for the Statkraft Group and Statkraft AS.
The fees paid for auditing and other services provided for Statkaft AS in 2005 break down as follows:

NOK	2005
Statutory auditing	995 000
Other attestation services	342 000
Tax advisory services	59 000
Other services	431 000
Total	**1 827 000**

FINANCIAL INCOME AND EXPENSES 6

Financial income

NOK million	2005	2004*
Interest received from group companies	896	1 055
Other interest received	129	35
Other financial income	4 442	5
Total	**5 467**	**1 095**

**Applies to the period 01.10–31.12.*

The item “Other financial income” in 2005 includes NOK 2,319 million in dividends from subsidiaries. Furthermore, NOK 1,252 million in group contributions received has been take to income, as has NOK 784 million in gains deriving from the last phase of the company's reorganisation into a group.

Financial expenses

NOK million	2005	2004*
Interest paid to group companies	1 564	933
Other interest expenses	22	104
Other financial expenses	280	39
Total	**1 866**	**1 076**

**Applies to the period 01.10–31.12.*

The item "Other financial expenses" for Statkraft AS in 2005 includes NOK 207 million in net realised losses incurred in connection with the buyback of bonds and their underlying interest rate swaps.

TAXES 7

The total tax expense is calculated as follows

NOK million	2005	2004*
Income tax	-	7
Corrections from previous years	-6	-
Change in deferred tax	261	5
Total tax expense in the Income Statement	**255**	**12**
Income tax payable:		
Tax payable on the profit for the year	-	7
Effect of group contributions on tax liability	-	-7
Income tax payable	-	-

**Applies to the period 01.10–31.12.*

Tax payable in the Balance Sheet was zero as at 31 December 2005 and as at 31 December 2004.

Reconciliation of nominal tax rates and effective tax rates

NOK million	2005	2004*
Profit before tax	3 358	14
Expected tax expense at a nominal rate of 28 %	940	4
Effect on taxes of:		
Tax-free income	-646	-
Corrections from previous years	-6	-
Other permanent differences - net	-33	8
Total tax expense	**255**	**12**
Effective tax rate	8 %	85 %

**Applies to the period 01.10–31.12.*

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.

NOK million	2005	2004
Current assets/current liabilities	1 104	16
Fixed assets	-52	-
Pension liabilities	-104	-
Sum of temporary differences and tax loss carryforward	948	16
Total deferred tax	**265**	**5**
Tax rates	28 %	28 %

PROPERTY, PLANT AND EQUIPMENT 8

NOK million	PLOTS, BUILDINGS AND OTHER REAL PROPERTY	MOVEABLES, INVENTORIES, OFFICE EQUIPMENT ETC	PLANTS UNDER CONSTRUCTION	TOTAL
Acquisition cost 01.01.2005	-	-	-	-
Transferred from the group companies	24	184	21	229
Additions 2005	1	21	14	36
Disposals 2005	-	-5	-	-5
Reclassifications	-	19	-19	-
Accumulated depreciation and write-downs 31.12.2005	-8	-167	-	-175
Book value 31.12.2005	**17**	**52**	**16**	**85**
Depreciation for the year	3	80	-	83
Depreciation period	50 years to perpetuity	3–5 years		

The depreciation period for IT equipment has been changed from seven to three years. This has resulted in an extra write-down of NOK 34 million.

SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES 9

NOK million	REGISTERED OFFICE	SHAREHOLDING & VOTING RIGHTS	BOOK VALUE
Subsidiaries			
Statkraft Energi AS	Oslo	100 %	17 062
Statkraft Carbon Invest AS	Oslo	100 %	4
Statkraft Energy Europe AS[1]	Oslo	100 %	699
Statkraft Suomi Oy	Kotka	100 %	918
Statkraft Sverige AB	Stockholm	100 %	3 153
Statkraft Development AS	Oslo	100 %	365
Statkraft Regional Holding AS	Oslo	100 %	13 951
Statkraft Forsikring AS	Oslo	100 %	80
Statkraft Energy Enterprise AS	Oslo	100 %	3 439
Småkraft AS[2]	Oslo	20 %	10
Associated companies			
Naturkraft AS	Bærum	50 %	319
Statkraft Norfund Power Invest AS	Oslo	50 %	600
Hydra Tidal Energy Technology AS	Oslo	29 %	1
Total			**40 600**

[1]The company will be merged with Statkraft AS on 1 January 2006.
[2]Småkraft AS is jointly owned by Statkraft AS, Skagerak Kraft AS, Trondheim Energiverk Kraft AS, Agder Energi AS and Bergenshalvoens Kommunale Kraftselskap AS, which each have a 20 per cent shareholding.

OTHER LONG-TERM FINANCIAL ASSETS 10

NOK million	2005	2004
Loans to enterprises in the same group	26 739	55 985
Other shares	11	-
Total	**26 750**	**55 985**

RECEIVABLES 11

NOK million	2005	2004
Accounts receivable	203	-
Accrued revenues, etc	11	5
Interest-bearing restricted funds	64	498
Other receivables	701	162
Current receivables from enterprises in the same group	4 200	7 141
Total	**5 179**	**7 807**

As at 31 December 2005 no need to make provision for bad debts had been identified.

Interest-bearing restricted funds largely consist of collateral pledged in respect of the negative market value of derivative contracts (see Note 12) and payments into the margin account at the Nord Pool power exchange.

CASH AND CASH EQUIVALENTS 12

NOK million	2005	2004
Certificates, bonds and promissory notes[1]	385	2 000
Cash in hand and bank deposits	2 772	2 132
Total	**3 157**	**4 132**

[1]NOK 185 million of the cash reserve is invested in bonds which are available for sale.

