Statkraft

2006

ANNUAL REPORT

SUSTAINABILITY REPORT

IT IS TIME FOR PURE ENERGY

CONTENTS

FINANCIAL KEY FIGURES

STATKRAFT AS GROUP	UNIT OF MEASUREMENT	ADJUSTED ** 2006	2006	ADJUSTED ** 2005	2005	PRO FORMA ADJUSTED ** 2004	PRO FORMA 2004	PRO FORMA 2003
From the Income Statement								
Gross operating revenues	NOK mill.	**16 225**	16 225	14 015	15 021	9 832	10 842	11 425
EBITDA	NOK mill.	**11 499**	11 453	9 505	10 233	5 936	6 791	6 937
Operating profit	NOK mill.	**9 998**	9 952	8 008	8 375	4 522	5 377	5 647
Share of profit from associated companies	NOK mill.	**1 783**	1 689	1 936	1 577	1 493	1 493	1 086
Net financial items	NOK mill.	**-1 816**	-1 816	-1 838	-1 504	-2 572	-2 240	-2 564
Profit before tax	NOK mill.	**9 966**	9 826	8 107	8 449	3 443	4 630	4 169
Net profit	NOK mill.	**6 403**	6 285	5 343	5 620	3 169	4 415	2 661
From the Balance Sheet								
Property, plant & equipment and intangible assets	NOK mill.	**57 348**	57 348	52 812	52 812	47 816	47 816	47 136
Investments in associated companies	NOK mill.	**30 997**	30 997	28 793	28 793	28 751	28 751	28 297
Other assets	NOK mill.	**8 206**	8 206	9 249	9 249	11 948	11 948	11 179
Total assets	NOK mill.	**96 552**	96 552	90 854	90 854	88 515	88 515	86 612
Total equity	NOK mill.	**38 805**	38 805	39 994	39 994	39 015	39 015	33 588
Interest-bearing debt	NOK mill.	**32 469**	32 469	31 251	31 251	39 827	39 827	40 671
Capital employed, basic [1]	NOK mill.	**43 094**	43 094	41 364	41 364	41 493	41 493	40 012
Cash flow								
Net change in cash flow from operating activities	NOK mill.	**6 544**	6 544	12 250	12 250	4 013	4 013	8 187
Dividend for the year to owner (incl. minority interests)	NOK mill.	**5 598**	5 598	4 788	4 788	3 474	3 474	2 655
Depreciation	NOK mill.	**1 501**	1 501	1 497	1 858	1 414	1 414	1 290
Maintenance investments [2]	NOK mill.	**573**	573	468	468	487	487	706
Expansion investments in new generating capacity [3]	NOK mill.	**3 125**	3 125	1 767	1 767	1 061	1 061	571
Investments in shareholdings [4]	NOK mill.	**750**	750	4 511	4 511	287	287	424
Cash and cash equivalents	NOK mill.	**1 758**	1 758	4 374	4 374	5 292	5 292	1 815
Unused drawing rights	NOK mill.	**5 600**	5 600	5 334	5 334	5 700	5 700	6 400
Financial variables								
FFO interest coverage [5]		**4.4**	4.4	3.6	4.1	2.3	2.7	2.2
Interest-bearing debt ratio [6]	%	**45.6**	45.6	43.9	43.9	50.5	50.5	54.8
Equity ratio [7]	%	**40.2**	40.2	44.0	44.0	44.1	44.1	38.8
Long-term rating – Standard & Poor's		**BBB+**	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Long-term rating – Moody's		**Baa1**	Baa1	Baa1	Baa1	Baa2	Baa2	Baa2
Key figures, accounts								
EBITDA margin [8]	%	**71**	71	68	68	60	63	61
ROACE before tax [9]	%	**23.7**	23.6	19.3	20.2	11.1	13.2	13.7
Net return on investments in associated companies [10]	%	**5.8**	5.4	6.7	5.5	5.2	5.2	3.8
Return on total assets after tax [11]	%	**8.4**	8.3	7.8	8.1	6.0	7.5	5.6
Return on equity after tax [12]	%	**16.3**	16.0	13.5	14.2	8.7	12.2	8.4
Tax rate [13]	%	**35.8**	36.0	34.1	33.5	8.0	4.6	36.2
Key figures, upstream business *								
Production cost/MWh [14]	NOK/MWh	**54.7**	54.7	53.3	53.3	52.5	52.5	51.6
Production, annual mean from generators	TWh	**42.2**	42.2	42.0	42.0	41.3	41.3	41.7
Production, sold volume	TWh	**45.7**	45.7	48.5	48.5	34.3	34.3	39.2
Installed capacity	MW	**10 921**	10 921	10 888	10 888	10 698	10 698	10 822
Reservoir capacity	TWh	**38.1**	38.1	37.5	37.5	39.0	39.0	39.2
Wholly and partly owned power plants (excl. small-scale power plants)	No.	**158**	158	156	156	140	140	144
Key figures, downstream business *								
No. of distribution grid customers	1000	**268**	268	265	265	266	266	263
Energy supplied	TWh	**7.4**	7.4	9.0	9.0	-	-	-
Distribution grid capital (NVE capital) [15]	NOK mill.	**3 694**	3 694	3 721	3 721	3 736	3 736	-
No. of end-user customers	1000	**67**	67	82	82	79	79	75
Total volume supplied	TWh	**2.0**	2.0	2.0	2.0	1.8	1.8	1.6
Market variables *								
System price N	NOK/MWh	**391**	391	235	235	242	242	291
Electricity consumption in the Nordic market	TWh	**390**	390	390	390	385	385	377
Electricity generated in the Nordic market, actualg	TWh	**379**	379	391	391	375	375	361
Statkraft's share of Nordic electricity production	%	**12.1**	12.1	12.4	12.4	9.1	9.1	10.8

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

** Adjusted for non-recurring items.

NON-FINANCIAL KEY FIGURES

ENVIRONMENT	UNIT OF MEASUREMENT	2006	2005	2004	2003
Power production, annual mean	TWh	**42.2**	42.0	41.3	41.7
of which hydropower	TWh	**41.5**	41.4	41.2	41.7
of which wind power	TWh	**0.7**	0.6	0.1	0.02
Power production, actual	TWh	**45.7**	48.5	34.3	39.2
of which hydropower	TWh	**45.2**	48.1	34.2	39.1
of which wind power	TWh	**0.5**	0.4	0.1	0.1
District heating production	TWh	**0.4**	0.4	0.4	0.4
Proportion of renewable power produced *	%	**99.6**	99	99	99
Serious environmental non-compliances	No.	**0**	1	0	4

* Non-renewable power production relates to district heating production based on waste and oil.

SOCIETY	UNIT OF MEASUREMENT	2006	2005	2004	2003
Distribution of value added *					
owner (incl. minority interests)	NOK mill.	**5 598**	4 788	3 474	2 655
state and local authorities	NOK mill.	**4 569**	3 735	985	2 223
lenders	NOK mill.	**2 087**	2 312	2 954	3 033
employees	NOK mill.	**1 139**	1 185	1 075	1 257
the company	NOK mill.	**342**	685	823	-73
Statutory-priced industrial contracts [16]					
volume sold	TWh	**13.1**	14.6	17.8	18.6
value lost (based on volume sold)	NOK mill.	**-3 357**	-1 719	-2 296	-3 503
Concessionary fixed-price contracts [16]					
volume sold	TWh	**2.5**	2.8	2.8	2.9
value lost (based on volume sold)	NOK mill.	**-785**	-533	-521	-731
Reputation [17]					
professionals	Scale of 1 to 100, where 100 is best	**74**	77	-	-
general public	Scale of 1 to 100, where 100 is best	**40**	45	-	-

* 2003 and 2004 figures are proforma figures.

COMPETENCE	UNIT OF MEASUREMENT	2006	2005	2004	2003
Full-time jobs equivalent 31.12.	No.	**2 087**	1 971	1 887	1 965
H1	No. of lost-time injuries per million hours worked	**6.3**	6.6	6,9	7.0
H2	Total no. of injuries per million hours worked	**15,9**	17.9	14.1	18.0
Sickness absence	%	**4.1**	3.8	4.2	4.1
Organisation and management survey	Scale of 1 to 5, where 5 is best	**4.1**	4.0	4.0	3.9
Preferred employer [18]					
business students	Ranking	**33**	28	24	37
engineering students	Ranking	**41**	29	34	39

[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] Key figure used to calculate the revenue ceiling 2004–2006. Published at www.nve.no.

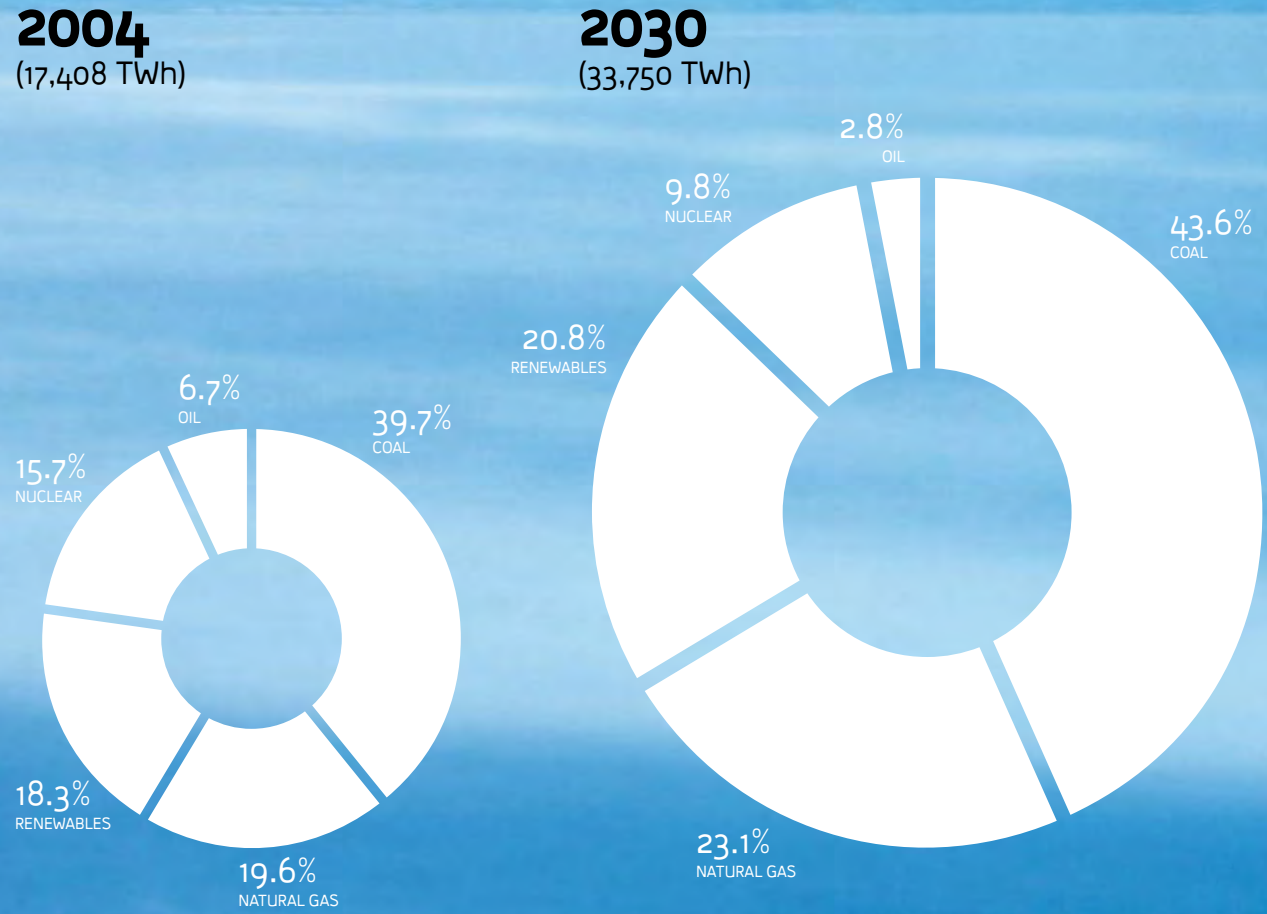
[16] Loss on statutory-priced contracts compared to spot price.

[17] Percentage with a good overall impression. Source: MMI.

[18] Ranking as a preferred employer among recent graduates.
Source: Universum Graduate Survey.

Fossil-based energy sources will dominate the world's energy markets for decades to come. The international community must therefore meet the major environmental challenges that this will entail. The need to increase the proportion of alternative forms of energy has never been more urgent. Statkraft is a European leader in environment-friendly energy, and is therefore uniquely positioned to develop its business both nationally and internationally. Statkraft supplies pure energy today, and has a clear ambition to supply the environment-friendly energy solutions of tomorrow too.

ELECTRICITY PRODUCTION WORLDWIDE



In order to meet the world's future energy needs, the capacity to generate electricity must be increased significantly. Prognoses show that most of this increase will come from fossil fuels. For this reason, measures are urgently needed to reduce emissions of greenhouse gases. Such measures include initiatives to increase the share of environment-friendly energy.

Source: World Energy Outlook 2006, IEA

STATKRAFT'S BUSINESS

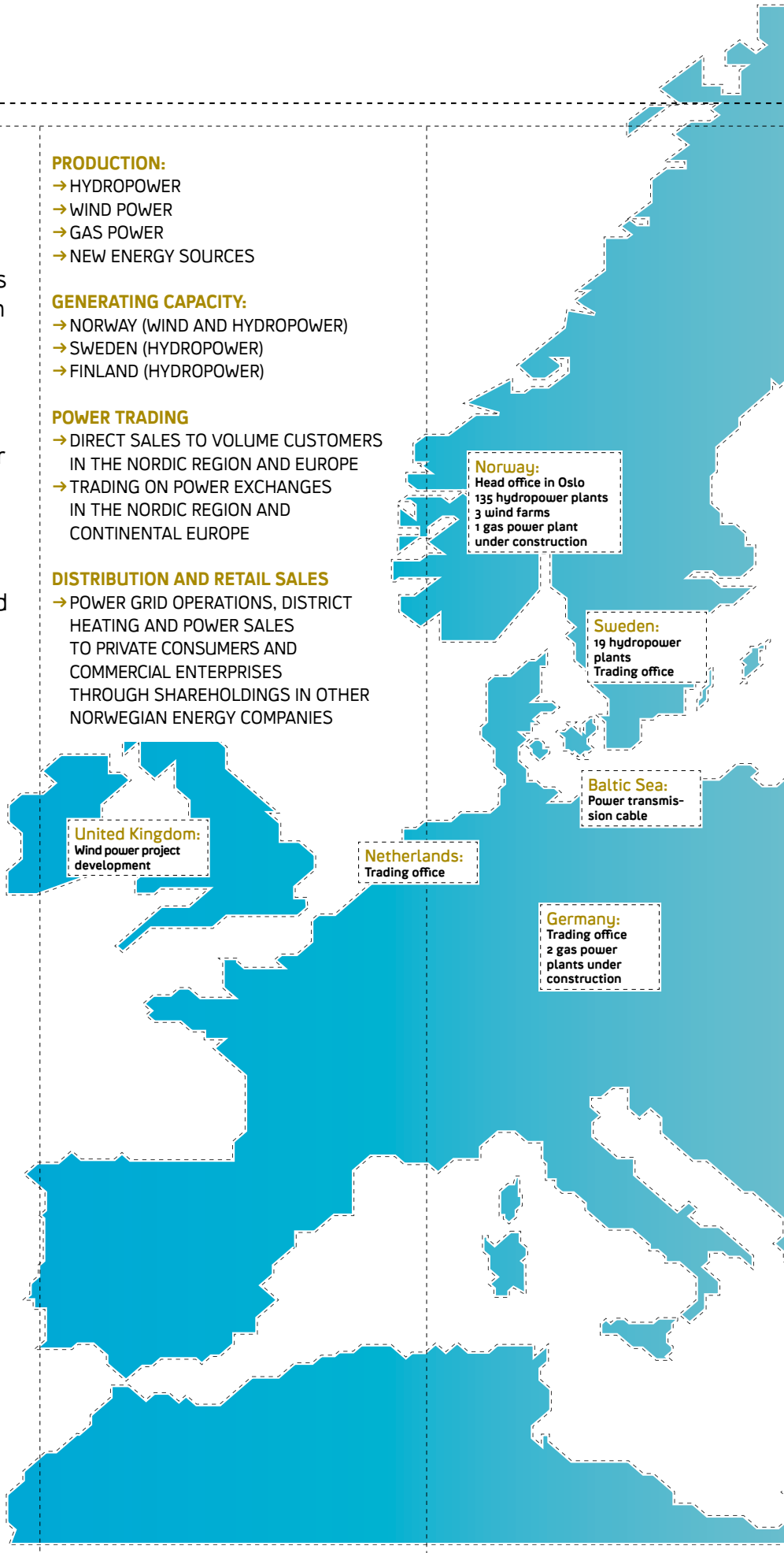
Statkraft is Europe's second largest provider of renewable energy. Statkraft produces hydropower and wind power, is constructing gas power plants and focuses on innovation, with a clear ambition to deliver the energy solutions of the future. With special expertise within physical and financial power trading, Statkraft is a major player on Europe's power exchanges. In Norway the Group supplies electricity to nearly 400,000 customers. The Group's workforce of 2,000 people, employed in eight countries, create value every day. Statkraft's vision is to be a European leader in environment-friendly energy.

PRODUCTION:
- → HYDROPOWER
- → WIND POWER
- → GAS POWER
- → NEW ENERGY SOURCES

GENERATING CAPACITY:
- → NORWAY (WIND AND HYDROPOWER)
- → SWEDEN (HYDROPOWER)
- → FINLAND (HYDROPOWER)

POWER TRADING
- → DIRECT SALES TO VOLUME CUSTOMERS IN THE NORDIC REGION AND EUROPE
- → TRADING ON POWER EXCHANGES IN THE NORDIC REGION AND CONTINENTAL EUROPE

DISTRIBUTION AND RETAIL SALES
- → POWER GRID OPERATIONS, DISTRICT HEATING AND POWER SALES TO PRIVATE CONSUMERS AND COMMERCIAL ENTERPRISES THROUGH SHAREHOLDINGS IN OTHER NORWEGIAN ENERGY COMPANIES



CAPACITY AND OUTPUT

The bulk of Statkraft's output is hydropower. Statkraft has 135 **HYDROPOWER** plants in Norway, 19 in Sweden and 4 in Finland. **WIND POWER** is one of the most environment-friendly sources of energy for large-scale electricity generation. Since 2002, Statkraft has built and put into operation three wind farms in Norway. **GAS POWER** replaces far more polluting electricity-generating facilities based on coal and oil. Statkraft is building gas power plants in Norway and Germany with the best available technology. **DISTRICT HEATING** is a focus area within the field of alternative energy, and is being spearheaded by the Group's operations in both Trondheim and Porsgrunn. In Trondheim, the district heating centres meet a third of the inhabitants' heating needs. The Group is also a key player in development projects for **WAVE ENERGY, OSMOTIC POWER** and **HYDROGEN** as an energy carrier.

In the next few years, Statkraft's production portfolio will increase by around 1,300 MW. Almost all of this will come from gas power, of which 1,000 MW will be in Germany.

TRADING AND DISTRIBUTION

A large part of Statkraft's electricity output is traded on the Nordic power exchange Nord Pool. Over many years, Statkraft has developed a unique business model, based on good analysis, efficient operations, the exploitation of the power plants' inherent flexibility and dynamic hedging. Statkraft is a major financial player on Nord Pool, the German power exchange EEX, the Dutch exchange APX as well as other European power exchanges. Statkraft is continually expanding its power trading activities in Europe, and in 2006 had, for the first time, as many people engaged in power trading at its offices in continental Europe as at its head office in Oslo.

In Norway, Statkraft is also engaged in distribution grid operations and retail sales through its subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft, and the associated companies BKK and Agder Energi. These companies have a total of approximately 600,000 grid customers and more than 500,000 electricity customers. Statkraft has an extensive portfolio of electricity supply contracts with both Norwegian and international industrial companies. Statkraft has been contracted to supply 165 TWh of electricity under such agreements until 2020.

BUSINESS AREAS

Statkraft is owned by the Norwegian state. The Group is organised into three business areas:

GENERATION & MARKETS generates and sells electricity directly to bulk customers and through the various power exchanges.

NEW ENERGY develops and constructs new, environment-friendly generating capacity in Norway and the rest of Europe.

REGIONAL manages the Group's interests in Norwegian regional utilities that generate and sell electricity and district heating to companies and private customers in Norway, and operate electricity distribution grids.

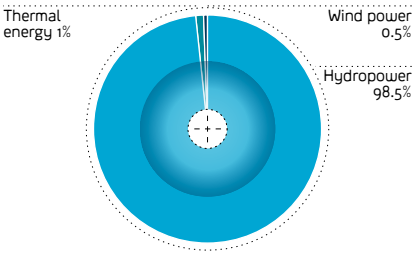
STATKRAFT'S MARKETS

The current trend is towards increasingly stronger ties between the Nordic and the continental energy markets. Transmission capacity is increasing and the use of efficient cross-border trading systems is becoming more widespread.

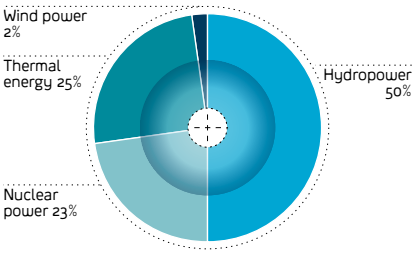
For many years the Nordic region has had its own common power market, with one common power exchange and transmission capacity between the Nordic countries.

GENERATION OF ELECTRICITY

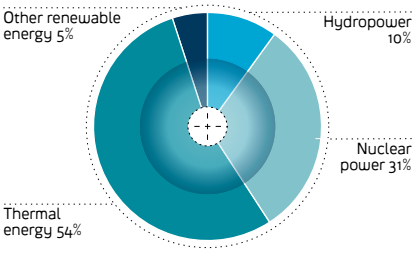
NORWAY 2006: 120 TWh



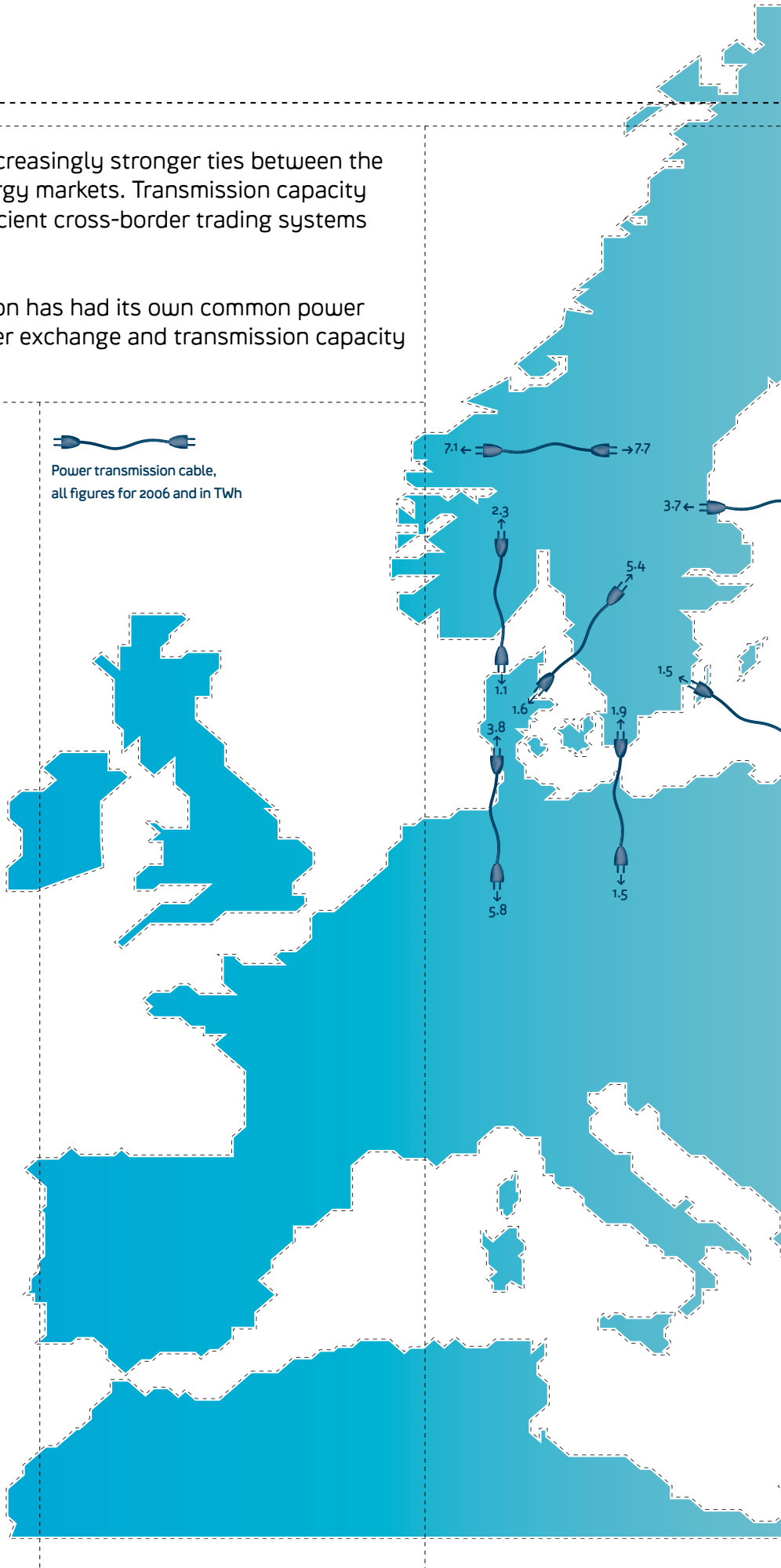
NORDIC REGION 2006: 379 TWh

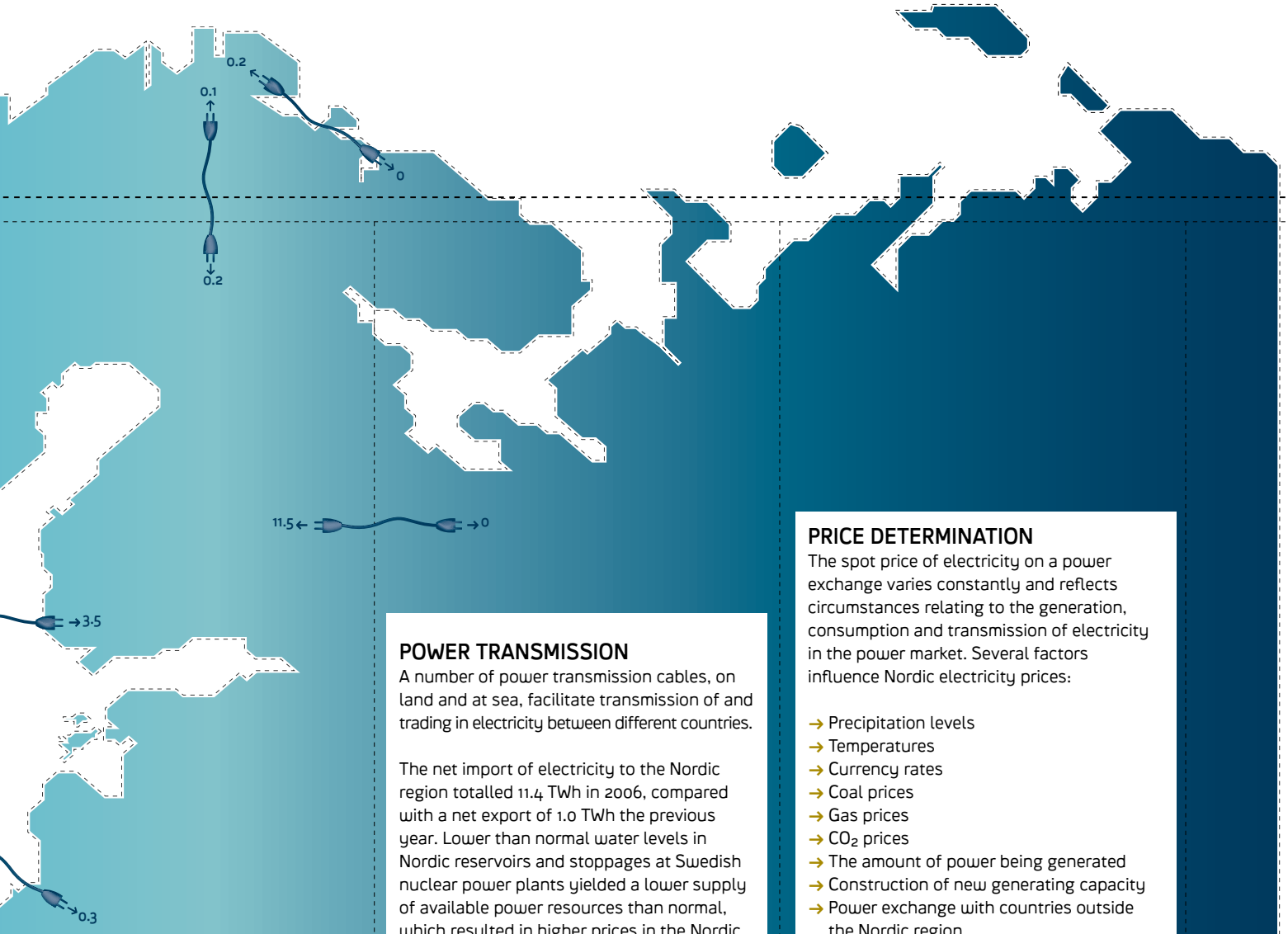


EU-25 2004: 3,154 TWh



Source (Norway/Nordic Region): Nord Pool, Svensk Energi, Finsk Energiindustri, Energinet
Source (EU-25): World Energy Outlook 2006, IEA.





POWER TRANSMISSION

A number of power transmission cables, on land and at sea, facilitate transmission of and trading in electricity between different countries.

The net import of electricity to the Nordic region totalled 11.4 TWh in 2006, compared with a net export of 1.0 TWh the previous year. Lower than normal water levels in Nordic reservoirs and stoppages at Swedish nuclear power plants yielded a lower supply of available power resources than normal, which resulted in higher prices in the Nordic region than on the Continent.

POWER TRADING AND THE CONTINENTAL POWER MARKETS

POWER GENERATORS generate electricity and sell it directly to corporate customers, to power suppliers or via a power exchange.
POWER SUPPLIERS purchase electricity on power exchanges or from generators in order to resell it to companies and private customers.
GRID OPERATORS have a monopoly on local transport and the supply of electricity to companies and consumers. Prices in Norway are regulated by the Norwegian Water Resources and Energy Directorate (NVE).

The same energy company may often, but not always, be involved in power generation, electricity sales and grid operations.

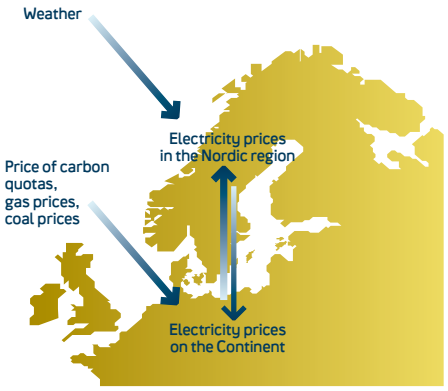
NATIONAL/REGIONAL GRID COMPANIES (in Norway: Statnett) operate the national and regional power distribution grids.
REGULATORS (in Norway: NVE) regulate the power market by means of licences and regulations.
NORD POOL is a joint Nordic exchange for the physical and financial trading of power.

PRICE DETERMINATION

The spot price of electricity on a power exchange varies constantly and reflects circumstances relating to the generation, consumption and transmission of electricity in the power market. Several factors influence Nordic electricity prices:

- Precipitation levels
- Temperatures
- Currency rates
- Coal prices
- Gas prices
- CO_2 prices
- The amount of power being generated
- Construction of new generating capacity
- Power exchange with countries outside the Nordic region
- General levels of economic activity
- Trends in power consumption over time

Improved transmission capacity between the Nordic region and the Continent means that Nordic prices are now being influenced to an increasing degree by continental prices. Nevertheless, the weather is the one factor that has the greatest effect on electricity prices in Norway. It determines the inflow of water in reservoirs and thereby also the amount of electricity that can be generated. Furthermore, it also influences power consumption.



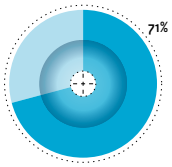
STATKRAFT'S BUSINESS AREAS

GENERATION & MARKETS

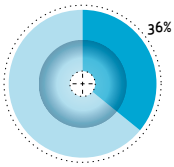
KEY FIGURES [1]

		2006	2005	2004
Gross revenues	NOK mill.	11 611	10 786	7 638
Operating profit before depreciation	NOK mill.	8 643	7 545	5 039
Operating profit	NOK mill.	7 917	6 880	4 307
Profit before financial items and tax	NOK mill.	7 906	6 853	4 307
Investments	NOK mill.	2 937	5 332	265
Full-time job equivalents	No.	760	697	685
Share of operating revenues	%	71	72	70
Share of full-time job equivalents	%	36	35	36

SHARE OF GROSS OPERATING REVENUES



SHARE OF FULL-TIME JOB EQUIVALENTS



BUSINESS

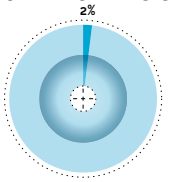
The business area's activities range from the operation and maintenance of hydropower facilities in the Nordic region to wide-ranging physical and financial power trading throughout Europe. Hydropower generating capacity totals 33 TWh. The business is growing, and in the autumn of 2007 two gas power plants will go into operation at Herdecke and Knapsack in Germany, and one gas power plant in Kårstø in Norway. Most of the business area's generating assets are flexible.

NEW ENERGY

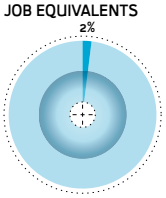
KEY FIGURES [1]

		2006	2005	2004
Gross revenues	NOK mill.	286	1 241	64
Operating profit before depreciation	NOK mill.	57	667	-52
Operating profit	NOK mill.	5	199	-70
Profit before financial items and tax	NOK mill.	9	194	-94
Investments	NOK mill.	623	619	610
Full-time job equivalents	No.	52	29	22
Share of operating revenues	%	2	8	1
Share of full-time job equivalents	%	2	1	1

SHARE OF GROSS OPERATING REVENUES



SHARE OF FULL-TIME JOB EQUIVALENTS



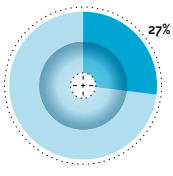
The business area is responsible for ensuring the continued growth of the Group's electricity output. Activities include the management, execution and coordination of the Group's innovation and R&D activities, as well as the development, planning and construction of hydropower, wind power and gas power facilities. The business area is also responsible for the operation and maintenance of Statkraft's wind farms.

REGIONAL

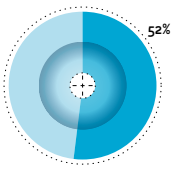
KEY FIGURES [1]

		2006	2005	2004
Gross revenues	NOK mill.	4 431	3 477	3 302
Operating profit before depreciation	NOK mill.	2 894	2 066	1 942
Operating profit	NOK mill.	2 206	1 400	1 278
Profit before financial items and tax	NOK mill.	2 786	1 812	1 539
Investments	NOK mill.	853	697	720
Full-time job equivalents	No.	1 095	1 085	1 027
Share of operating revenues	%	27	23	30
Share of full-time job equivalents	%	52	55	54

SHARE OF GROSS OPERATING REVENUES



SHARE OF FULL-TIME JOB EQUIVALENTS



The business area is responsible for Statkraft's shareholdings in other Norwegian energy companies. Subsidiaries Trondheim Energi and Skagerak Energi operate the Group's distribution grid and district heating facilities. Fjordkraft and Trondheim Energi handle power sales to private consumers and companies. The business area also has major shareholdings in Agder Energi and BKK.

[1] Does not include Group staffs and eliminations.

FACTS

- The business area owns and operates 78 hydropower plants in the Nordic region. In addition, it has a share in the output from 26 power plants operated by third parties.
- The business area's generating capacity will increase by 1,200 MW in 2007 when the three gas power plants currently under construction come on stream.
- Physical and financial trading is conducted via Nord Pool and 12 other energy exchanges in Europe. Financial trading is around five times larger than the business area's own output.
- The business area has operations in six European countries and has 791 employees with 14 different nationalities.

STRATEGY

The business area's main strategic goals are to achieve good power plant operations and make the right market decisions. The Group has posted solid results over time – based on extensive data collection, good analysis, the exploitation of the power plants' inherent flexibility, a dynamic hedging strategy and specialist competence in physical and financial power trading. Efficient operations in all areas and the further development of its competence will secure long-term value creation. The business area is systematically working to prevent work-related injuries and accidents.

The business area is preparing for the new gas power plants to go into operation and the market activities associated with this. Efforts are also being made to create synergies through closer cooperation with Trondheim Energi and Skagerak Energi's generation and trading activities. Together with other Group companies, the business area will help to identify new business opportunities for environment-friendly energy in Europe.

- The business area has increased its workforce from 24 to 52 since it was established at the start of 2005. Project development activities are growing both in the Nordic region and in the rest of Europe.
- During 2006 the emphasis on innovation and R&D was further highlighted through the establishment of the INNOSA innovation collaboration within the Group and with the associated companies Agder Energi and BKK.
- During the second half of 2007 two gas power plants in Germany (Knapsack and Herdecke) and one in Norway (Kårstø) will go into operation, as will a hydropower plant in Norway (Pålsbu).
- Following the handover of Kjøllefjord Wind Farm, Statkraft has a total of 109 wind turbines in operation. Actual output in 2006, including test operations at Kjøllefjord, totalled 499 GWh. The business area is also responsible for following up the Group's interests in Statkraft Norfund Power Invest AS (SN Power), Småkraft AS and the venture company Energy Future Invest AS.

The objective is to develop a further 16–17 TWh of new, profitable, environment-friendly electricity production in Europe by 2015. This corresponds to a 40% increase in generating capacity for the Group.

Growth in the Nordic region is expected to take place primarily in Norway. The objective is to develop a further 6 TWh of wind power and hydropower.

In the rest of Europe, the strategy is to develop hydropower projects with a combined output of 3.5 TWh, largely in Southeast Europe, as well as develop 2.5 TWh of wind power by 2015, mainly in the United Kingdom. SN Power – a 50-50 joint venture with the Norwegian Investment Fund for Developing Countries (Norfund) – develops, builds and invests in hydropower plants in Chile, Peru, Nepal, India, the Philippines and Sri Lanka.

The Group will increase its focus on innovation over the next three years. The innovation effort will have three dimensions – to increase awareness, both internally and externally, in order to intercept more ideas; to intensify the Group's efforts to develop renewable energy sources; and to develop qualified commercially-based ideas to the stage where they are attractive to investors or Statkraft's own organisation.

- Through the subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft, the business area is Norway's second largest power distribution, district heating and power sales operator:
  – 268,000 grid customers
  – 380,000 electricity customers
  – 400 GWh district heating
- Production capacity of 8.3 TWh. In 2006, one new hydropower plant was commissioned, construction of another started and a licence to build a gas power plant with carbon capture was applied for.
- Through the associated companies Agder Energi and BKK, the business area has major interests in additional power generation, distribution and sales.

Ownership of the distribution grid in Norway remains fragmented. Statkraft aims to be the most efficient operator in Norway, and to play an active role in the industry's further consolidation and modernisation.

In 2006, measures were implemented to coordinate the generating facilities' energy optimisation and hedging. This effort will continue moving forward.

Statkraft will increase its focus on power sales to companies and private consumers, and will therefore work to centralise the Group's power sales in one company.

The business area has a strong position in the district heating sector, and will focus on developing new, environment-friendly and profitable district heating projects. The business area is also considering whether to expand into new areas, such as gas distribution.

The companies have set ambitious targets for health, safety and the environment, and are currently implementing a number of measures for their achievement.

06:

150 GWh WIND POWER

Kjøllefjord Wind Farm in Finnmark is opened by the former Minister of Trade and Industry Odd Eriksen. The wind farm is the third built by Statkraft, and has an installed capacity of 39.1 MW. Its 17 wind turbines can generate up to 150 GWh per year, which corresponds to the electricity consumption of around 7,500 Norwegian households.

MORE ENERGY, SAME VOLUME OF WATER

Trondheim Energi began work on the construction of Nye Leirfossene Power Plant in Nidelven in Trondheim in spring 2006. The power plant will replace the old plants in Øvre and Nedre Leirfoss and will generate an annual mean production of 195 GWh, of which 43 GWh will be new power. The project will use the same volume of water as today, yet increase average production by 30%. The increase corresponds to the annual consumption of around 2,000 households. The project is due to be completed during spring/summer 2008. The construction will cost around NOK 390 million.

PARTNERSHIPS IN SOUTHEAST EUROPE

In Montenegro, a letter of intent is signed with the power company Elektropriveda Crne Gore (EPCG) with a view to establishing joint operations in the Montenegrin market. The objective is to identify opportunities for new power generation in the country.

In Serbia, Statkraft enters into a collaboration with the Serbian power company Elektropriveda Srbije (EPS) with the aim of identifying joint business opportunities in the areas of energy trading, new hydropower capacity and other renewable energy sources.

The agreements with these two companies highlight Statkraft's interest in the Balkan power market and contribute towards the establishment of a platform for further growth in Southeast Europe.

250 MW HYDROPOWER CAPACITY

An additional new generator is to be installed at the Svartisen power plant, almost doubling its capacity. The existing generator has a capacity of 350 MW and a mean annual output of 2.2 TWh. This corresponds to the electricity consumption of 110,000 Norwegian households. The new generator will have a capacity of 250 MW and is scheduled to go into operation by the end of 2009.

>32.7 m/s

EXTREME WEATHER POSES MAJOR CHALLENGES

Norway is experiencing hurricanes, a lack of snow, heat waves and record levels of rainfall, which has an impact on the country's electricity situation and on Statkraft.

In January, the Svartisen power plant is badly affected by repeated outages in Nordland's central distribution grid caused by the storm "Narve". The generator fails twice, most recently in October. The Svartisen power plant requires extensive repairs and is taken out of operation until March 2007.

In the mountains there is little snow, and the summer is unusually hot and dry. This results in lower than normal reservoir water levels for the time of year. Countryside associations and holiday-home owners accuse Statkraft of violating its licence conditions despite the fact that all operating licences have been complied with. At the same time consumer electricity prices rise, and with them the media's interest in the power situation.

In October, November and December, temperature and rainfall records are set across large parts of the country, and the year ends with almost normal reservoir water levels and falling electricity prices.

NEW ELECTRICITY SUPPLY CONTRACTS WITH INDUSTRY

Statkraft signs an agreement to supply Eramet Norway AS's smelting plants in Sauda and Porsgrunn with electricity at commercial rates. The agreement replaces the company's statutory-priced contract, and meets the company's requirements more precisely than the old one. The new agreement will run from 2011 to 2020, with Statkraft supplying around 9 TWh during that period.

DISTRICT HEATING TOWN

Trondheim Energi has completed the construction of a 12-kilometre district heating pipeline that runs from the Heimdal heating plant to the centre of Trondheim. When the new plant at Heimdal heating plant is completed in 2007, heating production will increase by around 200 GWh/year, which corresponds to the energy production required to heat around 15,000 households. More district heating users results in less oil-burning and less use of electricity for heating.

ESTABLISHING A PRESENCE IN THE UNITED KINGDOM

Statkraft has been working for several years to develop a portfolio of wind power projects in the United Kingdom. In 2006 a representative office was established in London in order to intensify this task.

Statkraft cooperates today with the U.S. energy company Catamount on a portfolio consisting of four wind power projects and with the British development company GreenPower with regard to a portfolio of two wind power projects. In addition, the company is assessing opportunities in the Orkney Islands with regard to both wind power and ocean energy.

1895–2006

STATKRAFT'S COMPANY HISTORY IN BOOK FORM COMPLETED

The historical work in three volumes entitled "Statens kraft" was officially launched in Oslo in December, and is being given to all Group employees. It has also been distributed to local authorities and other external contacts.

120,000

Hectares of wild countryside

HUNTING AND FISHING FOR EVERYONE

The general public's hunting and fishing rights on Statkraft's land are secured through a cooperation agreement with the Norwegian Association of Hunters and Anglers (NJFF). Statkraft is one of Norway's largest land managers, with around 2,500 properties and rights covering some 12,000 hectares (approximately 30,000 acres) of uncultivated countryside. In addition, it holds the fishing rights to 11 reservoirs and rivers.

A new hatchery is opened at Rødberg in the Nore og Uvdal district. The facility is operated by the Nore power plants, and will produce 45,000 trout fry each year. These will be used for restocking along the length of the Lågen river.

In 2006, NJFF and other local parties were invited to propose measures that would improve conditions for fishing and outdoor pursuits on watercourses regulated by Statkraft. This resulted in around 50 different measures, and in 2007 a five-year project will start implementing these.