Cash in hand and bank deposits for 2005 includes NOK 2,183 million in cash collateral (including capitalised interest) and NOK 165 million associated with custody accounts linked to the sale of electricity on power exchanges. Cash collateral represents payments made by contractual parties as security for net unrealised gains Statkraft has on interest rate and currency swap agreements. Since such gains are not taken to income, a contra entry in the amount of NOK 2,240 million has been recorded under other interest-free liabilities, while NOK 64 million has been recorded under receivables.

As at 31 December 2005, Statkraft AS had unused long-term committed credit lines of up to NOK 5,000 million and overdraft facilities totalling NOK 250 million.

EQUITY 13

NOK million	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Initial capital 25.06.2004	0.1	-	0.1
Capital increase	31 553	-	31 553
Profit 2004	-	2	2
Equity as at 31.12.2004	**31 553**	**2**	**31 555**
Profit 2005	-	3 103	3 103
Dividend to Statkraft SF	-	-3 100	-3 100
Equity as at 31.12.2005	**31 553**	**5**	**31 558**

The company has a share capital of NOK 20 billion, divided into 200 million shares, each with a face value of NOK 100. All the shares are owned by Statkraft SF.

PROVISIONS 14

NOK million	2005	2004
Pension liabilities	104	-
Deferred tax	265	5
Other provisions	238	-
Total	**607**	**5**

Pension liabilities are described in more detail in Note 3, while deferred tax is covered in Note 7.

LONG-TERM INTEREST-BEARING DEBT 15

NOK million	2005	2004
Loans from Statkraft SF (back-to back agreements)	19 225	28 236
Debt to Statkraft Energi AS raised in connection with the reorganisation	-	22 326
Bonds issued in the Norwegian market	7 088	7 000
Loans from the Norwegian state	425	850
Other loans raised in non-Norwegian markets	469	213
Total	**27 207**	**58 625**

The figures include the effect of underlying currency swaps.

Breakdown of debt by currency

NOK million	2005	2004
Debt in NOK	11 994	42 276
Debt in SEK	14 875	16 349
Debt in USD	338	-
Total	**27 207**	**58 625**
Nominal average interest rate NOK, including the effect of terminations	6.36 %	6.88 %
Nominal average interest rate SEK	2.05 %	2.53 %
Nominal average interest rate USD	3.23 %	-

The foreign currency breakdown in the table above takes into consideration the underlying currency swap agreements.

Fixed-interest debt portfolio

		DATE OF INTEREST RATE ADJUSTMENT			
NOK million	2006[1]	1-3 YEARS	3-5 YEARS	5 YEARS AND LATER	TOTAL
Debt in NOK	5 825	-281	13	5 503	11 060
Debt in SEK	14 875	-	-	-	14 875
Debt in USD	-	-	-	338	338
Total	**20 700**	**-281**	**13**	**5 841**	**26 273**

[1]The interest rate exposure takes into account a cash reserve of NOK 945 million which reduces the interest rate exposure in 2006 correspondingly. This also takes into account currency converted to NOK.

The above breakdown takes into account underlying currency and interest rate swaps. The breakdown does not take into account the amortisation of transaction costs.

Statkraft's repayment schedule

NOK million	2006	2007	2008	2009	2010	AFTER 2010	TOTAL
Loans from Statkraft SF (back-to back agreements)	4 021	4 063	4 857	2 021	3 208	1 053	19 224
Bonds issued in the Norwegian market	-	-	-	1 080	-	6 020	7 100
Loans from the Norwegian state	425	-	-	-	-	-	425
Other loans raised in non-Norwegian markets	-	-	-	-	-	1 385	1 385
Exchange rate regulation, currency and interest rate swaps	-358	-184	-187	-	-191	4	-916
Total	**4 087**	**3 879**	**4 670**	**3 101**	**3 018**	**8 463**	**27 218**

The recognised effect of underlying currency and interest rate swaps has been allocated to the loans' respective dates of maturity. The breakdown does not take into account the amortisation of transaction costs.

SHORT-TERM INTEREST-BEARING DEBT 16

NOK 9,460 million of the total sum of NOK 11,700 million relates to debt to group companies associated with the group account scheme. The remaining NOK 2,240 million relates to cash collateral (see Note 12).

OTHER INTEREST-FREE LIABILITIES 17

NOK million	2005	2004
Accounts payable	20	4
Public charges payable	6	-
Accrued costs	17	-
Other interest-free liabilities	19	36
Allocated to dividend	3 100	-
Current liabilities to enterprises in the same group	1 537	1 101
Total	**4 699**	**1 141**

OBLIGATIONS AND GUARANTEES 18

Statkraft AS has off-balance-sheet obligations and guarantees totalling NOK 5,800 million. Of this NOK 4,908 million are parent company guarantees, NOK 883 million property rental obligations, while NOK 9 million relate to employee tax deductions.

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 16 years with an option to renew for a further 10 years. The annual rent totals NOK 56.2 million.

FINANCIAL INSTRUMENTS 19

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.

Currency and interest rate agreements

Book value and fair value of interest rate and currency instruments

	2005		2004	
NOK million	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Interest rate swaps	-	676	-	570
Forward interest rate agreements	-	-1	-	-
Interest rate and currency swaps	916	1 409	198	855
Forward currency agreements	28	28	-26	39
Total	**944**	**2 112**	**172**	**1 464**

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 are used primarily as hedging instruments, and forward currency contracts and the currency portion of interest rate and currency swaps are therefore recorded at the exchange rate in effect on the balance sheet day. They are consequently recorded at fair value on the balance sheet.