GROWTH WITH PURE ENERGY

→ INCREASE VALUE CREATION IN POWER GENERATION AND TRADING

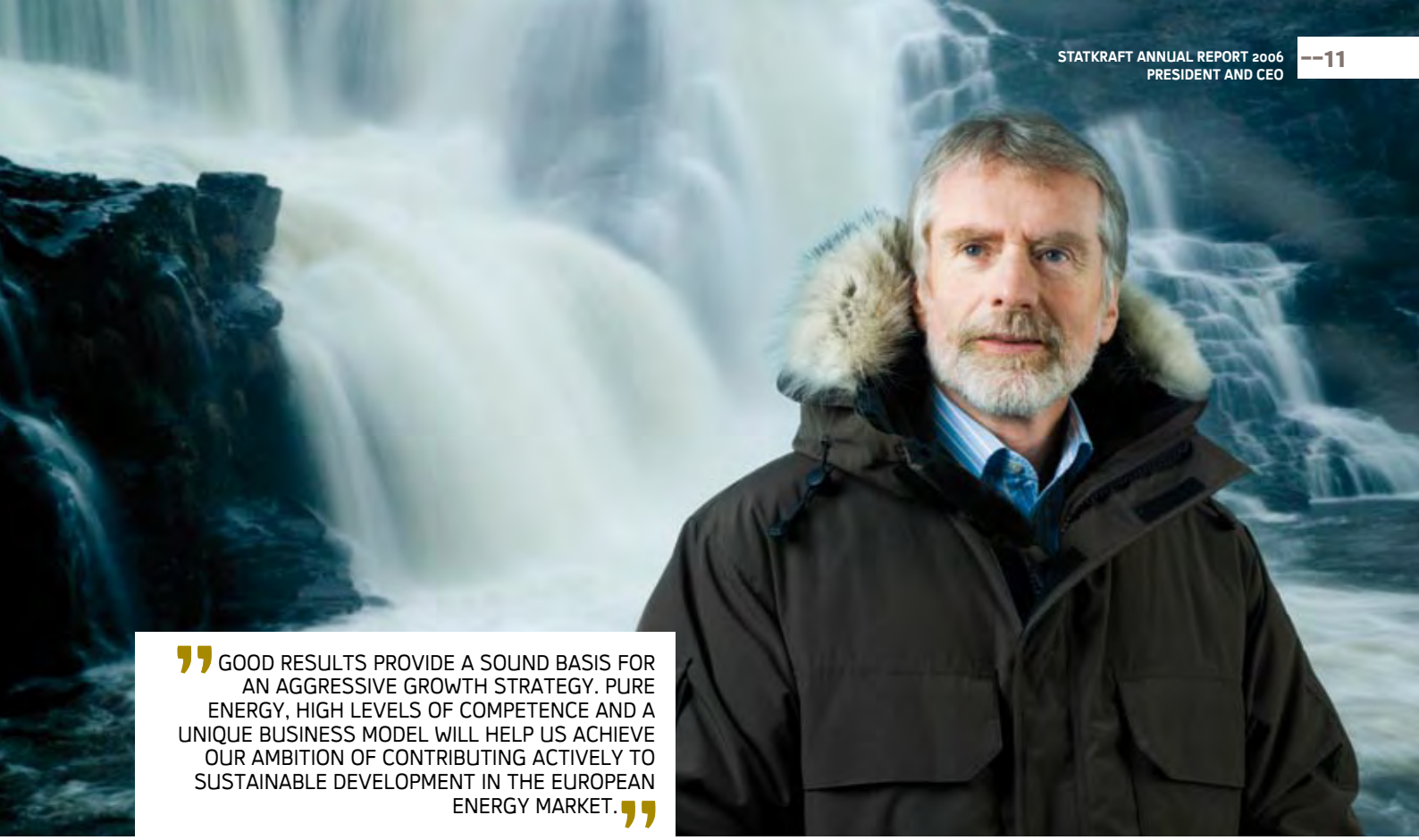
→ INVEST IN NEW, PROFITABLE POWER GENERATION IN NORWAY AND THE REST OF EUROPE

→ DEVELOP THE GROUP'S POSITIONS WITHIN DISTRIBUTION, RETAIL, AND DISTRICT HEATING

Statkraft's vision, to be a European leader in environment-friendly energy, is tailor-made for today's commercial and social reality. Sustainable development, increased security of supply and competitive energy markets are goals which underline the need for European energy companies with a focus on environment-friendly energy in open markets. Statkraft is uniquely positioned to meet these challenges and make the most of the opportunities they afford. Pure, environment-friendly energy lies at the heart of Statkraft's business enterprise and is the very foundation for the growth strategy which the Group has drawn up for the coming years.

Statkraft has comprehensive plans for the development of its business. Its current strong position is based on efficient operations and active energy trading, as well as the know-how to optimise flexible power plant production. The Group aims to increase value creation within environment-friendly power generation by further developing its existing expertise and competitive advantages. The Group's established energy trading position in Europe will also be enhanced and expanded.

Statkraft wishes to invest in profitable power generation in Norway and other European countries. Our core areas are environment-friendly hydropower, wind power and gas power. Kjøllefjord Wind Farm was opened during the autumn of 2006. During 2007 gas power plants will go into operation in Norway and Germany, and the Group's wind and hydropower project portfolio will be further expanded. This will mean the continued internationalisation of Statkraft's business, which today has co-workers in eight European countries. We also aim to use our expertise to build a global hydropower portfolio through our investment in SN Power. By generating electricity from energy sources which produce little or no greenhouse gas emissions, we can help the international community to reach its global and regional climate targets. We also aim to help develop the energy technologies of tomorrow, and the Group will increase its investment in research, development and innovation in the coming periods.



> GOOD RESULTS PROVIDE A SOUND BASIS FOR AN AGGRESSIVE GROWTH STRATEGY. PURE ENERGY, HIGH LEVELS OF COMPETENCE AND A UNIQUE BUSINESS MODEL WILL HELP US ACHIEVE OUR AMBITION OF CONTRIBUTING ACTIVELY TO SUSTAINABLE DEVELOPMENT IN THE EUROPEAN ENERGY MARKET.

Statkraft aims to offer environment-friendly energy solutions, which meet our customers' needs. We will therefore continue to strengthen the Group's position in the areas of power grid operations, retail sales and district heating. The subsidiaries Skagerak Energi and Trondheim Energi will play a key role in this as part of Statkraft's overall Group strategy. The Group's shareholdings in E.ON Sverige, Agder Energi and BKK are strategically important investments, which represent considerable value and afford considerable opportunities as we go forward.

Statkraft is a leading competence-driven energy company, and our ability to attract, retain and develop competent and motivated staff will be crucial to our capacity for growth. The development of a forward-looking business also demands that the company holds a leading position in the area of health, safety, the environment and business ethics.

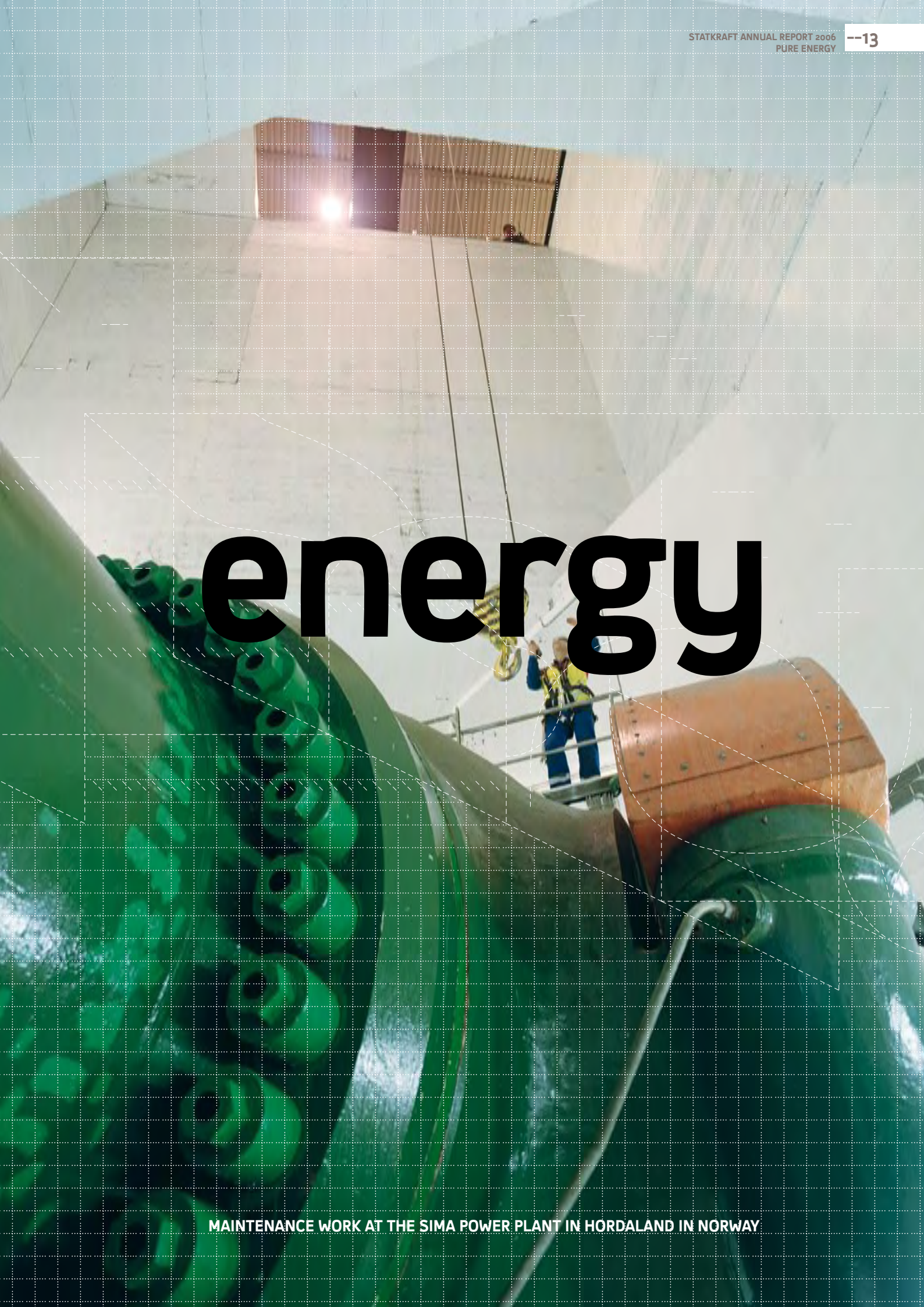
Last year we achieved our best ever financial results. Over the years the company has demonstrated its ability to provide its owner with a solid return on its assets. Moving forward, financial strength and capital sufficiency will be even more important if we are to achieve our goals.

Statkraft has a long history, which is closely linked to Norway's industrial development and its export sector. The three-volume history of electricity production in Norway, "Statens kraft", commissioned and funded by Statkraft, shows how the industry and the politically determined framework conditions have changed over the past century. Today, Statkraft is about to make its breakthrough as a European energy company. Based on our unique resources and environment-friendly energy production, competent and motivated workforce, and clear growth strategy, we are now ready to embark upon the next chapter in the Group's history – the future.

Bård Mikkelsen
President and CEO

A CENTURY OF PURE HYDROPOWER

Norway has been supplied with hydro-electric power for over a century, from long before anyone had ever heard of greenhouse gases or global warming. Today, hydropower is the foundation for the renewable and clean electricity production on which our everyday lives depend. Water is a renewable and environment-friendly source of energy, and it is our task to extract as much energy as we can out of each drop through efficient operations and the continuous modernisation of our generating facilities.



energy

MAINTENANCE WORK AT THE SIMA POWER PLANT IN HORDALAND IN NORWAY


modern

FROM STATKRAFT'S WIND FARM AT HITRA IN NORWAY

energy

WIND POWER IS THE ENERGY OF THE FUTURE

Norway has a vast coastline, with strong and stable wind conditions that are made for wind power production. Each year, Statkraft's wind farms generate enough power to meet the electricity needs of almost 40,000 households. The latest addition is Kjøllefjord Wind Farm, which went into operation in the autumn of 2006. Wind power is the energy of the future – pure and 100 per cent renewable.

GAS POWER BUILDS A BRIDGE TO TOMORROW'S SUSTAINABLE ENERGY SUPPLY

Electricity generation in Europe is largely based on coal and oil. Gas power is more efficient and generates much less pollution, and is therefore a far more environment-friendly alternative. Statkraft has invested in the establishment of three gas power plants, two in Germany and one in Norway, all of which will come on stream in 2007. The gas power plants are being built with the best available technology, and will have a combined capacity of around 1,600 MW.

european

energy

CONSTRUCTION OF THE KNAPSACK GAS POWER PLANT IN GERMANY

INNOVATION FOR TOMORROW'S ENERGY SOLUTIONS

Statkraft is Europe's second largest producer of renewable energy. This is our starting point for a major programme of innovation, whose objective is to deliver the energy solutions of tomorrow. We are working continuously to expand our competence within the development and operation of environment-friendly generating facilities, and to acquire new, forward-looking production capacity with little or no greenhouse gas emissions. Our aim is to achieve a sustainable balance between environmental, social and economic considerations. For us, a focus on pure energy is the most natural thing in the world.

energy

A MEMBER OF THE TECHNICAL DEPARTMENT'S STAFF AT STATKRAFT'S HEAD OFFICE IN OSLO

REPORT FROM THE BOARD OF DIRECTORS

2006 was a very good year for Statkraft. Gross operating revenues rose by 8 per cent to just over NOK 16 billion. Profit before tax rose by 16 per cent to NOK 9.8 billion. Profit after tax totalled NOK 6.3 billion, 12 per cent up on the year before. The improvement can be ascribed to good power optimisation and high electricity prices. Although overall output was higher than normal, volumes were lower than the year before. 2006 was unusual in many ways. Substantial variations in the weather, with little precipitation in the first nine months followed by heavy rainfall towards year end, represented a considerable challenge with regard to power optimisation and trading. A number of storms also resulted in damage to the Group's generating assets and infrastructure, which at times made operations difficult. Despite this, the company was able to operate efficiently. Statkraft's strong performance is a product of the hard work put in by its skilled workforce throughout a challenging year. The Group continued to position itself in anticipation of an integrated European electricity market by means of letters of intent and the establishment of offices in Southeast Europe and the United Kingdom, as well as the construction of gas power plants in Germany. Outside Europe, Statkraft continued to expand through SN Power.

Important events

Statkraft currently has three gas power plants under construction – two in Germany and one in Norway – which are expected to be completed during the second half of 2007. Together, the three gas power plants will increase the Group's production capacity by 1,200 MW. The Group is also building two hydropower plants – Pålsbu and Leirfossene. The Pålsbu facility is expected to be completed during the second half of 2007, while the Leirfossene plant is scheduled for completion in the summer of 2008. The two hydropower plants will increase their combined annual output by around 65 GWh.

Kjøllefjord Wind Farm went into test production in October. This is Statkraft's third wind farm. The 17 wind turbines are expected to have an annual output of 150 GWh.

In 2006 Statkraft's subsidiary Trondheim Energi completed the construction of a 12 kilometres district heating pipeline from the Heimdal central heating plant to the centre of Trondheim. The associated expansion of the central heating plant is expected to be completed during the third quarter of 2007. The output of the new line of incinerators is approximately 200 GWh.

In July Statkraft signed a long-term contract to supply electricity to Eramet Norway AS during the period 2011–2020. Statkraft will supply around 9 TWh of electricity during the term of the contract, which represents the bulk of the power consumed by Eramet's smelting plants in Sauda and Porsgrunn. The agreement replaces existing statutory-priced industrial contracts.

In January the Svartisen power plant was damaged by a severe storm, "Narve", which led to a production stoppage in August. Although it went briefly back into operation, the plant was again shut down in October. By the beginning of November it had become clear that the power plant would be out of operation until mid-March 2007. The Group has decided to invest in an additional generator in the plant.

In the first quarter Statkraft opened a trading office in Bulgaria to expand its trading opportunities in Southeast Europe, and a subsidiary in the United Kingdom to develop wind power projects in Britain.

Statkraft also signed letters of intent relating to the development of new hydropower production with the state-owned power companies in Montenegro and Serbia during the year.

Financial results [1]

Annual profit

Profit before tax totalled NOK 9,826 million in 2006 (NOK 8,449 million), while profit after tax totalled NOK 6,285 million (NOK 5,620 million).

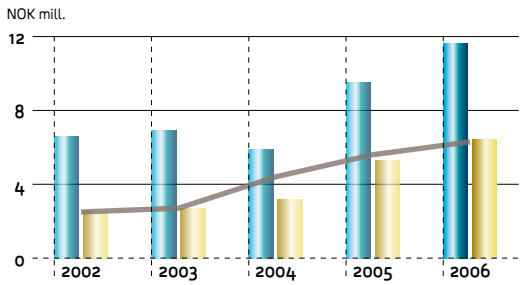
Net non-recurring expenses totalled NOK 140 million before tax and NOK 118 million after tax in 2006, compared with a net non-recurring income of NOK 342 million before tax and NOK 277 million after tax in 2005. Net profit from ordinary activities before non-recurring items therefore totalled NOK 9,966 million before tax (NOK 8,107 million) and NOK 6,403 million after tax (NOK 5,343 million).

Return on investment

All the performance indicators for return on invested capital show an improvement from 2005 to 2006. Adjusted for non-recurring items, return on average capital employed (ROACE) in 2006 totalled 23.7% before tax (19.3%). Statkraft's target for ROACE in 2007 is 16%. Return on equity, after tax and adjusted for non-recurring items, totalled 16.3% (13.5%), while return on total capital came to 8.4% (7.8%).

[1] Figures in brackets show comparative figures for 2005.

EBITDA AND NET PROFIT, ORDINARY OPERATIONS *



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

Operating revenues

The average spot price of electricity rose by NOK 156/MWh in 2006 to NOK 391/MWh. This can largely be ascribed to low levels of inflow into the hydropower reservoirs in Norway and Sweden, stoppages at Swedish nuclear power plants and high fuel prices for thermal power production. Prices remained consistently high throughout the year, with record price levels being achieved in nine of the year's 12 months. However, towards the end of the year prices fell sharply as a result of higher than normal precipitation levels. In December the spot price was much the same as the corresponding month in 2005. The Group had gross operating revenues of NOK 16,225 million in 2006 (NOK 15,021 million). The NOK 1,204 million increase can largely be ascribed to high prices. Output fell from 48.5 TWh in 2005 to NOK 45.7 TWh in 2006, though this was still higher than in a normal year. The net effect of higher spot prices and reduced volume was that revenues from spot sales rose by just over NOK 2.9 billion compared with 2005. High spot prices resulted, however, in a considerable fall in the value of forward contracts compared with 2005. Revenues from hedging activities were thus considerably lower, resulting in a decline of NOK 1.4 billion.

Group-wide statutory-priced power sales to industry totalled 13.1 TWh, which resulted in revenues that were NOK 3.4 billion less than they would have been had the same volume of electricity been sold at spot prices.

Other operating revenues totalled NOK 3,153 million in 2006 (NOK 3,635 million). The reduction from 2005 can be ascribed to a NOK 1,006 million non-recurring item which was taken to income in 2005. The sum in question was received from Nuon in compensation for the cancellation of an agreement to purchase green certificates from the Smøla and Hitra wind farms. The underlying increase is due to higher revenues from Baltic Cable and from the end-user market and district heating in Trondheim Energi.

Compared with 2005, power transmission costs rose by NOK 222 million as a result of a sharp increase in the variable portion of the transmission tariff due to higher electricity prices.

Operating costs

Operating costs totalled NOK 5,304 million in 2006, NOK 595 million less than the year before. The fall is primarily due to the fact that NOK 278 million in stamp duty linked to Statkraft's reorganisation into a limited company status was charged as expenses in 2005,

MARIT BÜCH-HOLM
DEPUTY CHAIR
BORN: 1952
POSITION: Senior Credit Manager, Nordea Bank Norge ASA
EDUCATION: MSc in Economics and Business Administration
BOARD MEMBER SINCE: 1994, Chair of Statkraft's Audit Committee and member of Statkraft's Compensation Committee

ARVID GRUNDEKJØN
CHAIR
BORN: 1955
POSITION: Self-employed
EDUCATION: Lawyer and MSc in Economics and Business Administration
BOARD MEMBER SINCE: 2004, Chair of Statkraft's Compensation Committee
OTHER DIRECTORSHIPS: Chair of the Anders Wilhelmsen Group, Anders Wilhelmsen & CO AS and Creati AS; Director of Royal Caribbean Cruises Ltd

as well as a NOK 361 million write-down in the value of the Smøla and Hitra wind farms. In 2006 non-recurring costs of NOK 46 million were recorded in connection with Statkraft's above-mentioned reorganisation.

Compensation and license fee payments changed only marginally, while depreciation was reduced by NOK 357 million. Adjusted for the write-down of the wind farms in 2005, depreciation in 2006 was more or less unchanged from the previous year. Property tax rose by NOK 106 million as a result of the periodic revaluation of the basis for the tax calculation.

Payroll and salary costs fell by NOK 29 million compared with 2005. NOK 84 million was charged in 2005 to expenses following a recalculation of the Group's pensions liability. The increase in underlying payroll costs can be ascribed partly to increased manning levels associated with new business activities and acquisitions, as well as to ordinary pay rises.

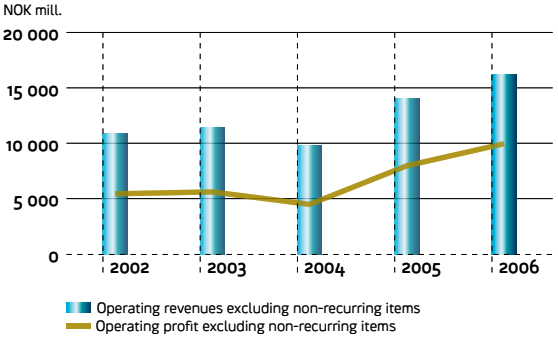
Other operating costs were NOK 305 million lower in 2006 than the year before. Adjusted for non-recurring expenses associated with stamp duty, operating costs rose by NOK 86 million, as a result of new business in Sweden and Finland and activities associated with the gas power plants being built in Germany. Other operating costs incurred by other business activities fell by around NOK 160 million. Much of this reduction can be ascribed to the fact that, with effect from 2006, a larger proportion of periodic maintenance costs has been capitalised and will be depreciated over the period until the next round of maintenance work. This is an adaptation to IFRSs. With an identical level of maintenance, the change will result in a permanent reduction in other operating costs associated with ordinary operations, which will be offset by a gradual increase in depreciation.

Operating profit

Statkraft made an operating profit of NOK 9,952 million in 2006 (NOK 8,375 million). This represents an increase of 19%. The Generation & Hedging segment contributed 94% of the Group's operating profit. Grid Operations and Trading & Origination contributed 6% and 3% respectively. Other segments and shared services either broke even or made a slight loss, making an overall negative contribution to profit of 3%.

Adjusted for non-recurring items, operating profit totalled NOK 9,998 million (NOK 8,008 million), an increase of 25%.

OPERATING REVENUES AND OPERATING PROFIT, ORDINARY OPERATIONS*



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

GUNN WÆRSTED
BORN: 1955
POSITION: President and CEO Sparebank 1 Gruppen AS
EDUCATION: MSc in Economics and Business Administration
BOARD MEMBER SINCE: 2005
OTHER DIRECTORSHIPS: Chair of Ferd Holding AS, Norwegian Financial Services Association (FNH), Stiftelsen Trygt Samfunn and subsidiaries of Sparebank 1 Gruppen AS

OLAV FJELL
BORN: 1951
POSITION: CEO Lindorff Group
EDUCATION: MSc in Economics and Business Administration
BOARD MEMBER SINCE: 2005
OTHER DIRECTORSHIPS: Chair of Deep Sea Supply ASA, Concedo ASA and Franzefoss AS; Director of Kristian Jebsens Rederi AS and SPT AS

ODD VANVIK
BORN: 1952
POSITION: Employee representative for the Statkraft Group
EDUCATION: Master craftsman
BOARD MEMBER SINCE: 1993, employee representative, member of Statkraft's Compensation Committee

Share of profits from associated companies

Statkraft's share of the profit from associated companies totalled NOK 1,689 million in 2006 (NOK 1,577 million). The increase from 2005 can largely be ascribed to the improved performance of BKK and Agder Energi, whose combined contribution rose by NOK 169 million. Statkraft's share of the profit from E.ON Sverige fell by NOK 89 million. Statkraft's share of the profit from E.ON Sverige is based on an estimate for the fourth quarter. The underlying reduction is larger because E.ON Sverige's 2005 figures include non-recurring costs associated with the repair of hurricane damage. Statkraft's share of these costs was NOK 359 million. E.ON Sverige's weaker performance can be ascribed to lower hydropower output and stoppages at some of its nuclear power plants. E.ON Sverige contributed NOK 1.1 billion (NOK 1.2 billion) of Statkraft's total share of the profits from associated companies. Statkraft owns 44.6% of the shares in E.ON Sverige, whose majority shareholder is the German company E.ON. Statkraft has an option to sell its shares in the company to E.ON by the end of 2007 for just over EUR 2 billion. Given the current market outlook, Statkraft's board of directors estimates its investment to be worth considerably more than this and the option is not expected to be exercised.

Net financial expenses

Net financial expenses for the year as a whole totalled NOK 1,816 million (NOK 1,504 million). The increase is due to the fact that a net gain of NOK 334 million was taken to income in 2005 in connection with the sale of Hedmark Energi Holding AS. Additionally hedging contracts related to future euro cash flows generated an unrealised loss of NOK 260 million in 2006, while similar hedging contracts in 2005 resulted in an unrealised gain of NOK 60 million. Hedging activities have a contra-entry under power sales revenues. A reduction in average debt and lower current interest on the debt portfolio compared with 2005 helped to reduce gross financial expenses. Repayment of state-guaranteed loans has also led to a reduction in the guarantee premium payable to the Norwegian state. At the end of the year, the overall portfolio of state-guaranteed debt totalled NOK 15.3 billion, compared with NOK 20.2 billion at the end of 2005.

The average interest rate payable on loans in SEK was 2.5%. Average interest on loans in NOK totalled 4.3%. Including accrued losses on previously cancelled interest rate swaps, the interest rate payable on Statkraft's NOK debt was 6.6%. Interest rate swaps were cancelled in 2004 and 2005 as part of a restructuring of the interest rate portfolio in order to increase the proportion of debt held at floating interest rates. At the end of the year, just over half of Statkraft's NOK debt and all of its SEK debt was held at floating interest rates.

Taxes

A total of NOK 3,541 million in taxes were charged to expenses in 2006 (NOK 2,829 million). The effective tax rate was 36.0%, compared with 33.5% in 2005. The increase in the effective tax rate can largely be ascribed to increased resource rent tax, which is primarily due to higher average spot prices. Resource rent tax totalled NOK 1,148 million (NOK 680 million).

The level of dividend stipulated in the Norwegian national budget is expected to trigger the imposition of a corrective tax in the region of NOK 36 million. A corrective tax is imposed when the size of the dividend paid means that untaxed revenues are taken out of the company as dividend.

Cash Flow and equity

Operating activities generated a positive cash flow of NOK 7.5 billion in 2006. Short and long term tied capital increased by NOK 2.0 billion net, with cash collateral being the largest item. A total of NOK 1.1 billion in dividends for 2005 was received from associated companies. The net cash flow from operating activities therefore totalled NOK 6.5 billion.

A total of NOK 3.6 billion was invested in measures to increase generating capacity during 2006. The largest items were NOK 1.7 billion invested in gas power projects in Germany, NOK 0.4 billion invested in Trondheim Energi's district heating project and NOK 0.3 billion in Kjøllefjord Wind Farm. NOK 1.2 billion was invested in other property, plant and equipment.

NOK 0.8 billion was used to purchase shares in other companies. The largest such investments were NOK 0.4 billion in Naturkraft AS and NOK 0.3 billion in SN Power.

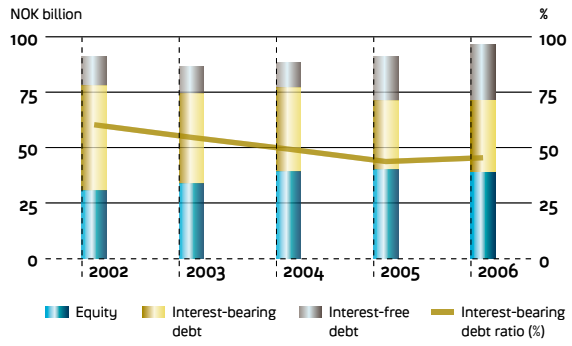
A net total of NOK 4.4 billion was used for investment activities during the year.

Statkraft raised new loans totalling NOK 6.6 billion in 2006 and repaid NOK 5.4 billion in debt. NOK 1.2 billion was paid to minority shareholders in the subsidiary Skagerak Energi in connection with a capital reduction and extraordinary dividend. A further NOK 4.8 billion was paid to Statkraft SF in respect of dividends for 2005. At the end of the year Statkraft had cash and cash equivalents of NOK 1.8 billion (NOK 4.4 billion).

At the end of the year interest-bearing debt totalled NOK 32.5 billion (NOK 31.3 billion), giving the Group an interest-bearing debt ratio of 45.6% (43.9%). Debt in SEK amounted to the equivalent of NOK 17.6 billion of Statkraft's total interest-bearing debt, including the effect of cross currency swaps. The remaining debt is largely in NOK. Current assets, excluding cash and cash equivalents, totalled NOK 5.0 billion, while short-term interest-free liabilities totalled NOK 13.0 billion.

In 2006 the credit rating agency Moody's maintained Statkraft's long-term credit rating at Baa1, with "stable outlook". Standard & Poor's rating is BBB+, with "stable outlook".

EQUITY AND LIABILITIES *



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

At the end of 2006 Statkraft's equity amounted to NOK 38.8 billion, corresponding to 40.2% of total capital after provisions for dividend (44.0%). The decrease in equity can largely be ascribed to a reduction

in minority interests resulting from Skagerak Energi's capital reduction. An increase in the company's total assets from NOK 91 billion to NOK 97 billion also explains the fall in the equity ratio.

Going concern

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

Statkraft's business

The Statkraft Group is the third largest electricity generator in the Nordic region, and Europe's second largest producer of renewable energy. With offices in the Nordic region and on the Continent, the Group is a major participant on Europe's electricity exchanges and has considerable expertise in the fields of physical and financial power trading. Through its shareholdings in Norwegian regional power utilities, Statkraft is also engaged in power grid operations and retail sales.

Vision and strategy

In 2006 Statkraft revised its strategic platform, defining the Group's objectives and direction for the period 2007 to 2009. The business will be developed in line with Statkraft's vision of being a European leader in environment-friendly energy. The strategy focuses on the fact that Statkraft shall play an active role in the sustainable development of the European energy market. Statkraft will therefore work to:

- develop world-class expertise in the development and operation of environment-friendly generating capacity
- develop world-class expertise in the optimisation of flexible power plants
- develop the Group's strong position within the European energy trading market
- offer the environment-friendly energy solutions of tomorrow which will meet the customers' requirements
- be among the best international energy companies with regard to HSE and business ethics

Statkraft's revised strategic platform also now includes an active Group strategy for the development of grid, power sales and district heating assets in Norway.

The Group will continue to give priority to increasing the profitability of its power generation and trading activities, and to investing in new and profitable electricity generating capacity in Norway and in the rest of Europe. New investments will have a strong focus on environment-friendly generating capacity. Statkraft will increase its efforts within the areas of innovation, research and development, which represent the main focus areas of the New Energy business area.

Business principles and code of conduct

"Doing the Right Thing at Statkraft" is a document which brings together the company's business principles, principles for corporate governance and employee code of conduct. Together with the Group's vision, business idea and values, "Doing the Right Thing at Statkraft" lays down the overarching guidelines for Statkraft's business management.

Statkraft's business principles describe a value creating, environment-friendly, socially responsible and competence-building company. Its employee code of conduct lays down the attitudes and behaviours which Statkraft expects of each employee with regard to value creation, loyalty, impartiality, good business practice and respect for the individual. The company established an Ethics Council in 2006, which is managed by the head of Statkraft's internal audit function. This is an independent forum which, although unable to make decisions on its own, is a body that employees can safely turn to for advice on ethical issues.

In 2006 "Doing the Right Thing at Statkraft" has been followed up with awareness-building and educational programmes, such as dilemma training and management training courses. The Group emphasises the fact that good business practice is crucial to its ability to secure the necessary basis for growth and development.

Corporate governance

Statkraft's principles for corporate governance regulate the relationship between its owner, board of directors and management. As a state-owned company Statkraft complies with the Norwegian recommendation relating to corporate governance. Since Statkraft is not a publicly listed company and has the Norwegian state as its only shareholder, it diverges from the recommendation with respect to the non-discrimination of shareholders and the tradability of shares, the annual general meeting and the nomination committee.

In 2006 Statkraft set up an Audit Committee to facilitate the board's deliberations and decisions regarding the company's financial reporting, internal control and auditing. Statkraft had previously established a compensation committee, which makes recommendations to the board with regard to the salary and other benefits paid to the President and CEO, as well as matters of principle related to salary levels, bonus systems and pension terms for the company's employees.

The board of directors

The board of directors retained the same membership in 2006. The Chair and directors of Statkraft AS are identical to the Chair and directors of Statkraft SF. The board met 11 times during the year.

In 2006 the board carried out a review of the company's strategy. Statkraft is well positioned to embark upon an active growth strategy in the period 2007 to 2009, both in Norway and abroad.

In addition to monitoring ongoing operations, a large part of the board's time has been devoted to following up the major construction projects which the company currently has in hand, the further integration of the Group's operations and the intensification of its efforts to develop new technologies and project opportunities.

Risk

For several years Statkraft has been using and refining a management model which encompasses the interface between strategy, operational management and follow-up. The model focuses on the drivers affecting the Group's earnings and further development. Scorecards for the Group, the individual company and business unit break down Statkraft's overarching goals into a series of measurable performance indicators, and form the core of the Group's performance management system. In addition to the scorecards, forecasts, cost targets and past accounting trends are also used.

Statkraft is exposed to risk in all parts of its business. Risk management is an integral part of all business activities and is followed up

within the individual units by means of procedures for the monitoring and mitigation of risk. Furthermore, risk is monitored by independent units both at business unit and group level.

Statkraft divides risk into four main categories: market risk, financial risk, operational risk and other risks. Market risk is associated with power generation and trading. In the Nordic market, precipitation levels (rain and snow) and temperature are of great significance and lead to considerable fluctuations in both prices and output volumes. However, earnings fluctuations are mitigated by the fact that prices are generally negatively correlated to available production volume. However, in recent years the Nordic electricity market has been strongly influenced by fuel and carbon quota prices. Statkraft operates an active risk management strategy and makes extensive use of forward contracts and other physical and financial instruments to hedge its income. For both hedging and trading purposes, internal guidelines have been established to regulate the degree of exposure. These include specific mandates and exposure limits.

Statkraft uses interest rate and currency instruments to manage its financial risk. Interest rate swaps are used to achieve the desired interest rate structure on its borrowing portfolio. In addition, future rate agreements (FRA) are used to manage floating interest rate risk. Interest rate and currency swaps are used to achieve the desired currency profile on the company's borrowing portfolio. Mandates and limits have been established for interest and foreign exchange exposure, as well as liquidity and credit risk.

Operational risk is dealt with largely by means of procedures, contingency plans and insurance. Other risk is primarily associated with general framework conditions and political decisions.

Environment-friendly operations

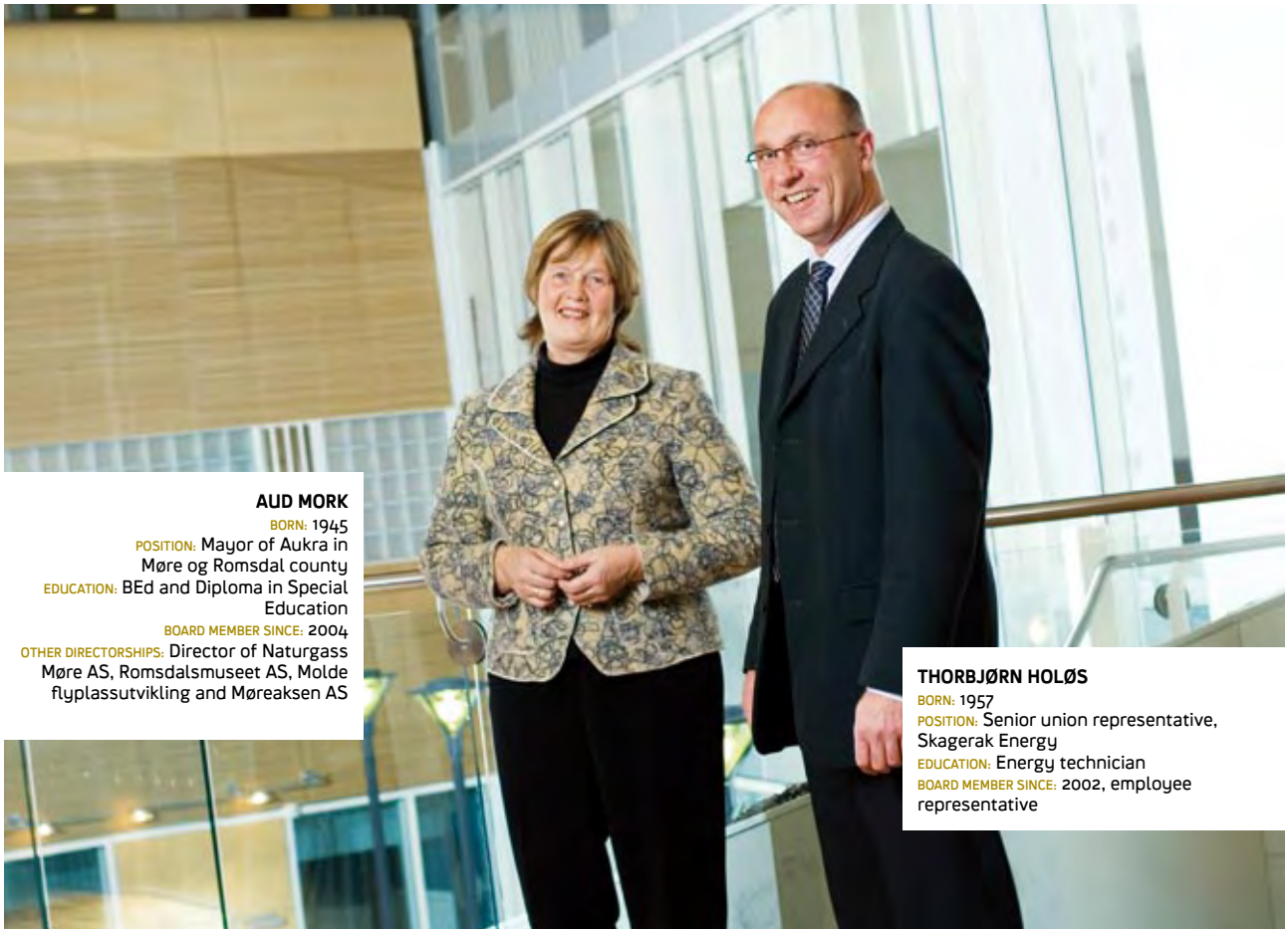
Statkraft's contribution to the environment is threefold: helping to supply Europe with environment-friendly energy, ensuring sustainability of natural resources and limiting the environmental impact of the company's operations. Sustainability is of key importance in the Statkraft Group's business strategy, and environmental work is characterised by openness and a willingness to learn in order to avoid undesirable events.

Impact on the environment

Sustainability and environmental concerns are integral to Statkraft's management systems, day-to-day operations and construction projects. Statkraft's environment management system clarifies the Group's targets, priorities and measures in the environmental area. This system currently covers hydropower and wind power facilities in certain subsidiaries. Statkraft Energi AS, Statkraft Development AS and Statkraft Suomi Oy are certified in accordance with the ISO 14001:2004 standard.

The most important environmental aspects of the Group's operations are defined as intervention in the landscape and river systems, energy and resource consumption, waste management, local pollution and greenhouse gas emissions. The Group's overarching environmental targets reflect its vision of being a leader in environment-friendly energy. One such target is the identification of greenhouse gas emission profiles for all technologies in use by the company. The environmental impact of the company's electricity generating operations is evaluated on an ongoing basis.

Almost all of the electricity generated by the Statkraft Group is based on the renewable energy sources wind and water. When



AUD MORK
BORN: 1945
POSITION: Mayor of Aukra in Møre og Romsdal county
EDUCATION: BEd and Diploma in Special Education
BOARD MEMBER SINCE: 2004
OTHER DIRECTORSHIPS: Director of Naturgass Møre AS, Romsdalsmuseet AS, Molde flyplassutvikling and Møreaksen AS

THORBJØRN HOLØS
BORN: 1957
POSITION: Senior union representative, Skagerak Energy
EDUCATION: Energy technician
BOARD MEMBER SINCE: 2002, employee representative

the three gas power plants in which Statkraft has a stake go into operation this picture will change. Natural gas is not a renewable resource, and the gas power plants will produce carbon dioxide emissions. Nevertheless, they will have a positive impact on the environment, since they will help to limit Europe's overall greenhouse gases emission levels. Statkraft is actively engaged in the trading of carbon quotas and green certificates.

In 2006 Statkraft met its goal of achieving zero serious environmental non-compliances. One serious environmental incident occurred – collisions between sea eagles and the wind turbines at Smøla Wind Farm. There were also 18 less serious environmental non-compliances, the majority of which related to brief violations of minimum water flow requirements. All environmental non-compliances and incidents in the Group are recorded, reported and carefully followed up. A project designed to reveal and reduce the risk of environmental non-compliances has been initiated in the business area Generation & Markets.

Statkraft experienced one serious environmental non-compliance in 2005 at Trollheim power station, where a generator breakdown resulted in a reduced flow of water and the stranding of fish fry. The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) investigated the incident. In March 2007 Statkraft was fined NOK 1.5 million and profits of NOK 2 million were confiscated. The company decided not to contest these decisions.

Statkraft places great emphasis on reducing its operations' consumption, emission and waste levels. In 2006 the business generated 267 tonnes of hazardous waste and 2,154 tonnes of other waste. All hazardous waste is dealt with in line with applicable regulations. In 2006 the Statkraft Group adopted the government's national target of 80% recycling by 2010. In 2006 the Group had a recycling rate of 55%.

The workplace

Good performance monitoring, appropriate support systems and a clear corporate culture will help to enhance Statkraft's position as an attractive and secure workplace. In 2006 the harmonisation of Trondheim Energi into the Group's key business systems has been in strong focus.

Working environment

At the end of 2006 the Group's workforce totalled the equivalent of 2,087 full-time jobs, an increase of 116 compared with the end of 2005. This can largely be ascribed to business expansion, such as the establishment of operational organisations at the German gas power plants, increased focus on developing projects for new generating capacity, as well as innovation and business development. The Group's workforce is expected to continue growing in 2007. On average Statkraft's employees are 47 years' old and have worked for the company for 16 years. Excluding retirement, Statkraft had an employee turnover rate of 2.7% in 2006.

Statkraft carries out an annual organisational and management survey, whose results have been uniformly good. The survey achieves a very high participation rate. Among business undergraduates Statkraft is ranked as Norway's 33rd most popular employer, while engineering students rank the company in 41st place. This is a downturn compared with last year's survey, and reflects the currently tight labour market. The Group offers an attractive trainee programme, and had 14 trainees on its payroll in 2006.

HALVOR STENSTADVOLD
BORN: 1944
POSITION: Consultant
EDUCATION: Master of Political Science
BOARD MEMBER SINCE: 2003, member of Statkraft's Audit Committee
OTHER DIRECTORSHIPS: Chair of Oslo Børs Holding ASA and Borregaard Skoger AS; Director of Storebrand ASA

ASTRI BOTTEN LARSEN
BORN: 1964
POSITION: Senior Engineer, Statkraft
EDUCATION: Master of Mechanical Engineering, Diploma in Business Studies
BOARD MEMBER SINCE: 2002, employee representative, member of Statkraft's Audit Committee

Statkraft operates three management development programmes tailored to suit different requirements and levels. The Group places an emphasis on developing young talent. Internal mobility is encouraged as an important tool for skills development.

Health and safety

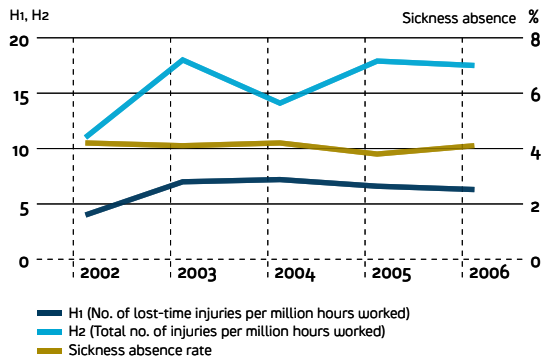
Statkraft's stated goal is for no accidents to occur in connection with its operations. The Group's safety culture will be further enhanced through clear leadership, responsible involvement and a strategy of continuous improvement. Most injuries are caused by individual behaviour. Statkraft's corporate culture must therefore be characterised by openness and a willingness to learn from mistakes, near misses and hazardous conditions. Statkraft's focus on HSE in 2006 was reinforced with additional resources and the appointment of an SVP HSE at group level.