Interest rate instruments 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 in connection with interest rate swaps and interest rate and currency swaps. The 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

RELATED PARTIES 20

Statkraft has entered into an agreement for the purchase of transport services from the company Helikopterdrift AS. Statkraft's CEO is a shareholder in a company which leased a helicopter to Helikopterdrift AS. This leasing contract expired in June 2005. The agreement relating to the purchase of transport services has been entered into on commercial terms and conditions. NOK 25,000 was paid under the contract in 2005.

--FINANCIAL STATEMENTS

AUDITOR'S REPORT

Deloitte.

Deloitte
Statsautoriserte Revisorer AS
Karenslyst allé 20
Postboks 347 Skøyen
0213 Oslo

Telefon: 23 27 90 00
Telefax: 23 27 90 01
www.deloitte.no

To the Annual Shareholders' Meeting of Statkraft AS

AUDITOR'S REPORT FOR 2005

We have audited the annual financial statements of the Statkraft AS as of 31 December 2005, showing a profit of NOK 3,103 million for the parent company and a profit of NOK 5,620 million for the group. 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 annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and generally accepted accounting practice in Norway have been applied to produce the financial statements. These financial statements are the responsibility of the Company's Board of Directors and President and CEO. 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 practice in Norway, including standards on auditing adopted by Den Norske Revisorforening. These 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 practice 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 give a true and fair view of the financial position of the Company and of the Group as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the company's management has fulfilled its duty to maintain the Company's accounting records and documentation in a proper and well-arranged manner in accordance with the law and generally accepted bookkeeping practice 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 are consistent with the financial statements and complies with the law and regulations.

Oslo, 8 March 2006
Deloitte

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

SUSTAINABILITY STATEMENT

VALUE ADDED STATEMENT
GRI: EC5-EC7

Value added

NOK million	2005	PRO FORMA 2004	PRO FORMA 2003
Gross operating revenues	**15 021**	10 842	11 425
Paid to suppliers for goods and services	**2 697**	2 206	2 517
Gross value added	**12 324**	8 636	8 908
Depreciation	**1 858**	1 414	1 290
Net value added	**10 466**	7 222	7 618
Financial income	**808**	714	469
Share of profit from associated companies	**1 577**	1 493	1 086
Minority interests	**147**	118	78
Total wealth for distribution	**12 704**	9 311	9 095

Distribution of value added

NOK million	2005	PRO FORMA 2004	PRO FORMA 2003
Employees			
Gross salaries and benefits	**1 185**	1 075	1 257
Lenders/owner			
Interest	**2 312**	2 954	3 033
Dividend*	**4 788**	3 474	2 655
Taxes	**3 735**	985	2 223
The company			
Change in equity	**685**	823	-73
Total wealth distributed	**12 704**	9 311	9 095

**This figure includes the dividend and group contribution paid by Statkraft AS to Statkraft SF, as well as minority interests. In 2003 and 2004 the dividend to the state was paid by Statkraft SF.*

TAXES PAID
GRI: EC8

Taxes paid to Norwegian local authorities

NOK million	2005	2004	2003	2002	2001
Vinje	**77.6**	71.1	67.2	66.0	64.5
Hemnes	**69.7**	60.1	60.1	59.2	59.0
Suldal	**68.3**	56.7	48.3	47.0	48.5
Rana	**67.4**	57.0	52.5	49.0	48.4
Tokke	**41.8**	38.0	36.8	36.1	35.1
Meløy	**41.5**	35.4	30.6	27.6	26.2
Luster	**40.8**	35.2	31.3	28.9	28.4
Eidfjord	**38.4**	34.2	33.5	33.4	33.5
Narvik	**36.5**	29.9	30.0	29.7	29.0
Nore og Uvdal	**31.6**	29.7	30.7	29.3	28.7
Total, 10 largest local authorities to which tax is paid	**513.6**	447.3	421	406.2	401.3
Total, all local authorities to which tax is paid	**957.8**	870.1	839.2	816.2	807.9

These figures do not include TEV and Skagerak Energi. 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 all taxes paid to local authorities in Norway.

SUBSIDIES
GRI: EC9

The group does not receive any subsidies.

MATERIALS USED
GRI: EN1

This example of a materials statement is for the Øvre and Nedre Bersåvatn power plant project.

MATERIALS	UNIT OF MEASUREMENT	2005
Concrete	Tonnes	1361
Steel	Tonnes	201
Other metals	Tonnes	63
Plastic	Tonnes	3
Fibreglass	Tonnes	25
Wood	Tonnes	11
Electronics	Tonnes	10
Cables	Tonnes	16
Oil	Tonnes	4
Total	**Tonnes**	**1 693**

ENERGY USED
GRI: EN3

Statkraft's direct electricity use totalled 98,461 MWh in 2005. This figure does not include energy loss at transformer stations or electricity used by pumps. Nor does this figure include TEV and Skagerak Energi.