In 2006 the H1 lost-time injury indicator ended the year at 6.3, slightly less than the 6.6 achieved in 2005. The target for H1 has now been set at zero. Both the overall number of injuries (H2) and the number of days lost in connection with injuries (F) were reduced from 2005 to 2006.

Statkraft's focus on safety will be further intensified in 2007 in order to ensure the full commitment of suppliers and associates in Norway and abroad, after four fatal accidents occurred in associated companies during 2006.

The Group had a sickness absence rate of 4.1% in 2006, compared with 3.8% in 2005. The target is to achieve a sickness absence rate of under 4%. All the Group's Norwegian companies participate in the government's Inclusive Working Life (IA) scheme, which involves the active follow-up of those on sick leave and close cooperation with the company's health service. Neither employee surveys nor the companies' own evaluations indicate that there is any link between the rise in the sickness absence rate and the working environment. In order to reduce sickness absence, Statkraft has initiated a long-term campaign called "Energy for Life", whose aim is to encourage a healthy lifestyle as well as activities designed to improve health.

INJURIES AND SICKNESS ABSENCE



Equality

Statkraft wishes to achieve a better gender balance within the Group and a higher proportion of women in management positions. Women make up 22% of the workforce, while 17% of managers are women, up from 16% in 2005. Women constitute 29% of Group management and 44% of the board of directors. Three of the shareholder-elected directors are women, as is one of three employee representatives. The board monitors the company's efforts to promote the gender balance on an ongoing basis. This also includes ensuring that the boards of subsidiaries and companies in which Statkraft has substantial shareholdings meet statutory requirements with respect to gender balance.

Statkraft embraces workforce diversity and pursues a policy of non-discrimination with regard to recruitment and personnel issues. The Statkraft Group has employees from over 20 countries, and ensures that candidates from ethnic minorities have the opportunity to compete for relevant job vacancies. Statkraft makes sure that freedom of expression and labour rights are upheld throughout the organisation.

A member of society

Contribution to society

The international community's focus on climate change is increasing the demand for environment-friendly energy. For Statkraft, whose output already contributes towards sustainable energy supplies, this opens up new business opportunities. The Group generates substantial economic benefits both directly and indirectly. Moreover, the Group places great emphasis on making a positive contribution to the communities in which it operates.

The safe generation and supply of energy has a high priority, and is important for society at large. The Group is a major generator and distributor of electricity, and places great emphasis on operational safety and responding rapidly to any serious unplanned incidents. Emergency response plans were implemented following the storm "Narve" in January 2006. The Group's continuous efforts to develop new production capacity also help to safeguard long-term security of supply.

Less the cost of goods and services used, Statkraft generated a total of NOK 13.7 billion in value added in 2006. Borrowing expenses accounted for NOK 2.1 billion of this, mainly interest paid to lenders, while NOK 0.3 billion was retained by the company. NOK 11.3 billion was paid to central and local government and the employees: NOK 5.6 billion in dividend and Group contribution, NOK 4.6 billion in taxes and NOK 1.1 billion in salaries.

Stakeholder dialogue

For Statkraft it is important to maintain a constructive dialogue with all stakeholders, particularly those in the local communities in which the Group has generating assets and those involved in projects to develop new environment-friendly energy. As it expands in Europe, particular emphasis is placed on the importance of good business practice and the establishment of the same routines for stakeholder dialogue that exist in the Group's Norwegian businesses. This applies equally to business activities taking place outside Europe through SN Power.

Surveys show that the Norwegian public knows relatively little about Statkraft. Among professional stakeholders, such as policy-makers and the financial services sector, the results reveal a good overall impression of the company. A good reputation is important to Statkraft's ability to reach its business goals. Moving forward, the Group will mobilise to ensure that its brand names are recognised by priority target groups. Brand building will also reflect the increased level of harmonisation between Group companies, e.g. with regard to graphic design.

Customers in focus

The Group sells electricity to around 380,000 private consumers and companies, and has around 270,000 grid customers through its shareholdings in Trondheim Energi and Skagerak Energi, as well as Fjordkraft. Trondheim Energi and Skagerak Energi have achieved good customer satisfaction rates, which exceed the targets both companies have set themselves. Statkraft will in future take a more group-wide approach to the retail sales market and will continue to intensify its strategic focus on the market concepts and good customer dialogue.

Framework conditions

During the autumn of 2006 the Norwegian government announced proposals for a new incentive scheme for the development of renewable energy. The proposal is not as good as the industry had expected, and it is uncertain whether the new scheme will be sufficiently attractive to trigger major wind power investments in Norway. The incentive scheme must be approved by the EFTA Surveillance Authority (ESA) before it can be implemented.

The length of time it takes the Norwegian Water Resources and Energy Directorate (NVE) to process licence applications may delay the construction of new, profitable small-scale hydropower facilities.

With effect from 2007 Norway has introduced a new revenue capping regime for power grid operators. The design of the new regime has been a source of disagreement between the power grid industry and the NVE. The industry has pointed out several weaknesses in the underlying model, particularly certain unintentional consequences which are not perceived as being fair or contributing to improved efficiency. In turn, this may effect security of supply.

An expected 500 TWh rise in electricity consumption over the next decade has led to an increased focus on coal power among EU member states. If this results in coal-fired power plants receiving a favourable allocation of carbon quotas, it could, particularly in combination with higher gas prices, have a detrimental impact on the competitiveness of gas power plants.

Allocation of profit for the year

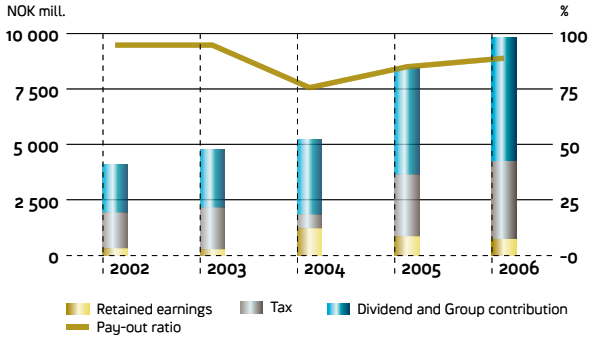
In its proposed national budget for 2007 the government requires Statkraft to pay the Norwegian state a dividend corresponding to 98% of its consolidated profit after tax and minority interests. This corresponds to a dividend payment of NOK 5,857 million for the 2006 financial year. The dividend will be paid by Statkraft SF. To enable Statkraft SF to pay the dividend, the board of directors proposes that Statkraft AS makes the following allocation of funds:

NOK MILLION	
Net profit as per Statkraft AS's Income Statement	7 098
Allocation of funds:	
Dividend from Statkraft AS to Statkraft SF	762
Group contribution from Statkraft AS to Statkraft SF	4 836
Transferred to other equity	1 500

The total allocation of dividend and Group contribution corresponds to 94% of the Statkraft AS Group's profit after tax and minority interests.

The parent company had distributable reserves of NOK 1.4 billion at the end of the year.

ALLOCATION OF PROFIT BEFORE TAX*



* Figures for 2002, 2003 and 2004 apply to the Statkraft SF Group.

Outlook and strategic direction

During the second half of 2006 the board of directors carried out a review of Statkraft's strategic platform. This process resulted in a reaffirmation of the Group's vision of being a European leader in environment-friendly energy. For the period 2007–2009 the Group will intensify its strategic focus on three areas: increased value

creation through efficient power generation and energy trading; investment in new technology development as well as environment-friendly and profitable generating capacity; and the strengthening of the Group's position in the grid, retail sales and district heating segments. The board focuses on improving operations through the realisation of synergies within the Group, and on helping to mitigate climate changes through the continued expansion of environment-friendly energy production in Europe.

At the beginning of December the government published its Report no. 13 (2006–2007) to the Storting, detailing its policy on state ownership. On the whole, the board is satisfied with the commercial guidelines contained in the report. The government agrees that Statkraft shall be a European leader in environment-friendly energy, and should continue to participate in industrial development both in Norway and in the rest of Europe. The report thereby gives Statkraft full backing to pursue its strategy. The board would like to emphasize that the continued payment of a high level of dividend could make the injection of new capital necessary if the company is to realise opportunities for further growth and investment.

Despite the fact that 2006 was a challenging year from a market and operational point of view, Statkraft achieved strong financial results. The improvement compared with 2005 can be ascribed to a combination of efficient operations and energy optimisation and high electricity prices. The board has based its outlook for 2007 on a more normal market situation than that experienced in 2006 and an expectation that the high price and output levels will not be maintained. It therefore expects that power sales revenues will fall slightly and that the overall financial results achieved by the Group will be somewhat weaker than in 2006.

The Board of Directors of Statkraft AS
Oslo, 7 March 2007

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 and CEO

MARKET AND BUSINESS CONDITIONS

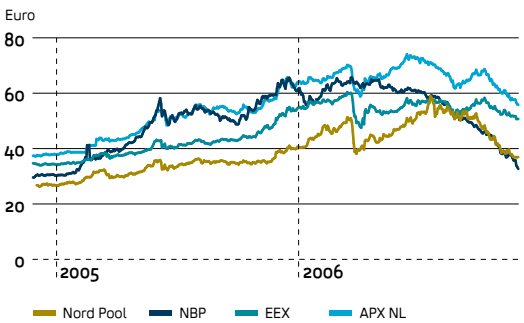
Europe's energy markets are undergoing a number of fundamental changes with regard to products, players and the regulatory framework. The goal of creating a single European energy market has been followed up by a number of directives and initiatives to put it into practice. The effect of closer integration between regional markets is now being seen in growing trade and greater interdependence between the various regions. The energy industry continues to consolidate. A wave of mergers and acquisitions is producing larger energy companies with a broader geographical footprint and closer ties between gas and electricity. Nevertheless, we are still a long way from the EU's vision of a single European market, where a customer is free to choose between suppliers from all over Europe.

Gas, electricity and carbon prices are closely linked

The traditional picture in which Nordic electricity prices fluctuate according to the weather, with major variations between dry and wet years, is becoming less clear-cut. A larger transmission capacity between the Nordic region and the Continent means that Nordic prices are increasingly influenced by continental electricity prices. This trend is expected to become even more pronounced with the further expansion of transmission capacity to the Nordic region. A new cable between Finland and Estonia (Estlink) opened in January 2007, and a new cable between Norway and the Netherlands (NorNed) will be opened by the end of 2007.

Electricity prices on the Continent are strongly affected by developments in gas and carbon quota prices. At the same time the continental and Nordic electricity markets are now more closely linked than before. Developments in the continental electricity markets are therefore important for price formation in the Nordic region. In years with substantial precipitation (both rain and snow), and subsequent inflow into the hydropower reservoirs, price development in the Nordic region could nevertheless differ from that experienced by its neighbours to the south.

DEVELOPMENTS IN EUROPEAN ELECTRICITY AND GAS PRICES



The figure shows forward prices for 2007 for the German (EEX), Dutch (APX) and Nordic (Nord Pool) power exchanges, as well as the price of gas in the United Kingdom (NBP).
Source: Nord Pool, EEX, Argus and Heren.

The establishment of a European market for carbon emission quotas has had a major impact on price formation in Europe's energy markets, and is also expected to have a growing impact on new investments. European pricing of emission quotas has also contributed to closer links between national energy markets and between different energy carriers. A common feature of the European electricity sector is that although price levels in the different markets may vary substantially, price fluctuations through the year are relatively similar.

Electricity exchanges are becoming more important

The power trading markets are growing. This applies particularly to financial trading. Increased liquidity produces better functioning markets and better opportunities for buyers and sellers of electrical power to secure long-term sales and deliveries. A total of 251 TWh was traded on Nord Pool's spot market in 2006, which corresponds to just over 60% of Nordic consumption. This represents an increase in spot turnover of more than 40% compared with 2005. Financial trading covered 766 TWh. Settlement services associated with bilateral contracts covered a further 1,394 TWh in 2006. Nord Pool is expected to see moderate growth in future turnover.

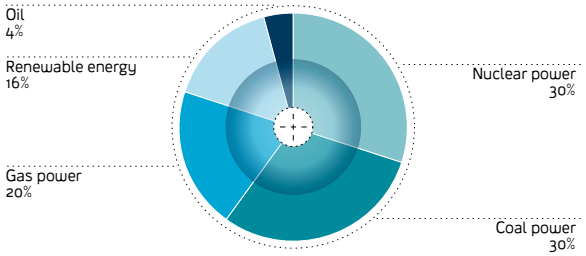
The German power exchange (EEX) has emerged as an important marketplace. A total of 89 TWh was traded on the spot market in 2006. This corresponds to around 15% of Germany's electricity consumption. Financial trading is growing, and totalled 1,044 TWh in 2006. Overall power trading on EEX rose by 88% from 2005 to 2006. Liquidity on the Dutch exchange (APX) and the Austrian exchange (EXAA) has also increased in recent years. Trading in EU emission quotas (EUA) more than tripled compared with the year

before, with more than 800 million emission quotas being traded in 2006. Quota trading is expected to continue growing in the years ahead. The liquidity of both the physical and financial power markets on the Continent is also expected to grow. Over time this will pave the way for a consolidation of power trading marketplaces.

Moderate growth in electricity consumption ahead

In 2005, electricity production in the EU totalled just over 3,400 TWh, with nuclear power and coal power each accounting for around 30% of this figure, while gas power and renewable energy represented just under 20% each. In the next few years it is expected that growth in demand for power in Northern Europe will be moderate.

ELECTRICITY PRODUCTION IN THE EU-25 * IN 2005



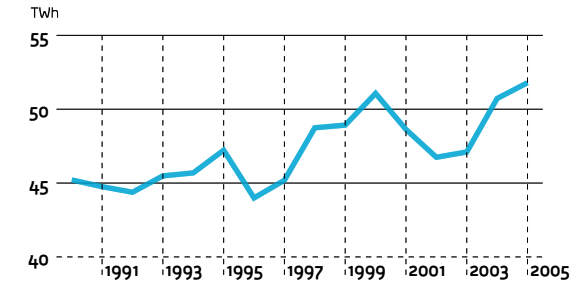
* The 25 members of the EU prior to 01.01.07.
Source: Eurostat, 2006.

It is expected that the EU member states will increase their electricity consumption by around 500 TWh in the next decade. Statkraft expects that a large part of the increase in Europe in the short to medium term will be met by gas power and renewable power generation. However, the relative strengths of the various energy carriers are changing. Higher gas prices are making gas less attractive for electricity production than it was just a few years ago. The favourable allocation of carbon quotas in some countries together with a number of initiatives designed to promote profitable technology for carbon capture and storage, will help to improve the position of electricity generated in coal-fired power plants. Increased political focus on security of supply and climate change are also making nuclear power seem more attractive than before.

Moderate growth in demand for electricity is expected in the Nordic market, along with a net increase in production of just over 50 TWh in the next decade. The expected rise in capacity will be distributed relatively evenly between renewable power (wind and hydropower), and nuclear and gas power. In Norway, the largest increase in capacity is expected to be in gas power, although some new wind and hydropower facilities are also expected to be built. In Sweden, the modernisation of the country's nuclear power plants will account for the bulk of new electricity production, but investments will also be made in power plants based on biomass, gas and wind. Increased capacity in Finland will largely come from the construction of new nuclear power plants, in addition to combined heat and power plants based on biomass or gas. Relatively limited investments in wind and gas power are expected in Denmark. Heat production in the Nordic region in 2005 totalled approximately 120 TWh. 2.7 TWh of this was produced in Norway. This figure is expected to increase in the coming years. New, profitable projects demand a relatively large customer base, which means that growth will take place in conurbations of a certain size.

For much of European industry, energy costs make up a significant proportion of total costs. With the price of oil, gas and electricity rising, more attention is being paid to industry's access to electrical power and international competitiveness. In 2005, Norwegian industry's electricity consumption totalled approximately 52 TWh, which is the highest level for 15 years.

NORWEGIAN INDUSTRY'S ELECTRICITY CONSUMPTION



Source: Statistics Norway.

The production of aluminium alone accounted for just under half of industry's electricity consumption, and this sector represented a substantial proportion of the growth during the period. Other metal production is more vulnerable, with several metal works announcing their closure in 2006.

Energy companies in new consolidation wave

In recent years, Europe's major energy companies have grown in size and increased their geographical footprint through a wave of mergers and acquisitions. A number of large merger and acquisition plans were announced in 2006. Among the most important examples were E.ON's bid for Spanish Endesa, the proposed merger between Gaz de France (GDF) and Suez, and Spanish Iberderola's bid for Scottish Power. If these transactions come to fruition, some of Europe's largest energy companies will become significantly bigger.

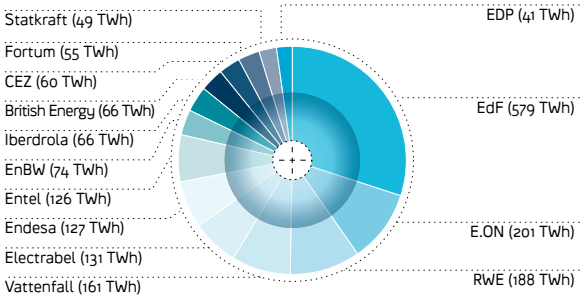
High earnings in the energy sector have made a lot of companies financially robust. With limited opportunities for organic growth, strategic acquisitions are becoming increasingly attractive. Along with positive market developments, this has increased investors' willingness to pay for energy companies. The trend towards fewer and larger energy companies is expected to continue.

Developments in the gas sector, with higher prices and more open markets, have increased the power companies' focus on securing their own access to gas resources and long-term agreements. European power companies are also more active than previously in securing their own gas resources. This is illustrated by the fact that a number of European energy companies are participating on the Norwegian continental shelf.

The electricity industry comprises various types of business, with different risk profiles, competence requirements and key success factors. This is part of the reason why power generation, distribution grid operations and retail sales have been spun off into separate businesses in the Nordic market. Distribution grids form natural monopolies, which are regulated by means of revenue capping regimes that differ from country to country. In Norway, a new model

will come into effect in 2007 which is more normative with regard to revenue capping than today's system, i.e. it takes less account of the company's actual costs. Many countries are demanding a clearer division between monopoly services and competitive operations. Nevertheless, the various businesses are still largely organised in a group structure under common ownership. Each of these areas is expected to derive considerable benefits from economies of scale, which will increase the pressure to increase the geographical footprint. Overall, it is expected that the development within each of these segments will lead to further restructuring within the electricity industry.

THE LARGEST EUROPEAN ELECTRICITY COMPANIES IN 2005



Source: Financial presentations and 2005 annual reports.

A European energy policy

Energy is high on the political agenda. In 2006, debate in the EU focused particularly on the need for and contents of a common European energy policy. The European Commission's green paper "A European strategy for sustainable, competitive and secure energy" has played a key role, but energy issues have also dominated the political agenda at a number of EU summits and G8 meetings.

Towards more open European energy markets

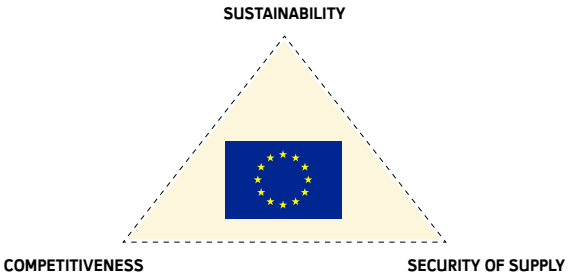
Statkraft expects that the trend towards a more deregulated and increasingly integrated European electricity market will continue. The processes currently at work to create well-functioning regional markets will make an important contribution to this. At the same time, a number of improvements in the regulatory framework are needed to make the markets function better, including:

- a clearer division between the national grid and power generators
- better coordination between the various countries' transmission system operators
- better conditions for infrastructure investments – particularly between countries
- easier access to data for production and use of infrastructure

Statkraft also expects the deregulation of the gas market to continue. However, the regulations regarding capacity booking, cross-border trading and the market shares of the largest players mean that it will take many years before the gas market functions efficiently.

Most EU countries have amended their national legislation in response to the gas and electricity directives that were adopted in 2003, with the aim of establishing a single European energy market for consumers and commercial enterprises by 1 July 2007. At the same time, the European Commission has initiated formal procedures against

OBJECTIVES OF A EUROPEAN ENERGY POLICY



20 EU countries for inadequate implementation of relevant energy directives. The EU has also conducted a wide-ranging survey of competitive conditions in the European gas and electricity markets.

In Germany, new legislation has been passed and regulations adopted to open up the energy sector to free-market competition. An important element in the implementation of new legislation has been the establishment of an electricity and gas market regulator, and the simplification of gas distribution tariffs. Despite this, however, the German market faces a number of structural challenges.

The electricity markets in Southeast Europe are developing rapidly. In October 2006, a treaty was signed in Athens between the EU member states and seven southern European nations (Romania, Bulgaria, Croatia, Bosnia Herzegovina, Albania, Serbia and the FYR of Macedonia). The long-term objective of the European Energy Treaty is to establish a single energy market covering a total of 30 countries.

Climate change tops the agenda

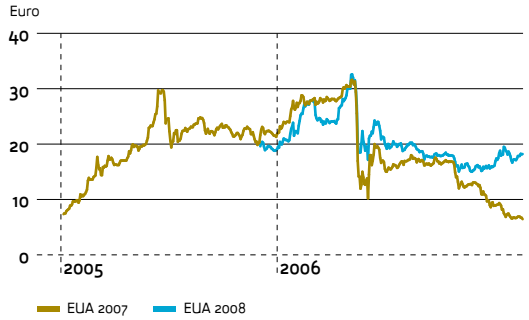
The European debate on sustainable energy supplies is largely a matter of reducing harmful greenhouse emissions. The most important policies for achieving this are:

- the establishment of greenhouse gas emission limits and subsequent emission quota trading scheme
- incentive schemes for the development of more renewable energy
- measures for increased energy saving
- research and development of new technology and lower emissions

The electricity sector accounts for 60% of the emissions that are regulated through the quota trading scheme. At the same time, the impact of carbon quotas on whatever electricity generating method is the most expensive at the time, means that the quota cost is reflected in the price of electricity. Experience from the first two years of quota trading shows that better rules and routines for information management are needed. This became particularly relevant in April 2006, when the market experienced a dramatic fall in prices following the release of new information showing that emission levels had been lower than anticipated in the initial phase (2005–2007).

Statkraft supports a quota-based emission trading scheme that covers many sectors and reflects the differences in the various energy carriers' relative emission levels. The first phase of the EU's quota trading regime runs from 2005 to 2007. The details for the next phase (2008–2012) will be determined in 2007. Emission reduction requirements in the period from 2008 are expected to be more

DEVELOPMENTS IN THE PRICE OF CARBON QUOTAS IN THE EU



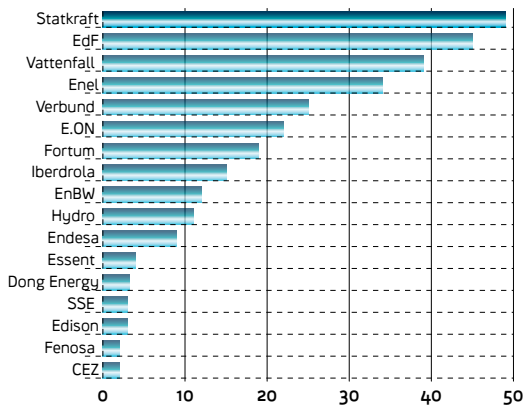
Source: Nord Pool.

stringent than in the first phase. The Norwegian quota trading system is expected to be linked to the EU's system from 2008. The criteria used to allocate emission quotas are important because these have an impact on how the electricity market sets prices and consequently which energy carriers will be chosen when new capacity is built. Efforts are also underway to draw up the framework for a European quota market in the period after 2012.

Increasing the production of renewable energy by more than the market would do if left to its own devices is a common European goal. It is up to each individual country to decide what incentive schemes it will set up for this purpose. As a result, incentives vary widely between countries and between different technologies. Statkraft believes that a greater degree of harmonisation between the various countries' incentive schemes would lead to more renewable energy at a lower total cost. In 2005, Statkraft was Europe's largest producer of renewable energy with 49 TWh.

The EU's goal is for electricity consumption in 2020 to be 20% less than it would have been without the implementation of energy-saving measures. There has also been little cross-border harmonisation in this area with regard to the measures adopted.

ELECTRICITY PRODUCED FROM RENEWABLE ENERGY SOURCES, EUROPE 2005 (TWh)



Source: Annual Reports.

In February 2006, the Norwegian government announced its decision to abandon plans to introduce a joint Norwegian-Swedish green certificate market for renewable energy. In June 2006, the government published adjusted targets for the production of renewable energy and energy saving, involving an increase in output of 30 TWh during the period 2001–2016. The 2007 Norwegian national budget also included a change in the financial support scheme for wind power and the introduction of an incentive scheme for hydropower, as well as the establishment of a "State Fund for Renewable Energy and Energy Efficiency" with NOK 10 billion in capital. The profits from this fund will, together with a NOK 10/MWh surcharge on the distribution grid tariff, finance these incentive schemes, which will be administered by Enova, the Norwegian government's body for energy efficiency and renewable incentive schemes. Statkraft believes that the overall structure of these schemes contributes to a more long-term perspective, but the level of subsidy for power sources such as wind power make it uncertain how much new electricity will be forthcoming as a result of these measures.

In Northern Europe, there is a great deal of interest, both among energy companies and at government level, in carbon capture and storage as a means of reducing greenhouse gas emissions. The development of this technology could have a major impact on the electricity market, as well as on the level of greenhouse gas emissions from electricity generation in the long term. Expectations vary with respect to when the technology will become commercially available, meaning that capture and storage will cost around the same as the anticipated market price of carbon quotas. Plans have been announced for the construction of power plants with carbon capture and storage facilities in Germany, the United Kingdom and Norway.

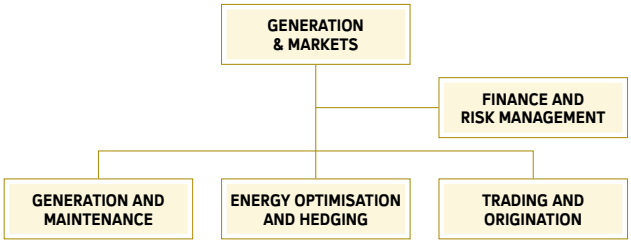
Security of supply

The prospect of increasing dependence on imports and high oil and gas prices has become a cause for concern with respect to the security of Europe's energy supply. The world's largest gas reserves are to be found in Russia. Gazprom currently supplies around a quarter of the gas consumed in the EU, and has a monopoly on the export of Russian gas to the European market. This has prompted political concern about the EU's increasing dependence on gas imports. As a result of these concerns, coal and nuclear power have become more acceptable in political circles, and have led to an increase in investments in renewable energy sources.

Increasingly, access to sufficient amounts of energy at a competitive price over the long term has also become a part of the foreign policy dialogue, both in Europe and elsewhere. This is underlined by the fact that a common foreign policy with regard to energy issues is defined as an important element in a common European energy policy.

In January 2007, the European Commission announced a number of energy policy goals and initiatives, which, if they are implemented, will drive the deregulation process further, intensify the effort to reduce greenhouse gas emissions and improve the security of Europe's energy supply.

GENERATION & MARKETS



The Generation & Markets business area is engaged in extensive power trading operations in Europe. In the Nordic region, it owns and operates 78 hydropower plants and will also operate the wholly owned gas power plant at Knapsack in Germany. Offices in Oslo, Trondheim, Stockholm, Düsseldorf and Amsterdam buy and sell power and structured power products, and supply tailor-made energy solutions to larger customers.

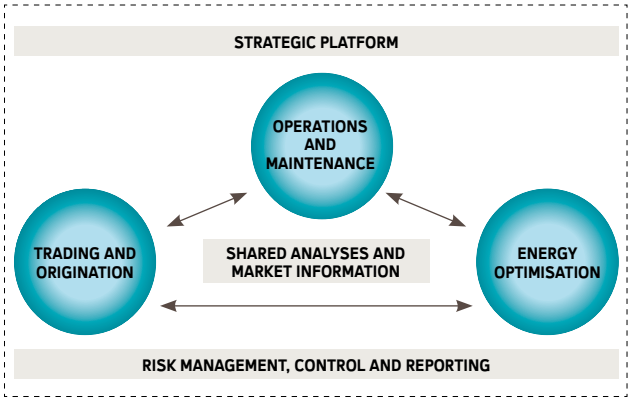
Through the company Baltic Cable AB, Statkraft controls two-thirds of Baltic Cable, an undersea cable between Sweden and Germany with a capacity of 600 MW. Besides power from wholly and partly-owned power plants, the business area's trading portfolio also includes power from the company's joint-owned gas-fired power facilities, as well as related gas purchases and carbon quotas.

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. Energy optimisation, trading and other central functions are provided by the company's head office in Oslo.

Strategy and business concept

The company will in future place emphasis on ensuring sound operations and market activities, realising economies of scale and integrating gas-fired power as a new production technology.

Long-term value creation will be secured by means of a well-tried business concept based on three main areas of focus: operations and maintenance, energy optimisation and trading in structured products. This model will secure consistent risk management through explicit authority levels, reporting lines and the unequivocal distribution of responsibilities. Similar activities will be consolidated and standardised in order to achieve the best results possible.



Statkraft's business concept exploits the flexibility that lies in the Group's production assets. Active market operations ensure that fluctuations in the power market can be exploited, thereby maximising earnings. In order to achieve the goal of efficient operations and good market activity, the Group works constantly to streamline its business model, further develop its business systems and cutting-edge expertise, as well as to secure a good working environment. In addition, energy optimisation and maintenance are closely integrated in order to facilitate dependencies and to exploit flexibility. The business concept can be developed irrespective of technology and geography.

Production facilities are maintained and updated on an ongoing basis. Further development of power plants takes place through modernisation and expansion where this is financially, environmentally and technically feasible. Tasks and obligations related to river basins shall be carried out in a professional manner designed to instil confidence. The water flow regulation scheme will be revised and new requirements introduced. Targeted efforts are being made to retain rights in current licences.

The business area is responsible for gas procurement and power sales for two new gas power plants in Germany and one in Norway, as well as for the operation of one of the power plants in Germany when production starts up in the autumn of 2007. This will result in a considerable expansion of activities, and will also strengthen Statkraft's position with regard to growth potential for production and trading on the Continent. Both organic growth and selected acquisitions are an integral part of the company's growth strategy.

For the period to 2020, Statkraft has signed a number of commercial sales contracts with Norwegian industrial companies, the largest of which are with Norsk Hydro, Norske Skog, Fesil Rana Metall, Rio Doce Manganese Norway and Eramet Norway. The sum of concessionary sales, statutory leasing agreements and commercial sales contracts now amounts to more than 17 TWh per year for the period 2011–2020. For the years to 2010, these contracts, together with statutory contracts, total just over 20 TWh per year.

Important events

The business area took over Trondheim Energi's activities associated with energy optimisation, hedging and trading, as well as all relevant support functions, with effect from 1 January 2007. Trondheim Energi will continue to own and maintain its power plants. This transfer of business is in line with the Group's strategy of centralising energy optimisation and hedging.

Statkraft Region Eastern Norway took over responsibility for the production management of Skagerak Energi's 25 power plants on 30 August 2006. The transfer was very successful and no operational problems were encountered. Extensive cooperation has been established with Skagerak Energi, both in respect of power plant operations and with regard to various support functions.

The business area has prepared throughout the year for the start-up of its three gas power plants. A contract has been signed with Fortum regarding the operation and maintenance of the gas power plant in Knapsack. 40 employees were recruited during the year to support gas power operations in Norway and on the Continent. One priority task will be to develop expertise and to establish systems for optimising operation of the gas power plants, as well as for related trading in power, gas, coal, oil and carbon.

It has been decided to invest in an additional generator at Svartisen Power Plant in Nordland. Implementation of this project is dependent on obtaining the necessary permissions and licenses, and on achieving satisfactory profitability. A new generator will reduce the power plant's vulnerability to downtime. The power supply will be improved throughout the area, as well as in Central Norway, once the new generator starts operation, which is expected to take place in December 2009.

In 2006, Statkraft signed a long-term agreement with Eramet Norway to supply electricity during the period from 2011 to 2020 inclusive. Delivery of around 9 TWh over the term of the contract will meet the bulk of the electricity needs of Eramet's smelting works in Sauda and Porsgrunn. At the same time, Eramet cancelled its existing statutory-priced electricity agreements in Porsgrunn and in Sauda, electing instead to focus on a commercial solution in collaboration with Statkraft.

In 2006, a trading office was opened in Sofia, Bulgaria. Deregulation of the energy sector and the EU membership for several countries in the region paves the way for new business opportunities in respect of power trading.

Operations

Output in 2006 was 37.4 TWh, 1.9 TWh less than in 2005. High prices in 2006 have resulted in relatively high output levels, despite low levels of water inflow. This is also linked to the fact that the halt in Swedish nuclear power production made high levels of output necessary on the part of Statkraft and other hydropower producers.

The business area has achieved a utility-adjusted downtime (halt in production expected to result in loss of income) of 3.9% in 2006, which is 2.4 percentage points worse than the target for 2006. The fault in the Svartisen power plant is the main reason for the high utility-adjusted downtime.

Svartisen Power Plant has experienced several unfortunate incidents and periods of downtime over the last year. The generator sustained considerable damage due to frequent short-circuiting in the national grid during a hurricane in January. This damage resulted in the first breakdown in August and, after a short period of operation, a second breakdown in October. The power plant is expected to be out of operation until March 2007.

Sustainability

The management is not satisfied with the high number of injuries in 2006. A total of 19 lost-time injuries were recorded among our own employees and contract workers.

In the summer and autumn of 2006, water levels in hydropower reservoirs were considerably lower than normal, due to limited amounts of snow in the mountains and very little precipitation during the spring and summer. Combined with a high demand for electricity, this resulted in low water levels in the country's hydropower reservoirs. No operating licence terms were violated, but these special conditions resulted in considerable media interest. Statkraft was also reported to the police for violating environmental laws. Dried-up shorelines along watercourses and around reservoirs are considered a negative element in the landscape, since they are visually disturbing and have in some places made fishing and boating difficult. Statkraft monitors fish stocks by means of regular studies. In addition, shallows are being marked and jetties and slipways are being improved. In this way the Group is striving to limit the unfortunate consequences for users of reservoirs.

Power production can have unfortunate effects on the environment. However, the company has a good system in place to register and follow up environmental non-compliances and incidents. The most commonly occurring incidents are breaches of the water flow rules (water flow and water levels) and the discharge of oil products. No serious environmental non-compliances occurred in 2006, while 16 less serious environmental incidents were registered. These were breaches of internal or external requirements, but did not cause damage to the environment.

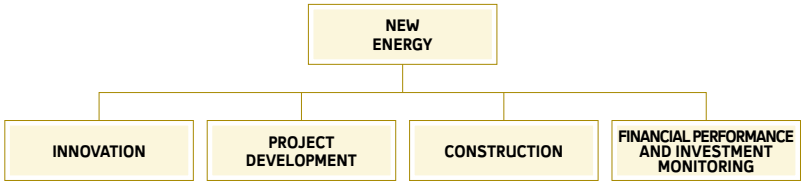
NON-FINANCIAL KEY FIGURES GENERATION & MARKETS

	UNIT OF MEASUREMENT	2006	2005	2004 **
Utility-adjusted non-availability *	%	**3.9**	1.2	1.5
Production, annual mean from generators	TWh	**33.3**	33.3	31.7
Production, volume sold	TWh	**37.4**	39.3	26.2
– Of which statutory-priced and concessionary sales	TWh	**15.0**	16.0	19.3
Installed capacity	MW	**8 626**	8 638	8 281
Power plants – wholly and partly owned	No.	**104**	104	81
– Of which operated by the business area	No.	**78**	78	59
PERSONNEL AND HSE				
Full-time jobs (equivalent) – Norway	No.	**648**	621	625
Full-time jobs (equivalent) – abroad	No.	**112**	76	60
Sickness absence rate	%	**3.6**	3.2	3.9
H1 (lost-time injuries)		**8.3**	6.4	10.1
Serious environmental non-compliances	No.	**0**	1	0

* Only applies to Statkraft Energi AS.

**2004 figures are pro forma figures.

NEW ENERGY



The New Energy business area is Statkraft's spearhead and centre of excellence for the development and construction of new environment-friendly generating capacity. Statkraft aims to play a part in meeting Europe's growing energy needs by developing new, profitable and environment-friendly generating capacity. Statkraft wishes to build on its significant developmental and operational competences to develop and invest in power generation based on both existing and new environment-friendly technologies.

The level of activity in the business area has increased considerably, and the Group is now involved in project development in the Nordic region, the United Kingdom, Northern Europe and Southeast Europe. New Energy is also responsible for developing projects for small-scale hydropower plants through the company Småkraft AS and for larger hydropower plants in countries in South America, Asia and Africa through SN Power. Since 2005, the business area's headcount has expanded from the equivalent of 24 to 52 full-time jobs. In addition, consultants are hired in to work on specific projects.

Strategy and business concept

Statkraft has acquired the rights to locations for the construction of wind power and hydropower facilities. Together with the company's development and construction competence, relational capital and market understanding, this gives the company advantages with respect to the development of new generating capacity in Norway.

In recent years, Statkraft has had a large project portfolio under development in Norway and abroad. Development work has resulted in investment decisions and the construction of profitable projects in the field of wind power (Smøla, Hitra and Kjøllefjord), gas power (Knapsack, Herdecke and Kårstø) and hydropower (Øvre and Nedre Bersåvatn and Pålsbu). In order to maintain its position in Europe as a leading supplier of environment-friendly energy, Statkraft will step up its focus on project development both in Norway and abroad over the coming years.

Statkraft wishes to maintain its position in Norway as the largest company involved in wind power and hydropower. Additionally, the Group's objective is to develop new gas power projects, and to promote new, environment-friendly wind and hydropower projects. The Group will actively evaluate other technologies, for new power and heat generation, e.g. biopower, in order to help develop the energy solutions of the future. In Norway, Statkraft's aim is to develop an additional 2.25 TWh of wind power and 3.5 TWh of hydropower (of which 2.5 TWh is to be developed through Småkraft AS) by 2015.

With respect to wind power in Norway, work is underway to realise a limited number of larger wind farms. In 2006, notice was issued of Statkraft's intention to develop several wind power projects, including projects in Central Norway and Finnmark. Increased hydropower production in Norway will be realised through Småkraft AS, other small-scale new projects in watercourses where Statkraft is the regulator and the modernisation and expansion of existing facilities.

Statkraft also sees business potential in utilising its competence and experience to establish and operate power generation facilities in new markets in Europe. At the same time, international activity and growth are likely to be prerequisites for maintaining existing Norwegian competence. In Norway, the perception is that there are few opportunities for new, major hydropower developments, and limited potential for wind power developments with the existing incentive schemes. Statkraft has therefore chosen to invest in wind power in the United Kingdom, where the regulatory framework is highly attractive. In addition, Statkraft envisages great opportunities for new hydropower in Southeast Europe. High levels of economic growth, growing energy needs and expected membership of the EU make this area attractive for increased investments on the part of Statkraft. Statkraft is working actively to position itself in Russia – one of the most important energy markets in Europe. Opportunities for new generating capacity in the fields of wind power, hydropower and gas power are constantly being evaluated. As an example, the Nordic market will be analysed further to identify new opportunities, and the acquisition of power plants or companies could be a supplement to developing new generating capacity.

The Group's ambition for new generating capacity in Europe outside Norway is 2.5 TWh of profitable wind power and 3.5 TWh of profitable hydropower by 2015. Statkraft is also considering expanding its involvement in gas power on the Continent.

SN Power is Statkraft's tool for the development of new generating capacity outside of Europe. SN Power is a 50-50 joint venture between Statkraft and Norfund. The company's goal is to invest in, own and operate hydropower projects in emerging markets. In addition to identifying and realising attractive investment opportunities within Statkraft's core operations, SN Power will contribute to sustainable development in those countries and regions in which the company establishes a presence. SN Power owns hydropower plants in Peru, Nepal, India and Sri Lanka, and hydropower plants under construction in Chile and India. In the first half of 2007, SN Power will in cooperation with a local partner take over responsibility for a hydropower plant in the Philippines with a generating capacity of 360 MW.

Statkraft takes part in the development of new, renewable energy sources such as osmotic power and ocean energy (e.g. offshore wind power, wave power and tidal power). Statkraft's innovative effort will produce new business opportunities, products, services and improved processes. This shall be achieved through focusing on innovation throughout the Statkraft Alliance, to help facilitate the development and commercialisation of new ideas.

Important events

Kjøllefjord Wind Farm in Lebesby was opened on 11 October 2006. The wind farm has an installed capacity of 39 MW and will generate power corresponding to the annual consumption of 7,500 households.

In the national budget for 2007, the government presented a proposal for a scheme of renewable energy incentives, which failed to meet the power industry's expectations. Hence it is uncertain whether the planned scheme will be sufficient to trigger further major wind power investments in Norway. The proposed incentive scheme must be approved by the EFTA Surveillance Authority before it can be implemented. Statkraft has signed letters of intent regarding continued cooperation with the national power companies in Montenegro and Serbia. Furthermore Statkraft has signed a letter of intent with the Russian company Hydro OGK in order to evaluate the possibility for cooperation within the field of hydropower.

Together with the subsidiaries Trondheim Energi and Skagerak Energi, and the associated companies BKK and Agder Energi, Statkraft has developed an innovation partnership, INNOSA. During the course of the year, approximately 20 business ideas have been evaluated and qualified, and three of these are being been developed into business plans. As part of its innovative effort, Statkraft has injected NOK 20 million into the seed capital fund Alliance Venture Polaris AS. The fund is one of four regional funds established with support from the authorities through Innovation Norway.

Operations

During the course of 2006, decisions were made to invest in six new power plants managed by Småkraft AS with an expected generating capacity of 86 GWh. The most important reason for the relatively low number of investment decisions is the authorities' lack of capacity to consider licence applications.

At the end of 2006, Statkraft had no unused wind power licences. Two licence applications are under appeal to the Ministry of Petroleum and Energy, and four applications are currently being considered by the Norwegian Water Resources and Energy Directorate (NVE). If approved and subsequently built, cumulatively these projects will provide approximately 1.2 TWh of new wind power in Norway.

Statkraft has two hydropower projects under construction – Pålsbu (22 GWh) and the expansion of Leirfossene Power Plant (43 GWh). The latter facility is being built by Trondheim Energi. Pålsbu is expected to be in operation in 2007, while Leirfossene will start up in 2008.

Construction work on the gas power plant at Kårstø (418 MW) under the control of Naturkraft – and the building of the gas power plants in Germany, Knapsack (800 MW) and Herdecke (400 MW) – continues according to plan and the plants are due to be operative in the second half of 2007. Statkraft owns 50% of Naturkraft, 100% of the gas power plant in Knapsack and 50% of the gas power plant in Herdecke.

Sustainability

There were three fatal accidents in associated operations. In August, a fatal accident occurred in connection with the installation of a gantry crane at the gas power plant being built in Herdecke. German police have investigated the accident and found no grounds to prosecute. At the La Higuera development in Chile one person died in a car crash, while in connection with the Allain-Duhangan project in India one person died after being hit by a falling rock near the construction site road. Statkraft places constant and strong emphasis on safety aspects in connection with its construction projects. HSE requirements are set down in suppliers' contracts, and these requirements are followed up during the construction work. The prevailing trend is that contractors make increasing use of subcontractors from a large number of companies from many countries. This poses an additional challenge for the building owner in following up HSE requirements. Statkraft will focus more strongly on HSE requirements in the future, as construction activities are expanded and take place in countries that are new to Statkraft.

Statkraft has growing ambitions for its R&D and innovation efforts in respect of the energy solutions of tomorrow, both on the production and consumer side of the energy balance. This means that the Group will seek to promote technologies that can help to both reduce the environmental consequences of existing technologies and develop new, renewable and environment-friendly technologies. Statkraft will achieve this by initiating and supporting research and development measures both nationally and internationally.

Statkraft has for many years taken part in R&D projects involving osmotic technology. This research, which has focused on the development of membranes, takes place in collaboration with research environments in Europe. A project has been initiated to produce plans for a detailed prototype of an osmotic power plant. Work continues on a carbon capturing and handling project, and on various technologies concerning ocean-based energy production and bio-based power.

Statkraft is also participating in a research programme under the management of the Norwegian Institute for Nature Research designed to improve our understanding of the flying patterns of the sea eagle and to identify measures that would prevent collisions between sea eagles and windmills.

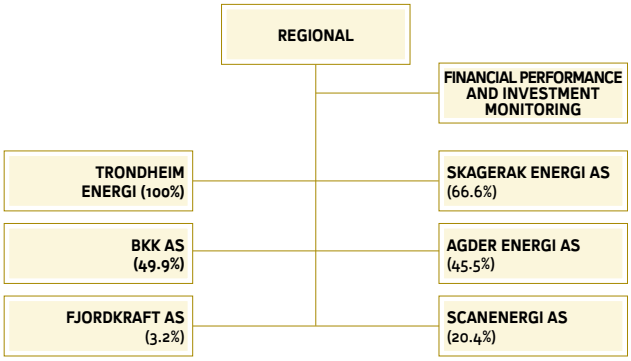
Statkraft is working constantly to develop knowledge of how the production of hydropower affects the environment. This will help improve operations and reduce the negative consequences of hydropower production in both existing and new facilities.