ENVIRONMENTAL IMPACT
GRI: EN6

Statkraft's access roads

REGION/COMPANY	UNIT OF MEASUREMENT	2005
Northern Norway	Km	382
Central Norway	Km	318
Western Norway	Km	149
Eastern Norway	Km	106
TEV	Km	55
Skagerak Energi	Km	48
Total	**Km**	**1 058**

Effect on fish populations

RIVER SYSTEM	ANADROME STRETCH (KM)[1]	AFFECTED STRECH (KM)[1]	POPULATION STATUS SALMON JAN. 2005[2]	POPULATION STATUS SEA TROUT JAN. 2005[2]	CATCH STATISTICS SALMON 2005 (KG)	CATCH STATISTICS SEA TROUT & ARCTIC CHAR 2005 (KG)	GYRO-INFECTED	NATIONAL SALMON RIVER	RESTOCKING SALMON (NO.)	RESTOCKING SEA TROUT (NO.)	EGG PLANTING (NO.)
Region Northern Norway											
Altaelva	46	46	5a	5a	15 287	2 486		x	20 700		
Beiarelva	30	30	5b	5b	3 219	4 033					
Bjerkaelva	1[3]	1	1	3a	0	0	x[4]				
Engabrevassdraget	1	1		5a							
Kobbelvvassdraget	7	7	1	4a	163	513					39 700
Målselvvassdraget	146	109	5b	5b	6 657	2 073		x			
Ranaelva	13[3]	13	1	4a	272	26	x[4]		145 650		
Røssåga	26	26	1	4a	17	0	x[4]		70 400		
Skjoma	13	13	3a	4a	12	745					
Vefsna	29[3]	29	1	4a	908	6 864	x				

RIVER SYSTEM	ANADROME STRETCH (KM)[1]	AFFECTED STRECH (KM)[1]	POPULATION STATUS SALMON JAN. 2005[2]	POPULATION STATUS SEA TROUT JAN. 2005[2]	CATCH STATISTICS SALMON 2005 (KG)	CATCH STATISTICS SEA TROUT & ARCTIC CHAR 2005 (KG)	GYRO-INFECTED	NATIONAL SALMON RIVER	RESTOCKING SALMON (NO.)	RESTOCKING SEA TROUT (NO.)	EGG PLANTING (NO.)
Region Central Norway											
Aura/Eikesdalsvatnet	21	21	3a	3a	53	420				1 000	
Bævra	22	18	4a	4a	75	183			12 750		
Daleelva	6	6	3b	3a	666	23			21 500		
Dalselva	1	1		4a	0	0				1 700	
Eira	9	9	4a	4a	586	76			64 599		
Hopra	3	3		4a							
Indredalselva	3	3		4a	0	0					
Isa/Glutra	18	9	2	5a	0	0	x				
Jostedalselva	21	21		4a	0	350					100 000
Litledalselva	10	10	2	5b	125	374	x				
Nærøydalselva	11	9	4a	5a	949	404					
Rauma	42	29	2	5b	628	349	x	x	4 500		
Surna	71	32	4a	4a	5 226	1 195		x	45 000		
Vikja	2[3]	2	4a	4a	1 031	21		x	12 500	6 500	131 600
Ytredalselva	9	9	3a	5a	0	0					
Region Western Norway											
Austdøla/Norddøla	4	2	1	4a	0	0				3 500	
Austrepollelva	2	2	1	4a	0	0					
Bondhuselva	3	3		4b	48	74					
Eio/Bjoreio	10	10	2	5a	244	204			17 150		18 000
Førreåna	3	3	3a	4a	0	0					
Jondalselva	1	1	2	4b	12	53					
Sima	4	4		4a	0	0					
Suldalslågen	22	22	4a	5a	2 287	238			80 000		
Ulla	9	9	4a	5a	602	10					
Øyreselva	1	1		5a							
Årdalselva	15	15	4a	4a	2 404	154					
Region Eastern Norway											
Numedalsågen	127	72	5a	5a	11 855	297		x			
Skienselva	106	25	4a	4a	1 446	8			11 675	4 125	
Skagerak											
Skienselva	106	93	4a	4a	1 446	8			47 600	16 800	
TEV											
Nidelva	9	9	4a	4a	4 043	333			22 000		
Orkla	65	65	5b	4a	26 037	410					
Graninge, Sweden											
Skellefteåälven	25	25							100 000	24 000	
Gideälven		6							6 000	9 500	
Moälven	50	50									
Total									**682 024**	**67 125**	**289 300**

[1]Including tributary rivers and lakes.
[2]Source: Status of Salmon Populations in Norway 2005, Directorate for Nature Management.
Category 1: Population completely lost
Category 2: Population under threat
Category 3: Population vulnerable
Category 4a: Population with reduced smolt production
Category 4b: Reduced population of adult fish only
Category 5a: Moderate or little impact on population (demands special consideration)
Category 5b: Moderate or little impact on population (does not demand special consideration)
[3]Does not include those sections of the natural anadrome stretch which salmon are prevented from entering because, for example, they are infected with Gyrodactylus salaris.
[4]Treated with rotenone.

GREENHOUSE GASES
GRI: EN8

CO_2 emissions

SOURCE	UNIT OF MEASURMENT	2005
TEV's district heating plant in Trondheim	Tonnes	128 000
Consumption of diesel and petrol	Tonnes	4 000*
Total	Tonnes	132 000

**This includes CO_2 emissions generated by the group's own equipment.*

EMISSIONS TO AIR
GRI: EN10

The group produced a total of 203 tonnes of NO_x emissions and 92 tonnes of SO_x emissions in 2005. These came entirely from TEV's district heating plant in Trondheim.

WASTE
GRI: EN11

TYPE OF WASTE	UNIT OF MEASUREMENT	2005	2004*	2003*
Hazardous waste	Tonnes	342	66	65
Other waste	Tonnes	1 467	551	313**
Percentage of waste recycled	%	55	66	50

**Does not include TEV and Skagerak Energi.*
***Reporting partially incomplete.*

The amount of waste increased substantially in 2005, largely due to the fact that the data now applies to the entire group. Around 263 tonnes of hazardous waste (equivalent to 75 per cent) were generated by TEV and Skagerak Energi. The total amount of hazardous waste includes 35 tonnes of asbestos removed from a ceiling at the Glomfjord power plant.