NON-FINANCIAL KEY FIGURES NEW ENERGY

	UNIT OF MEASUREMENT	2006	2005	2004*
Availability	%	**98.4**	98.0	98.3
Production	TWh	**0.5**	0.4	0.1
Installed capacity	MW	**245**	206	95
Wind turbines	No.	**109**	92	44
PERSONNEL AND HSE				
Full-time jobs (equivalent) – Norway	No.	**46**	29	20
Full-time jobs (equivalent) – abroad	No.	**6**	0	0
Sickness absence rate	%	**1.2**	1.3	1.8
H1 (lost-time injuries)		**0**	0	0
Serious environmental non-compliances	No.	**0**	0	0

* 2004 figures are pro forma figures.

REGIONAL



The Regional business area manages Statkraft's shareholdings in the subsidiaries Trondheim Energi and Skagerak Energi, in addition to the associated companies Agder Energi and BKK. The company Fjordkraft has been included in the business area with effect from 1 January 2007. Statkraft has ambitions for continued growth within distribution, power sales and district heating, and will take an active role in the current restructuring of the industry. New hydropower production is under development, and a licence application was filed in 2006 for a gas power plant with carbon capture facilities.

Strategy and business concept

The Regional business area is involved in the generation, distribution and sale of electricity and heat to private customers and businesses. The regional companies are also involved in business development, and are investing in areas such as automatic metering, gas distribution and other energy-related activities.

The business area has an industrial perspective for its ownership, where the objective is to cultivate its shareholding and to further develop and improve efficiency in all parts of the value chain in order to meet the customers' needs in the best way possible. As part of this task, group strategies have been drawn up for each segment.

The Group has large-scale grid operations and employs a large body of expertise. This provides a sound basis for efficient operations and a good potential for growth. The ambition is to be the most efficient and competent player in Norway, and to deliver distribution services with a high quality and security of supply. The industry structure of the power distribution business in Norway is still fragmented, and Statkraft will play an active role in the ongoing process to consolidate and improve efficiency. Statkraft will place importance on the continued work of making all aspects of its operations more professional.

Statkraft will intensify its focus on power sales to businesses and households, and will in this respect seek to concentrate power sales operations in one company within the Group. This will provide a basis for an aggressive development of operations.

District heating is an environment-friendly form of energy production and an interesting area of focus for Statkraft. Through Trondheim Energi Fjernvarme, the Group has cutting-edge competence in respect of the development and building of district heating networks using heat produced by many different energy carriers. The Group will strengthen its focus on developing new, environment-friendly and profitable district heating solutions.

Within the field of power generation, measures have been implemented in order to coordinate energy optimisation and hedging in the Statkraft Group. Statkraft is working to improve the efficiency in maintenance and operations as far as practically possible.

Important events

In May 2006, Skagerak Energi started commercial operations at the new Grunnåi power plant in Seljord, Telemark. The run-of-river power plant has a mean output of 54 GWh. Trondheim Energi started the construction of the Nye Leirfossene Power Plant in Nidelven in Trondheim in the spring of 2006. The power plant will replace the old facilities in Øvre and Nedre Leirfoss and will have a mean production capacity of 193 GWh, of which 43 GWh will be new power. Trondheim Energi's planned development of Lødølja has been terminated after the Directorate for Cultural Heritage refused to grant a dispensation from the provisions laid down in the Cultural Heritage Act. The project would have provided 51 GWh of new power in the region.

With effect from 2007, a new regulatory regime has been introduced for power distribution operations in Norway. There has been a great deal of disagreement between the industry and the Norwegian Water Resources and Energy Directorate (NVE) concerning the design of the new regulatory regime. The industry has pointed to a number of weaknesses in the new model, including weak management signals and investment incentives. This is unfortunate since here is a growing need for reinvestments in the power distribution grid. Statkraft and other grid operators have proposed alternative models which would take better account of continued efficiency and provide good investment incentives, and will continue to work to develop and improve the regulatory regime.

Trondheim Energi Nett has rationalised operations considerably in recent years, and is now one of the most efficient grid distribution companies in Norway. Skagerak Energi Nett will face challenges in the new regulatory regime, but has implemented comprehensive measures that will have a positive effect in the future. The company will continue this work.

Skagerak Energi owns 34% of Telenor Cinclus, which in 2006 signed agreements with the energy companies Fortum and E.ON Sverige to

supply automatic meter reading solutions. Under the terms of these agreements, Telenor Cinclus will supply its automatic meter reading solutions to around one million electricity subscribers in Sweden.

Operations

The business area's various companies all largely experienced stable operations and production in 2006. Lower inflow than normal resulted in reduced production for the power generating companies. Profits from power sales increased considerably compared to 2005. Higher electricity prices on the Nordic power exchange and good energy optimisation are the main reasons for the good result.

After receiving final approval for the acquisition of Trondheim Energi in 2005, the business area implemented a broad-based process in 2006 to establish cooperation between Statkraft and Trondheim Energi. It has been decided to establish closer coordination between segments and staff, including within energy optimisation.

Electricity consumption in Norway continues to rise, and the companies in the business area are working to develop new profitable power production. Skagerak Energi has filed a licence application for a gas power plant with carbon capture at Herøya. The power plant could generate up to 1000 MW, with an average annual output of nearly 7 TWh. The plan assumes the construction of a gas pipeline to the Grenland district, as well as the creation of a scheme for the transport and storage of carbon dioxide. The company is also working on plans for a gas power plant at Slagentangen outside Tønsberg, in collaboration with Fortum and Østfold Energi.

In 2006, Trondheim Energi completed the construction of a 12-kilometre district heating pipeline from the Heimdal district heating facility to Midtbyen in the centre of Trondheim. The ongoing expansion of the Heimdal district heating facility is planned for completion in the fourth quarter of 2007. Once completed it will be Norway's most advanced incineration facility accepting many types of waste.

Sustainability

The management is not satisfied with the high number of injuries in 2006. A total of 12 lost-time injuries were recorded among our own employees, and there was one lost-time injury involving a contract worker. An engineer in Agder Energi's subsidiary Otera died from injuries he sustained during a tragic accident in December, when he fell from a mast while carrying out maintenance work on a power line. Using the National Labour Inspection Authority's report and our own internal reports as a basis, we will review our routines in order to prevent accidents in the future. As part of its ongoing efforts to improve health, safety and the environment, Skagerak Energi will introduce its "Behaviour-based Safety" programme in the first quarter of 2007.

The construction of the Nye Leirfossene Power Power Plant in Trondheim Energi is a good example of how new technology can provide environment-friendly and sustainable solutions. The project will increase the mean rate of production by 29% with the same amount of water as in the present facility. This will result in a total additional capacity of 46 MW in the river system. Part of the construction work is being carried out underneath a residential area in Trondheim. Great emphasis is being placed on providing information and on establishing a good dialogue with neighbours in respect of the construction plans and the progress being made.

KEY FIGURES REGIONAL *

	UNIT OF MEASUREMENT	TRONDHEIM ENERGI	SKAGERAK ENERGI	BKK	AGDER ENERGI
FROM THE INCOME STATEMENT					
Gross operating revenues	NOK mill.	1 772	2 662	3 559	4 567
EBITDA	NOK mill.	1 126	1 815	2 043	1 972
Operating profit	NOK mill.	898	1 398	1 505	1 527
Share of profit from associated companies	NOK mill.	10	8	172	-18
FROM THE BALANCE SHEET					
Property, plant and equipment and intangible assets	NOK mill.	5 591	9 053	9 930	9 381
Investments in associated companies	NOK mill.	309	163	4 060	26
Other assets	NOK mill.	849	776	1 762	1 284
Assets	NOK mill.	6 749	9 992	15 752	10 691
FROM THE CASH FLOW STATEMENT					
Depreciation	NOK mill.	228	417	538	445
Maintenance investments [2]	NOK mill.	47	97	-	-
Expansion in new generating capacity [3]	NOK mill.	223	133	-	
Investments in shareholdings [4]	NOK mill.	0	17	-	-
FROM THE FINANCIAL STATEMENTS					
EBITA margin [8]	%	64	68	57	43
ROACE before tax [9]	%	16.4	18.1	16.3	17.7
UPSTREAM BUSINESS					
Production cost/MWh [14]	NOK/MWh	77.0	81.6	56.4	57.2
Production, annual mean	TWh	3.16	5.15	6.70	7.20
Production, actual	TWh	2.87	5.00	5.90	6.80
Installed capacity	MW	770	1 315	1 674	1 700
Reservoir capacity	TWh	2.0	3.7	3.2	5.1
DOWNSTREAM BUSINESS					
No. of distribution grid customers	1 000	93	175	182	159
Energy supplied	TWh	2.52	4.84	7.96	3.58
Distribution grid capital (NVE capital) [15]	NOK mill.	876	2 818	2 950	2 300
Return on NVE-capital	%	7.1	6.3	10.0	6.3
No. of end-user customers	1 000	67	-	-	151
Total volume supplied	TWh	2.0	-	-	2.1
Volume of district heating energy sold	GWh	393	13	119	80
Installed capacity district heating	MW	262	30	96	31
PERSONNEL AND HSE					
Full-time jobs (equivalent)	No.	371	720	979	972
Sickness absence rate	%	5.0	4.5	5.2	4.3
H1 (lost-time injuries)		14.6	1.5	10.9	4.4
Serious environmental non-compliances	No.	0	0	0	0

* Definitions of key figures can be found on the fold-out flap on page 2 (see references to Notes).

RISK AND PERFORMANCE MANAGEMENT

Statkraft is exposed to risks in a number of areas and throughout its value chain. Key risk factors are associated with market operations, financial management, operating activities and regulatory frameworks. Managing risk is important for value creation and is an integral part of the company's overall management model. The governing framework for performance management is laid down in the company's articles of association, business principles, principles for corporate governance and code of conduct. A performance management model based on scorecards provides a framework for the implementation and follow-up of the company's strategy and day-to-day operations.

Risk management

For Statkraft, risk management is an integral part of all business activities, and is followed up by the respective units by means of risk monitoring and risk mitigation procedures. Statkraft's overall risk is also monitored at group level and is included in the reports presented to Group management and the board of directors. In connection with the updating of the strategic platform for 2007 to 2009, a wide-ranging risk assessment was carried out, with the participation of all business units and staff departments.

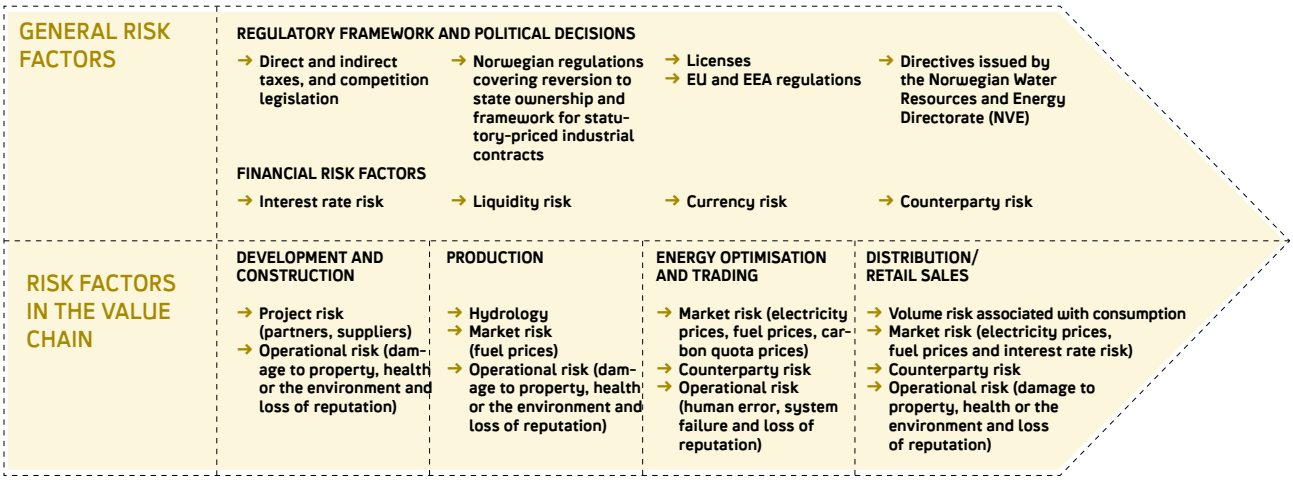
Market risk

Statkraft manages the market risk associated with power sales by trading physical and financial contracts both in the Nordic region and on the Continent. Hedging strategies are regulated by limits on the positions' volume and value, and by specific criteria for the respective contracts impact on expected revenues and downside risk. The portfolio is constantly adjusted in relation to current perceptions of future prices and the company's own production capacity.

Statkraft also has separate trading and origination portfolios, with specific mandates regulating the level of risk taken. The trading portfolio comprises limited, short-term positions within financial power derivatives. The origination portfolio comprises customised, bilateral contracts with customers who have special requirements, with the agreements being hedged as far as possible by means of standard financial contracts.

Financial risk

The Group's central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity. Statkraft is exposed to interest rate risk through external borrowing. The Group is also exposed to foreign exchange risk through the integration between the Nordic and continental power markets, the Group's power trading in euro and other cash flows associated with foreign subsidiaries and associated companies. Foreign exchange and interest rate risk is regulated by means of mandates. Forward currency contracts, interest rate swaps and forward interest rate



agreements are the most important instruments used to manage such risk. A considerable part of the financial investment in E.ON Sverige has also been hedged with respect to foreign exchange risk. Statkraft's liquidity risk derives from discrepancies between the term of the financial obligations incurred and the cash flows generated by the assets. The liquidity risk is managed through good borrowing opportunities in the Norwegian money and banking markets, drawing facilities and a minimum requirement with respect to the Group's cash reserves.

Statkraft assumes counterparty risk through its power trading activities and the investment of its surplus liquidity. Before contracts are signed, the creditworthiness of all counterparties is evaluated, and exposure to individual counterparties is limited by mandates based on their credit rating.

Market and financial risk, as well as exposure with respect to the mandates issued, are followed up by independent middle offices, and are reported regularly to Group management and the board of directors.

Operational risk

All processes in the value chain are exposed to operational risk. Important risks for Statkraft are the risk of damage or loss to production facilities and other assets belonging to the Group itself or a third party, injury to the Group's employees and damage to the environment. Insurance coverage has been arranged for all material types of damage or injury, partly through the Group's own captive insurance company Statkraft Forsikring AS.

Operational risk is managed by means of detailed procedures for activities in all operative units and various types of contingency plans. A comprehensive system for registering and reporting hazardous conditions, unplanned incidents and damage has been established. These are analysed on an ongoing basis in order to limit their possible consequences and ensure the follow up of cause-and-effect relationships and the implementation of the necessary actions. Furthermore, performance with respect to the targets set is reported regularly to Group management and the board.

Other risk

Changes in the regulatory framework and political decisions affect the Group's freedom of action, and represent a substantial factor in Statkraft's overall risk picture. The Group maintains a constant watch on changes in the political landscape and places great emphasis on pursuing an open dialogue with decision-makers in all relevant arenas. Statkraft is keen to maintain good relations with stakeholders in society. The impact of an issue on Statkraft's reputation is therefore a key factor in the evaluation and management of risk. In 2006, a number of activities were initiated to improve Statkraft's reputation, including a brand-building project and the strengthening of its corporate communications effort.

Performance management

In accordance with its articles of association, Statkraft AS shall plan, design, construct and operate energy facilities – itself or by means of investments in or in collaboration with other companies. In addition, the Group shall undertake physical and financial energy trading and business activities that are a natural extension of that activity.

Good management and control of the business is crucial for Statkraft's performance financially, environmentally and socially, and is the foundation for value creation, decision making and strategic choices.

THE HIERARCHY OF STATKRAFT'S GOVERNING DOCUMENTS

ARTICLES OF ASSOCIATION
BUSINESS PRINCIPLES
CORPORATE GOVERNANCE PRINCIPLES | CODE OF CONDUCT FOR EMPLOYEES
RULES AND REGULATIONS

Openness, predictability and compliance in the way things are managed are fundamental to building trust in the Group.

Business principles

The business principles serve as guidelines for the Group's decision-making processes and describe what the company stands for, it's role and responsibilities. There are four main principles, which reflect the four most important stakeholder groups: the company's owner, the environment, society at large and the company's employees. The business principles highlight how Statkraft will secure permission to continue operating and growing by acting responsibly towards all stakeholders. Statkraft shall embody:

- Value creation by delivering the rate of return, growth and development expected of a leading energy company. The company has a long-term perspective for its operations and exercises good business practice in all activities.
- Environmental responsibility by supplying Europe with environment-friendly energy, ensuring sustainable utilisation of natural resources and limiting the environmental impact of its operations.
- Social responsibility by contributing to sustainable development by offering its customers flexible, environment-friendly energy that is generated and transported according to high safety standards. The company will actively participate in the communities in which it has a presence.
- Building competence by valuing and further developing its employees at all levels. The company will provide safe and healthy workplaces and a corporate culture that encourages active employee involvement and commitment.

Principles for corporate governance

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, the tradability of its shares and payment of dividend. The Norwegian state is the sole owner of Statkraft; thus the company diverges from the recommendation with regard to the annual general meeting and nomination committee.

All the shares in Statkraft AS are owned by Statkraft SF (state owned enterprise), 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 current government has determined that Statkraft shall continue to be wholly owned by the Norwegian state and in Report no. 13 (2006–2007) to the Storting, on company ownership, the government expounds the principles for the management of state shareholdings.

The board of directors and board committees

The board of directors of Statkraft AS is identical to that of Statkraft SF and has nine members. The Ministry of Trade and Industry strives to maintain continuity and diversity within the board with respect to industrial understanding, professional background, geographical representation, gender, impartiality and independence. In agreement with employee representatives, the company has no Corporate Assembly. The board has drawn up a mandate for the board's activities and evaluates its own performance and competence on an annual basis.

Two board committees have been set up. The compensation committee makes a recommendation to the board with regard to the CEO's terms and conditions, as well as matters of principle relating to senior management salary levels, bonus systems, pension rights, employment contracts, etc. Under certain circumstances this may also apply to other Statkraft employees. An audit committee provides the board with the basis for deliberations relating to financial reporting, internal control and auditing. The committee meets with the auditor in connection with the publication of each quarterly report and as otherwise necessary.

Group management

The board appoints the CEO, who is the chief executive of both Statkraft SF and Statkraft AS. The board assesses the CEO's performance and competence on an annual basis. In addition to the CEO, Group management comprises six executive vice presidents.

Auditing and compliance

An internal audit helps the board and management by providing an independent and neutral assessment of the Group's risk management and control. It also contributes towards the continuous improvement of internal management and control systems. The board approves the governing guidelines for the company's internal audit and, at a meeting attended by the head of the internal auditing department, discusses the annual internal audit report and the auditing plan for the coming year.

An Ethics Council has been established, which is managed by the head of Statkraft's internal audit function. The main role of this independent forum is to communicate the Group's ethical guidelines and to be available to offer advice in connection with ethical issues.

The annual general meeting selects an external auditor to be responsible for auditing the financial statements of the parent company and the Group. Where practical and where Statkraft has the opportunity to so determine, the same firm of auditors is used for all Group companies. For associated companies, the auditor is selected in agreement with the other shareholders. The board meets with the auditor when the annual accounts are to be deliberated and as otherwise necessary. The auditor reports in writing to the board at least once a year. The board evaluates the external auditor's independence and determines guidelines for the use of the external auditor as a consultant.

ISO certification

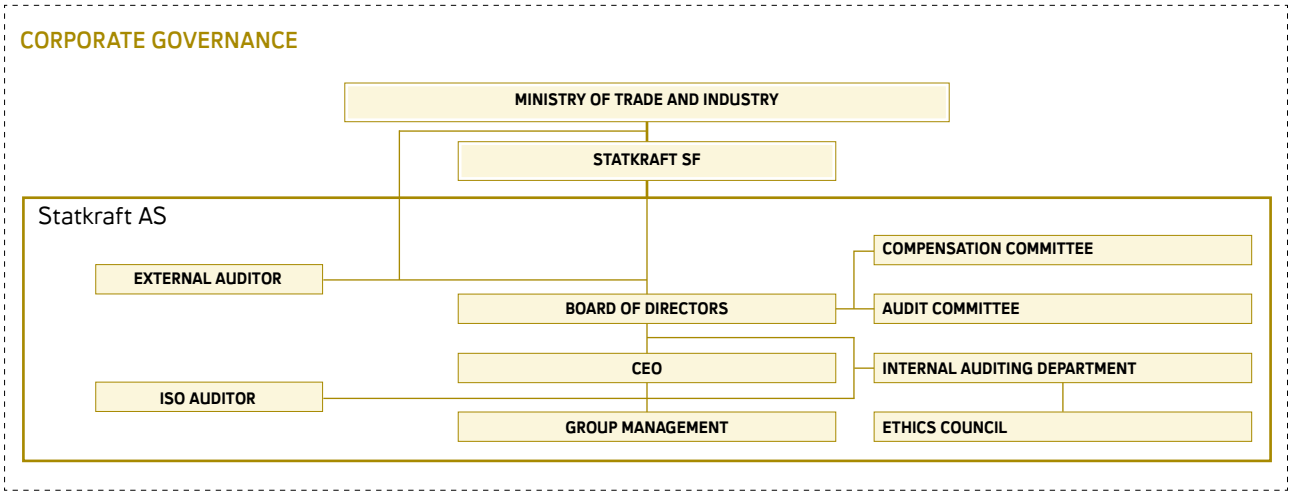
Statkraft's quality assurance system is certified in accordance with ISO 9001:2000, while its environment management system is certified in accordance with ISO 14001:2004. Internal audits are carried out in accordance with an annual rolling plan, and external follow-up audits are carried out in accordance with the relevant standard. These audits are coordinated by Statkraft's internal auditing department. In accordance with the ISO standards, Group management carries out an annual review which also includes a risk assessment.

Employee code of conduct

Statkraft's code of conduct specifies what the company's business principles mean for the individual employee. Good business practice and a high ethical standard are important to the company's ability to succeed. Statkraft manages substantial financial and non-financial assets, and the business is of great importance to both individuals and society as a whole. The code of conduct applies to all employees as well as others contracted to represent Statkraft.

The following priorities apply:
1. Protect life and health
2. Protect the environment
3. Protect against loss of confidence 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, independence, business practice and respect for the individual which are expected from all representatives. In addition, Statkraft's quality assurance system and other formal instructions include procedures that regulate company activities.



"Doing the Right Thing at Statkraft"

Statkraft's business principles, principles for corporate governance and employee code of conduct are collectively known as "Doing the Right Thing at Statkraft". These principles have been approved by the board and have been brought together in a single publication that is distributed to all employees.