SUBSTANCE CONSUMPTION AND LOSS
GRI: EN13

SUBSTANCE	UNIT OF MEASUREMENT	2005	2004*	2003*
Oil products, loss	Litre	2 515*	1 700	2 300
Fuel, consumption	Litre	1 499 253	327 400	297 000
Chemicals, consumption	Litre	4 797**	4 100	3 700
Gases, loss	Kg	416**	73	78

**Does not include TEV and Skagerak Energi.*
***Does not include TEV.*

There is some uncertainty surrounding the recorded loss of oil products due to the sharing of warehouse space with external companies. This is being followed up.

The consumption of fuel has increased substantially. This is due to the fact that TEV and Skagerak Energi, which both have large-scale line operations, are included in the figures. Two projects, one for the renovation of the Aursjødammen dam and the other for the construction of the Kjøllefjord Wind Farm, had a total consumption of 330,000 litres of fuel, and were also included in the reporting for the first time.

The increase in the loss of gases is due to two incidents: the loss of 164 kg of halon from an explosion suppression system (reported as a less serious environmental non-compliance) and the loss of 180 kg of CO_2 from a fire extinguishing system. Statkraft has a temporary exemption from complying with the demand to phase out halon as an explosion suppression medium in transformer rooms. The Ministry of the Environment has announced the termination of the exemption period.

WORKFORCE
GRI: LA1

As at 31 December 2005 the group had 1,849 full-time employees, which is equivalent to approx. 90 per cent of the workforce. As at 31 December 2005 the group had 185 temporary agency workers, which is equivalent to approx. 9 per cent of the group's total workforce.

TURNOVER
GRI: LA2

The group has a low turnover rate of 1.5 per cent.

TRADE UNIONS
GRI: LA3

Around 75 per cent of the group's employees are members of trade unions.

RECORDING OF OCCUPATIONAL ACCIDENTS AND DISEASES
GRI: LA5

Injuries are reported immediately through the normal line channels. At the same time, each incident is recorded in the non-compliance database, including details of the non-compliance owner, corrective measures and deadlines. Serious injuries are reported to the Norwegian Labour Inspection Authority, and in certain cases to the police. All injuries are reported to the local social security office.

WORKING ENVIRONMENT COMMITTEES
GRI: LA6

The various business areas and companies each have their own working environment committee (AMU) which holds regular meetings. The creation of a group-wide AMU has not been found to be necessary.

INJURIES AND SICKNESS ABSENCE
GRI: LA7

	UNIT OF MEASUREMENT	2005	2004	2003
H1	Lost-time injuries per million hours worked	6.6	7.2	7
H2	Total injuries per million hours worked	17.9	14.1	18
Sickness absence	Sickness absence in per cent	3.8	4.2	4.1

There were a total of 23 lost-time injuries in the group in 2005, of which 12 occurred in the fourth quarter. The H1 indicator for 2005 was 6.6. The target of an H1 indicator of 5 was not achieved. Both the total number of injuries (H2) and lost-time due to injury (F) increased in 2005. The group sickness absence rate has been stable in recent years, with a downward trend. The sickness absence rate in 2005 was the lowest ever for the group.

--GLOBAL REPORTING INITIATIVE INDEX

GRI PERFORMANCE INDICATOR		PAGE REFERENCE	NOT RELEVANT
EC1	Net sales	Cover, 68	
EC2	Geographic breakdown of markets	75	
EC3	Cost of all goods, materials and services purchased	61, 68, 79	
EC4	Contracts paid in accordance with agreed terms		X
EC5	Total payroll and benefits	Cover, 26, 59, 65, 68, 77–78, 105	
EC6	Distributions to providers of capital (interest and dividends)	Cover, 26, 59, 70, 80, 99, 105	
EC7	Increase/decrease in retained earnings	Cover, 26, 59, 70, 87, 96, 105	
EC8	Total sum of taxes paid	Cover, 26, 59, 68, 80, 99, 105	
EC9	Subsidies received	106	
EC10	Donations to community, civil society and other groups	60–62	
EN1	Total materials used other than water, by type	106	
EN2	Percentage of materials used that are wastes		X
EN3	Direct energy use segmented by primary source	106	
EN4	Indirect energy use		X
EN5	Total water use		X
EN6	Location and size of land in biodiversity-rich habitats	106–107	
EN7	Major impacts on biodiversity	25, 55-56, 106–107	
EN8	Greenhouse gas emissions	25, 54, 57, 108	
EN9	Use and emissions of ozone-depleting substances	56, 58, 108	X
EN10	NOx, SOx and other significant air emissions by type	108	
EN11	Total amount of waste by type and destination	25, 56–57, 108	
EN12	Significant discharges to water by type		X
EN13	Significant spills of chemicals, oils and fuels	57, 108	
EN14	Significant environmental impacts of principal products and services	52–57	
EN15	Percentage of the weight of products sold that is reclaimable		X
EN16	Incidents of and fines for non-compliance with conventions and regulations	Cover, 58	
LA1	Breakdown of workforce	25–26, 108	
LA2	Net employment creation and average turnover	25, 108	
LA3	Percentage of employees represented by trade unions	108	
LA4	Negotiation with employees over changes	64	
LA5	Recording and notification of occupational accidents and diseases	25–26, 65, 109	
LA6	Formal health and safety committees	109	
LA7	Standard injury, lost day and absentee rates	25–26, 65–66, 109	
LA8	Description of HIV/AIDS policies or programmes		X
LA9	Training per year and per employee	25, 65	
LA10	Equal opportunity policies or programmes	26, 64, 66	
LA11	Composition of senior management and corporate governance bodies	27, 114–115	
HR1	Handling of all aspects of human rights	60, 64	
HR2	Human rights considerations in investments and procurement		X
HR3	Human rights performance in the supply chain and among contractors		X
HR4	Discrimination in operations	27, 60, 64	
HR5	Freedom of association	27, 64	
HR6	Child labour		X
HR7	Forced and compulsory labour		X
SO1	Impacts on communities in areas affected by activities	26–27, 59–62	
SO2	Bribery and corruption	23, 37, 61	
SO3	Political lobbying and contributions		X
PR1	Customer health and safety during use of products and services		X
PR2	Product information and labelling	53	
PR3	Protection of consumer privacy		X

The above overview shows Statkraft's reporting in relation to the performance indicators stipulated in the Global Reporting Initiative's (GRI's)[1] Sustainability Reporting Guidelines 2002 for voluntary sustainability reporting. The table indicates where in the annual report information on the individual performance indicator can be found. The information may be located in several places; taken together it should address all or some of the issues in the performance indicator description.

In addition to information on the performance indicators, a GRI-based report must contain information on a range of issues in the sections Vision and Strategy, Profile, and Governance Structure and Management Systems, as well as on the implementation of the GRI's 11 reporting principles. On the whole the Statkraft Group's reporting complies with the GRI's reporting principles.

For further information about the GRI and for complete descriptions of the individual performance indicators, see the GRI's website: www.globalreporting.org.

[1]Established in 1997, the Global Reporting Initiative (GRI) is an independent, multi-stakeholder institution which has been a driving force for the development and dissemination of globally applicable Sustainability Reporting Guidelines.

--ISO CERTIFICATES

STATKRAFT'S QUALITY ASSURANCE AND ENVIRONMENTAL MANAGEMENT SYSTEMS ARE CERTIFIED IN ACCORDANCE WITH THE INTERNATIONAL QUALITY STANDARDS ISO 9001:2000 AND ISO 14001:2004. THE ISO 14001 CERTIFICATION APPLIES TO STATKRAFT AS, STATKRAFT DEVELOPMENT AS AND STATKRAFT ENERGI AS. INTERNAL AUDITS ARE CARRIED OUT ACCORDING TO A 12-MONTH ROLLING PLAN, WHILE EXTERNAL AUDITS ARE CARRIED OUT IN ACCORDANCE WITH THE REQUIREMENTS OF THE RESPECTIVE STANDARDS. THESE AUDITS ARE COORDINATED BY STATKRAFT'S INTERNAL AUDITING DEPARTMENT. GROUP MANAGEMENT UNDERTAKES AN ANNUAL REVIEW OF THE SYSTEMS IN ACCORDANCE WITH THE REQUIREMENTS OF THE RESPECTIVE STANDARDS.

In 2005 Det Norske Veritas carried out a recertification audit, as well as a periodic audit under ISO 9001:2000 and ISO 14001:2004. The audits revealed no systemic failures, and all individual non-compliances were resolved within the specified time limits.

DET NORSKE VERITAS

MANAGEMENT SYSTEM CERTIFICATE

Certificate No. 2005-OSL-AQ-7678

This is to certify that
THE QUALITY MANAGEMENT SYSTEM
of

Statkraft AS

at
P.O. Box 200, Lilleaker, N-0216 Oslo
Norway

has been found to conform to the Quality Management System Standard
NS-EN ISO 9001 : 2000

This Certificate is valid for the following product or service ranges:

Electric Power:
Development, Operation, Generation and Trading.

Original certificate valid from: 2005-03-29
This Certificate with Appendix is valid until: 2007-02-09
Tomm Chr. Dahl, *Lead Auditor*

NORWEGIAN ACCREDITATION
QUAL 002

Place and date: Høvik, 2005-03-30
For the accredited unit: Det Norske Veritas Certification AS
Sissel Vakervik, *Management Representative*

Lack of fulfilment of conditions as set out in the Appendix may render this Certificate invalid.

DET NORSKE VERITAS

MANAGEMENT SYSTEM CERTIFICATE

Certificate No.: 2005-OSL-SYMI-8258

This is to certify that the
ENVIRONMENTAL MANAGEMENT SYSTEM
of

Statkraft AS

at:
P.O. Box 200, Lilleaker, N-0216 Oslo
Norway

has been found to conform to the Environmental Standard
NS-EN ISO 14001 : 2004

This Certificate is valid for the following product or service ranges:

Electric Power:
Development, Operation, Generation and Trading.

Original certificate valid from: 2005-03-29
This Certificate with Appendix is valid until: 2007-06-11
Tomm Chr. Dahl, *Lead Auditor*

NORWEGIAN ACCREDITATION
EMS 001

Place and date: Høvik, 2005-10-10
For the accredited unit: Det Norske Veritas Certification AS
Bjørg Synnøve Nesgård, *Management Representative*

Lack of fulfilment of conditions as set out in the Appendix may render this Certificate invalid.

--SUSTAINABILITY REPORTING

STATKRAFT'S BUSINESS PRINCIPLES STATE THAT ISSUES RELATING TO THE ENVIRONMENTAL AND SOCIAL CONSEQUENCES OF ITS BUSINESS ACTIVITIES SHALL BE COMMUNICATED IN AN OPEN AND HONEST MANNER, AND THAT INITIATIVES WILL BE TAKEN TO ESTABLISH A DIALOGUE WITH AFFECTED STAKEHOLDERS. SUSTAINABILITY REPORTING IS THEREFORE AN IMPORTANT AND INTEGRAL PART OF THE COMPANY'S ANNUAL REPORT. STATKRAFT'S SUSTAINABILITY REPORTING ENCOMPASSES AN ASSESSMENT OF THE COMPANY'S ENVIRONMENTAL IMPACT, SOCIAL RESPONSIBILITY AND COMPETENCE BUILDING. IN PRACTICE, THESE AREAS FORM PART OF THE COMPANY'S PERFORMANCE MANAGEMENT AND PLAY AN IMPORTANT ROLE IN DETERMINING STATKRAFT'S POSITION AND COMPETITIVENESS.

One of the objectives for this year's reporting process has been to improve the quantitative reporting of sustainability issues. The number of indicators has been increased slightly in light of the recommendations of the Global Reporting Initiative (GRI). The key figures also refer explicitly to the GRI's performance indicators.

All the sustainability data included in this year's report is presented in a separate chapter immediately following the financial statements. Graphs and a discussion of the results and trends, on the other hand, are included in the Management Report, where the emphasis has been to present a correct and balanced picture of Statkraft's policies, practices and achievements in the area of sustainability. Issues covered include the significant environmental impact of various energy sources, ongoing innovation projects, the company's social impact both in Norway and abroad, management of the company's brand identity, dialogue with stakeholders and competence-building strategy. More detailed information about the individual projects, as well as local conditions and activities can be found in separate publications or at www.statkraft.com. In our opinion, this approach allows us to meet the requirements for materiality, completeness and stakeholder responsiveness, which reporting entities must do to comply with the AA1000 Assurance Standard.

The group scorecard plays a key role in the gathering of sustainability-related data, but such data is also collected through other reporting channels. In principle, all the sustainability data presented is at a group-wide level, and sustainability reporting follows the company's accounting principles for the treatment of subsidiaries, partly owned power plants and associated companies. However, it has not been possible to generate group-wide figures for some indicators in 2005. In such cases, this is made clear in an accompanying note. On the whole, data has been collected and collated with the aim of achieving as relevant and uniform a presentation as possible. Although great efforts have been made to ensure that the information is complete and correct, there may be a degree of uncertainty attached to some of the material.

Statkraft wishes to ensure that the information on sustainability that it publishes is transparent, relevant and reliable. Statkraft has therefore asked an external auditor to review the sustainability reporting for 2005, and the systems, structures and processes on which it is based. The review was based on the AA1000 Assurance Standard. In practice this is the only standard specially developed for the assurances of sustainability reporting. It focuses not only on the report itself, but also includes an analysis of the systems, structures and processes which are crucial to the company's handling of sustainability, and which underlie the report. The auditor's conclusions are presented on page 113. The auditor also addresses comments and recommendations to the group management. These are summarised below.

In the auditor's opinion the integration of sustainability issues and information into the group's annual report was a positive move which has served to strengthen the group's sustainability reporting.

The auditor has found that in general a focus on sustainability is well grounded in Statkraft's management and governing documents and that "Doing the Right Thing at Statkraft" shows great initiative on the part of the management to enhance focus on the company's business principles, principles of corporate governance and code of conduct for employees. The auditor recommends that the process of implementing "Doing the Right Thing at Statkraft" should continue to be given priority and the management should be highly visible throughout the organisation.

The auditor also recommends that Statkraft intensify its efforts to identify and report key sustanability indicators and establish systems that ensure high-quality reporting from each unit in the group.

--AUDITOR'S REPORT

Deloitte.

Deloitte
Statsautoriserte Revisorer AS
Karenslyst allé 20
Postboks 347 Skøyen
0213 Oslo

Telefon: 23 27 90 00
Telefax: 23 27 90 01
www.deloitte.no

INDEPENDENT AUDITOR'S REPORT

We have reviewed certain aspects of Statkraft's Sustainability Report for 2005 (The "Report") and related management systems and procedures. The Report, presented on pages 51 – 66 and 105 – 112 in Statkraft's Annual Report for 2005, 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 emerging best practice and standards for independent assurance on sustainability reporting, including ISAE 3000, issued by the International Auditing and Assurance Standards Board as well as on the principles of AA1000 Assurance Standard (AA1000AS) issued by AccountAbility. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

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. We have performed interviews with management responsible for sustainability aspects at corporate and the head offices of Region Central Norway and Region Northern Norway, as well as one reporting unit within each of these Region offices, and at the head office of Trondheim Energiverk.

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 if an audit-level engagement had been performed.

Conclusions

In conclusion, in all material respects, nothing has come to our attention causing us not to believe that:

- Statkraft has established systems to identify, manage and to involve stakeholders on material aspects related to sustainability on the issues "Environment", "Corporate Social Responsibility" and "Competence", as described on pages 51 – 66, in accordance with the principles of AA1000AS.
- Statkraft has applied detailed procedures to identify, collect, compile and validate data and information for 2005 to be included in the report, as described on page 112, and data presented for 2005 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- Statkraft has implemented the management systems referred to above at the reporting units that we have tested, as specified above. Data for 2005 from these units has been reported according to the procedures noted above and is consistent with source documentation presented to us.
- GRI Index, presented on page 110, appropriately reflects the extent to which Statkraft's reporting aligns with the core indicators in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

Oslo, Norway, 8 March 2006
Deloitte Statsautoriserte Revisorer AS

Preben J. Sørensen
State Authorized Public Accountant
Environment & Sustainability Services

PRESENTATION OF THE GROUP MANAGEMENT

From the left:

RAGNVALD NÆRØ
BORN: 1954
POSITION: Executive Vice President Organisation and Communications
BACKGROUND: EVP Communications, E-CO Energi, Widerøe's Flyveselskap, and Norwegian Air Traffic and Airport Management; Partner, Geelmuyden.Kiese; Editor, Aftenposten
JOINED STATKRAFT IN 2001

JON G. BRANDSAR
BORN: 1954
POSITION: Executive Vice President Regional
BACKGROUND: Group Chief Executive, Trondheim Energiverk; various senior management positions at Statkraft, Statkraft Engineering, and ABB
JOINED STATKRAFT IN 1994

STEIN DALE
BORN: 1962
POSITION: Executive Vice President Strategy and Legal
BACKGROUND: Various senior management positions, Statkraft, Enitel, and the Telia group
JOINED STATKRAFT IN 2002
ELECTED OFFICES (EXTERNAL): Member of the board of E.ON Sverige

ELI SKRØVSET
BORN: 1965
POSITION: Executive Vice President Finance
BACKGROUND: Controller, Statkraft
JOINED STATKRAFT IN 1992

INGELISE ARNTSEN
BORN: 1966
POSITION: Executive Vice President New Energy
BACKGROUND: Various senior management positions, Arthur Andersen Business Consulting, Bearing Point Norway, Sogn og Fjordane Energiverk, and Kværner Fjellstrand
JOINED STATKRAFT IN 2003
ELECTED OFFICES (EXTERNAL): Member of the board of Petoro AS

BÅRD MIKKELSEN
BORN: 1948
POSITION: President and CEO of Statkraft AS and Statkraft SF
BACKGROUND: Group Chief Executive, Oslo Energi Group, Ulstein Group, and Widerøe
JOINED STATKRAFT IN 2001
ELECTED OFFICES (EXTERNAL): Deputy Chair of E.ON Sverige and Avinor; member of the corporate assembly of the Fred Olsen companies Ganger Rolf and Bonheur

JØRGEN KILDAHL
BORN: 1963
POSITION: Executive Vice President Generation and Markets
BACKGROUND: Partner, Geelmuyden. Kiese; Portfolio manager, International Formuesforvaltning
JOINED STATKRAFT IN 1999

-- ADDRESSES

Head Office
Statkraft AS
PO Box 200 Lilleaker
NO-0216 Oslo, Norway
Tel: +47 24 06 70 00
Fax: +47 24 06 70 01
Office address: Lilleakerveien 6
Website: www.statkraft.com

Statkraft Region Northern Norway
PO Box 163
NO-8512 Narvik, Norway
Tel: +47 76 96 40 00
Fax: +47 76 96 40 01
Office address: Stasjonsveien 60

Statkraft Region Central Norway
Gaupnegrandane
NO-6868 Gaupne, Norway
Tel: +47 57 68 92 00
Fax: +47 57 68 92 01

Statkraft Region Western Norway
PO Box 233
NO-4201 Sauda, Norway
Tel: +47 52 78 64 00
Fax: +47 52 78 64 01

Statkraft Region Eastern Norway
PO Box 4
NO-3880 Dalen, Norway
Tel: +47 35 07 95 00
Fax: +47 35 07 72 27

Statkraft Markets BV
Prof. J. H. Bavincklaan 13
NL-1183 AT Amstelveen, The Netherlands
Tel: +31 20 347 2780
Fax: +31 20 347 2799

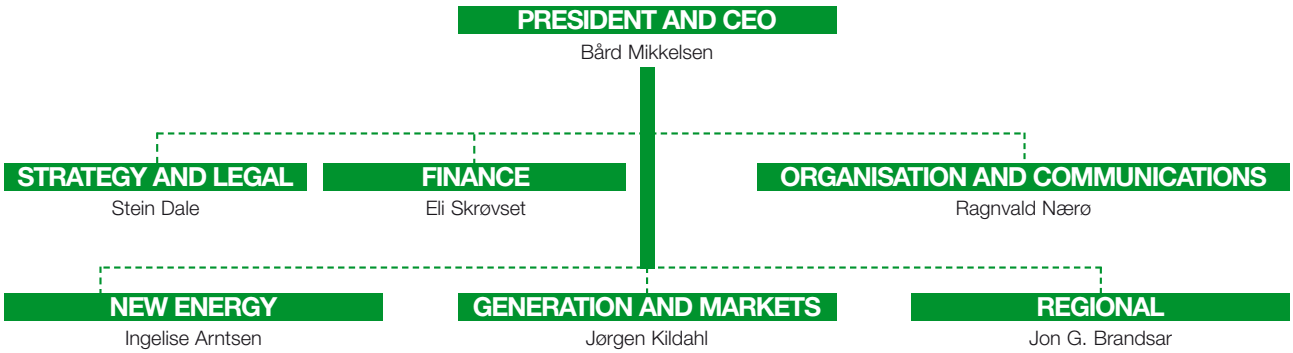
Statkraft Markets GmbH
Niederkasseler Lohweg 175
DE-40547 Düsseldorf, Germany
Tel: +49 211 60 244 000
Fax: +49 211 60 244 199

Statkraft Financial Energy AB
Hitechbuilding 92
SE-101 52 Stockholm, Sweden
Tel: +47 24 06 70 00
Fax: +47 24 06 77 30
Office address: Sveavägen 9

Statkraft UK Ltd
1 Hammersmith Grove
GB-London W6 0NB, United Kingdom
Tel: +44 20 3008 8207
Fax: +44 20 3008 8206

Organisation no.:
Statkraft AS: 987 059 699

--STATKRAFT AS GROUP



-- FINANCIAL CALENDAR

Results, Q1 2006	11 May 2006
Results, Q2 2006	17 August 2006
Results, Q3 2006	9 November 2006
Results, Q4 2006	mid-February 2007

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Statkraft