"Doing the Right Thing at Statkraft" continued to be emphasised in 2006 through management training and dilemma training exercises. The objective is to increase knowledge and awareness of what constitutes good business practice and its importance in the management of risk. The guidelines and the way they are followed up help to make sure that Statkraft is perceived as a reputable company both nationally and internationally. "Doing the Right Thing at Statkraft" will be revised in 2007 and will be bound more tightly to the company's focus on HSE and efforts to build a brand identity. The principles for corporate governance will be updated, and their application in Group companies will be followed up more closely as part of the effort to develop consistent group-wide management practices.

In 2006, Statkraft embarked on a programme of activities to strengthen internal controls within the Group. Taking the COSO model for risk management and internal control as its starting point, Statkraft has drawn up a framework for good internal control, and has carried out a gap analysis in relation to this framework. In 2007, Statkraft will continue developing its internal control systems, initially focusing on the improvement of its internal control environment.

Management model

Statkraft has developed a value-driven management model that emphasises the relationship between strategic decisions, operational management tools and follow-up.

Strategic platform

The Group's strategic processes provide the basis for operational management decisions. Strategic maps for the various parts of the business form a strategic platform – with priorities and targets that are communicated internally. The impact of different strategic choices is 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 that fulfil the three tasks, goal setting, coordination and cost control, as efficiently as possible. These tools have been implemented as a scorecard system, which has also replaced the budget as a management tool.

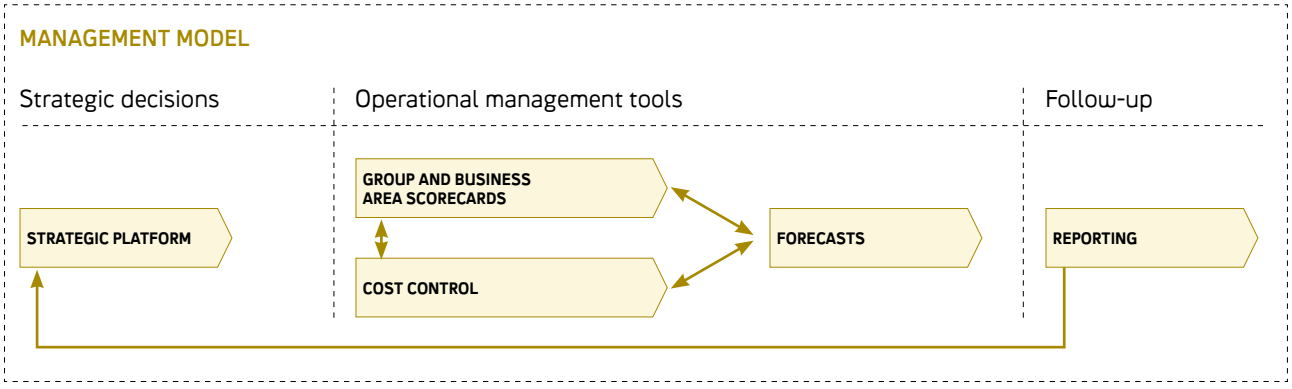
A system has been established to implement corrective measures when performance falls short of the targets set. The business areas and the individual companies draw up their own, more detailed scorecards, which also build on the strategic platform. Great emphasis is placed on ensuring that the scorecards are balanced – both with regard to time horizon, trends and scope. The scorecards are divided into sections covering financial and operational aspects. They also set targets for organisational issues, HSE and reputation.

Forecasts are used for coordination and planning. 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.

The Group meets its need for control by monitoring accounting trends and target cost figures. An authorisation system ensures that individual transactions are verified and approved. Furthermore, a quality assurance system for all major investments has been established. This system also specifies intervention limits for target cost figures.

Reporting

Internal reports for management and the board of directors are prepared each month. The reports cover all the aforementioned 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 (IFRS from 2007) and the standards required of a company with bonds listed on the Oslo Stock Exchange. External sustainability reporting occurs annually through the Group's annual report. The report is verified by an external third party and follows the guidelines issued by the Global Reporting Initiative (GRI) in so far as this is appropriate.



FINANCIAL PERFORMANCE

The Statkraft Group is the Nordic region's third largest electricity generator and the second largest producer of renewable energy in Europe. Statkraft has total assets of NOK 97 billion, 86 per cent of which are related to electricity generation and trading. Statkraft's objective is to expand its power trading operations within Europe. Statkraft also sees opportunities to expand its electricity production portfolio outside Europe through the joint venture SN Power. Norway remains the focus of the Group's power grid and retail sales operations, but a consolidation of the Nordic region's grid structure could, in the longer term, open up business opportunities in the other Nordic countries. This segment of the operations accounts for 9 per cent of total assets.

Through its shareholdings in the four regional utilities Trondheim Energi (100%), Skagerak Energi (66.6%), BKK (49.9%) and Agder Energi (45.5%), Statkraft is engaged in the entire value chain. The first two companies are consolidated in the Group financial statements as Statkraft has a controlling interest. Statkraft's shareholding in the other two companies is less than 50%, and although the Group has an influential position, it does not have majority control. These companies are therefore treated as associated companies. Antitrust restrictions would indicate that further growth in Norway must be restricted to increased shareholdings in the regional companies.

2006

2006 was a very good year for Statkraft. The Group made a profit before tax of NOK 9,826 million, while profit after tax totalled NOK 6,285 million. Profit after tax was 12% higher than in 2005, which had been the best result in the Group's history to date. The results for 2005 were boosted by substantial non-recurring net revenues, while several non-recurring expenses were incurred in 2006 [1]. Adjusted for non-recurring items, profit after tax totalled NOK 6,403 million in 2006, an improvement of NOK 1,060 million or 20%. The Group's strong performance can be ascribed to good power optimisation and high electricity prices.

The Nordic electricity market

In 2006 electricity production in the Nordic region was 11.9 TWh (3%) down on the year before. The reduction is largely due to low levels of water inflow into the hydropower reservoirs through much of the year, as well as stoppages at several Swedish nuclear power plants during the second half.

Electricity consumption in the Nordic region rose only marginally from the 2005 level, while consumption in Norway fell by 2.9%. The decline in the Norwegian market can largely be ascribed to reduced consumption by power-intensive industry, electric boilers and pumped-storage power plants. General consumption in Norway totalled 83.1 TWh in 2006, down 0.2% on the year before. 2006 was a relatively mild year, and the temperature adjusted consumption rose by 0.3%.

Despite high average temperatures, the spot price rose by 66% compared with 2005, ending the year at NOK 391/MWh. By comparison the average spot price was NOK 235/MWh in 2005 and NOK 242/MWh in 2004. In addition to the low water inflow and nuclear power stoppages, the price was affected by high spot prices in Germany. Prices were record high for nine of the year's 12 months. The average monthly price was highest in August (NOK 531/MWh) and lowest in December (NOK 273/MWh).

Norway imported 0.8 TWh net during the year, while net imports into the Nordic region totalled 11.4 TWh. The Nordic market has largely imported from Russia and exported to Germany.

POWER CONSUMPTION AND OUTPUT IN THE NORDIC REGION

TWh	2006	2005	2004	CHANGE 2005 –2006
Consumption in the Nordic region	**390.5**	390.0	394.2	0.1%
Output in the Nordic region	**379.1**	391.0	382.3	-3.0%
Imports into (+) and exports from (-) the Nordic region	**11.4**	-1.0	11.9	-
Consumption in Norway	**121.2**	124.7	122.9	-2.9%
Output in Norway	**120.4**	136.9	111.2	-12.1%
Imports to (+) and exports from (-) Norway	**0.8**	-12.2	11.8	-

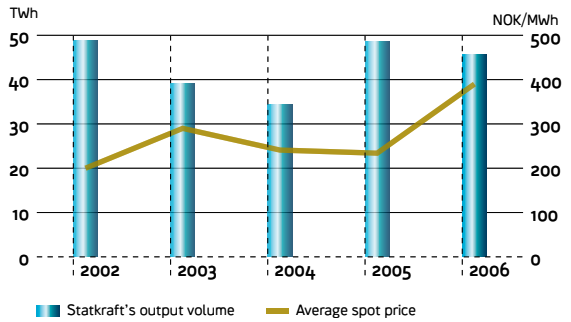
Sources: "Nord Pool Nordic electricity market information – week 52" and "Nord Pool Country Report Norway – week 52".

Statkraft's power sales revenues

Despite the lower than normal inflow of water into reservoirs in both Norway and Sweden, Statkraft's hydropower output was higher than normal in 2006. This can largely be ascribed to high reservoir water levels at the start of the year. The Group generated a total of 45.7 TWh, compared with 48.5 TWh in 2005. Despite the 6% decrease, overall output was higher than in a normal year. As a result of the high output level and low inflow, reservoir water levels were slightly lower than normal at the end of the year.

[1] In 2005 the Group recorded non-recurring net revenues totalling NOK 342 million before tax and NOK 277 million after tax, while in 2006 it incurred non-recurring expenses totalling NOK 140 million before tax and NOK 118 million after tax.

ELECTRICITY PRICE AND OUTPUT VOLUME



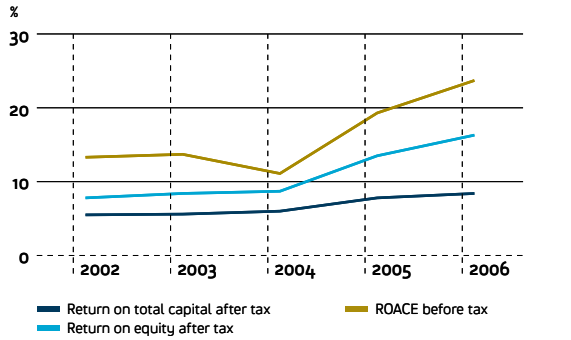
During the course of the year the Group sold 13.1 TWh to industry at statutory prices, and supplied 2.5 TWh of concessionary-priced electricity to local and county authorities. This corresponds to 34% of total output.

In 2006 Statkraft opened a trading office in the Bulgarian capital, Sofia. Along with existing offices in Germany, the Netherlands and Sweden, this new office is active in trading of green certificates, cross-border deliveries, portfolio management and structured contracts for individual customers.

Return on investment

Return on invested capital was significantly higher than in previous years. After adjustments for non-recurring items, return on average capital employed (ROACE) totalled 23.7% before tax, up 4.4 percentage point compared with 2005. Statkraft's target for ROACE in 2007 is 16% before tax.

RETURN ON CAPITAL, ORDINARY OPERATIONS *



* Non-recurring items have been eliminated. Figures for 2002 are for the Statkraft SF Group. Figures for 2003 and 2004 are proforma, Statkraft AS Group.

Return on equity from ordinary operations totalled 16.3% after tax (up from 13.5%), while ordinary operations generated a return on total capital after tax of 8.4% (up from 7.8%).

Characteristics of Statkraft's earnings

In 2006 Statkraft's profit from ordinary operations before depreciation, financial items and tax (EBITDA) totalled NOK 11,499 million, compared with NOK 9,505 million the year before. The Group's EBITDA is, historically, very good, regardless of whether output has been very low (2004) or prices have been low (2000) during a financial year.

Temperature and precipitation levels (rain and snow) are the most important factors influencing the formation of prices in the Nordic region. High precipitation levels result in increased production capacity, which will, if demand does not rise, help to curb price rises. Low precipitation levels will normally result in higher prices, owing to lower available production capacity. Consequently there is a reasonable degree of natural hedging between price and saleable volume. Since practically 100% of the electricity generated in Norway is hydropower, this effect is felt most strongly by the Norwegian power generators. An expansion of the transmission capacity between the Nordic region and the Continent means that Nordic prices are increasingly affected by continental electricity prices, which are influenced by coal, gas and carbon prices.

Statkraft has a very high EBITDA margin since the operating costs associated with hydropower production are low. In 2006 the margin was 71%, as against 68% the year before. In the period since 2000 the margin has never fallen below 57%. The production cost per MWh in 2006 was around NOK 55. The price of electricity must therefore be extremely low before the EBITDA margin is critically affected.

Hydropower plants generally have a long technical lifetime. With appropriate maintenance investments and an absence of major technological innovations, the Group's generating facilities are considered to have a long remaining lifetime. With effect from 2006, a slightly higher percentage of maintenance costs has been capitalised and will be depreciated over the period until the next periodic maintenance. This change in accounting practice is an adaptation to IFRSs.

In Norway electricity tax is linked to market prices. When market prices are high, the electricity tax burden increases. As a result of higher average spot prices in 2006, resource rent tax rose by NOK 468 million, from NOK 680 million in 2005 to NOK 1,148 million. Resource rent tax accounted for 32% of the Group's total tax expense in 2006, compared with 24% the year before. Statkraft charged a total of NOK 3,541 million to taxes in 2006, compared with NOK 2,829 million in 2005. This represented an effective tax rate of 36.0%, up from 33.5% the year before.

With a very flexible generating ability and many multiyear reservoirs, Statkraft is able to optimize its water resources over a perspective longer than one year. This enables the Group to maintain a relatively high level of production in periods with low water inflow.

The impact of statutory-priced contracts on earnings

Statkraft is a major supplier of electricity to power-intensive industry. In 2006 it sold 13.1 TWh of electricity to industry at statutory terms. With an average price of NOK 135/MWh, these statutory-priced contracts produced cash flows and profits that were substantially lower than they would have been if the same volume of electricity had been sold on the open market. Compared with a spot price of NOK 391/MWh, the estimated revenue shortfall from these contracts totalled NOK 3.4 billion in 2006, compared with NOK 1.7 billion the year before. Current statutory-priced contracts expire successively in the period to 2011. As these contracts expire Statkraft's portfolio of commercial contracts with power-intensive industry is gradually being expanded.

THE STATKRAFT GROUP'S POWER PLANTS

COMPANIES (INCLUDING SUBSIDIARIES)	NO. OF POWER PLANTS TOTAL	NO. OF POWER PLANTS OF WHICH WHOLLY OWNED	INSTALLED CAPACITY MW TOTAL	INSTALLED CAPACITY MW STATKRAFT'S SHARE	ANNUAL MEAN OUTPUT GWh TOTAL	ANNUAL MEAN OUTPUT GWh STATKRAFT'S SHARE
Statkraft Energi AS	81	42	12 892	8 269	47 285	31 747
Statkraft Development AS (wind)	3	3	245	245	738	738
Småkraft AS	3	3	8	8	27	27
Trondheim Energi AS	19	14	934	770	3 797	3 158
Skagerak Energi AS	45	21	5 792	1 315	18 319	5 153
Correction for co-owned power plants	-13		-4 107	-43	-10 334	-180
Total Norway	**138**	**83**	**15 763**	**10 653**	**59 832**	**40 644**
Statkraft Sverige AB	19	9	547	292	2 487	1 286
Statkraft Suomi Oy	4	3	132	66	636	297
Total Nordic region	**161**	**95**	**16 472**	**10 921**	**62 955**	**42 226**

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

Intrinsic values

The Norwegian assets in the Generation & Markets business unit have a mean output of 31.7 TWh and a combined book value of NOK 22.8 billion.

The Group owns 44.6% of E.ON Sverige. This shareholding is recorded in the Group's balance sheet as being worth NOK 18.9 billion. The company has an annual mean output of 32 TWh and supplies around a million electricity and grid customers.

In the period 1999 to 2001 Statkraft acquired substantial shareholdings in several Norwegian regional utilities, for which the Group paid a total of NOK 21.8 billion. These companies have a total annual mean output of 22.2 TWh, of which 8.3 TWh derives from consolidated companies and 13.9 TWh from associated companies. In addition, these companies have an extensive electricity and grid customer base.

In 2005 Statkraft paid NOK 4.1 billion for control of an annual mean output of 1.6 TWh in Sweden and Finland.

The above mentioned factors would indicate that the Group's balance sheet contains assets whose fair market value considerably exceeds their book value.

Cash Flow and investments

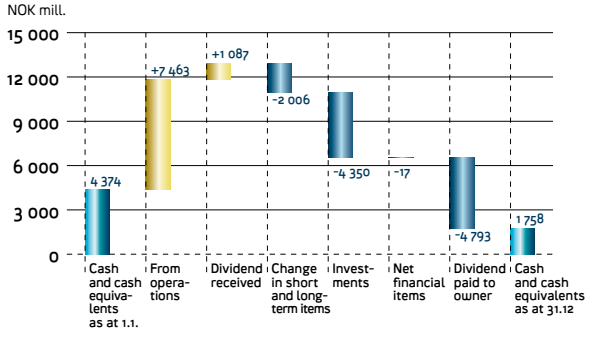
Given the Group's areas of strategic focus, it is clear that Statkraft's equity requirement in the years ahead will be considerable. This can be met by retaining earnings within the Group or through the infusion of new capital. The government's report to the Norwegian Storting, detailing its policy on state-ownership, which was published in December 2006, stipulates that the dividend payable by the company shall normally lie in the upper quartile. Continued business development, growth and investment in new capacity could therefore depend on the addition of new capital.

Following total investments of NOK 4.4 billion in 2006, Statkraft has an interest-bearing debt ratio (interest-bearing debt/interest-bearing debt + equity) of 45.6%, compared with 43.9% in 2005.

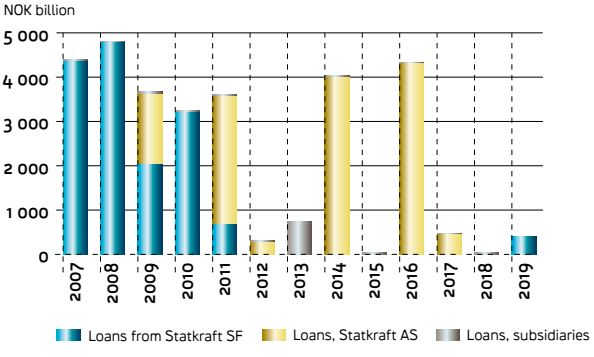
Statkraft as a borrower

Electricity production is a capital intensive enterprise. In order to develop the business further, Statkraft depends on access to effective credit markets, both nationally and internationally. At the end of 2006 the Group had interest-bearing debt of NOK 32.5 billion, of which NOK 30.0 billion was long-term debt, compared with NOK 31.3 billion and NOK 29.0 billion respectively in 2005. Around 64% of the debt has been raised in the Norwegian market and is listed on the Oslo Stock Exchange. The remaining debt has been raised in the international market and is largely listed on European stock exchanges. Net new debt totalling NOK 1.2 billion was raised during the year, and the increase in unrealised foreign exchange adjustments on the debt totalled NOK 1.5 billion. The Group's current liabilities associated with the deposit of cash collateral were reduced by NOK 1.5 billion during 2006.

CASH FLOW 2006



LONG-TERM LIABILITIES, DEBT REDEMPTION PROFILE



At the end of 2006, state-guaranteed debt – for which Statkraft SF stands as the debtor – totalled NOK 15.1 billion. Loan agreements have been entered into between Statkraft AS and Statkraft SF with respect to this debt. The balance of the debt not subject to state guarantee held by Statkraft AS and its subsidiaries totalled NOK 14.9 billion at the end of the year.

In the second quarter of 2006 Statkraft AS set up a Euro Medium Term Note (EMTN) programme worth EUR 3 billion. The programme is registered on the London Stock Exchange, and enables the company to raise debt both in international and Norwegian markets.

At the end of 2006 slightly more than half of the borrowing portfolio in NOK and the entire borrowing portfolio in SEK was held at floating interest rates. The interest rate on just over 80% of the total borrowing portfolio is fixed for periods of less than one year.

Rating

The two international credit rating companies Standard & Poor's (S&P) and Moody's have assessed Statkraft AS's creditworthiness. Statkraft AS's credit rating remained unchanged in 2006. In addition S&P established a credit rating for Statkraft Energi AS in 2006. The ratings are summarised in the table below.

	STANDARD & POOR'S	MOODY'S
Statkraft AS		
Long-term rating	BBB+	Baa1
Short-term rating	A-2	-
Outlook	Stable	Stable
Statkraft SF *		
Long-term rating	AA+	Aaa
Statkraft Energi AS		
Long-term rating	BBB+	-
Short-term rating	A-2	-
Outlook	Stable	-

* The rating applies to outstanding state-guaranteed loans issued by Statkraft SF. No general rating of Statkraft SF as a company is in effect.

In its latest analysis of Statkraft AS, S&P points to the company's strong business profile based on diversified and cost-effective hydropower production, its strategic position with growing downstream operations, and its state-ownership as being important to its rating. S&P assesses the company's risk profile as being below average, partly as a result of a high level of dividend payments. Moody's assessment is based on its rating methodology for government-related issuers. The rating reflects a combination of Statkraft's strong market position in Norway and the profit share contributed by the Group's Norwegian operations, its state-ownership and Norway's Aaa rating, as well as the company's financial position and credit risk.

Financial communications

Statkraft is keen to maintain open and regular communications with all stakeholders. The Group's financial reporting shall afford transparency and provide users with a relevant, complete and reliable overview of the Group's strategies, objectives and performance, as well as its financial development and position.

Furthermore, the Group's owner, creditors and the financial markets shall receive sufficient information to enable them to assess the company's underlying assets and risk. The Group's owner and the financial markets shall be treated equally, and information shall be communicated in a timely manner. The company strives to hold regular meetings with its owner and stakeholders within the financial markets.

Important information is notified to the stock exchanges. Company-related notices can be found on the Oslo Stock Exchange under ticker code STAKR07. In addition, all important information is published on the company's website www.statkraft.com.

Business areas

Statkraft's business is divided into three operative business areas in addition to several staff departments responsible for shared services and financial investments. The structure is based on Statkraft's strategic priorities.

The Generation & Markets business area includes core activities within the generation and sale of electricity. The area runs Statkraft's flexible generating assets and trading operations. The objective of the New Energy business area is to secure further growth in Statkraft's output through the development and acquisition of environment-friendly generating capacity, as well as the development of wind power and other types of renewable energy production. The third strategic focus relates to the further development of Statkraft's shareholdings in other Norwegian energy companies. This activity is administered by the Regional business area.

BUSINESS UNITS – KEY FIGURES

NOK MILL.	STATKRAFT AS GROUP	GENERATION & MARKETS	NEW ENERGY	REGIONAL	OTHER *
INCOME STATEMENT 2006					
Gross operating revenues	16 225	11 611	286	4 431	-103
Operating profit	9 952	7 917	5	2 206	-176
Share of profit from associated companies	1 689	-11	5	580	1 116
Profit before financial items & tax	**11 641**	**7 906**	**9**	**2 786**	**940**
Net financial items	-1 816				
Profit before tax	9 826				
Taxes	-3 541				
Net profit	**6 285**				
BALANCE SHEET AS AT 31 DECEMBER 2006					
Property, plant, equipment and intangible assets	57 349	32 565	1 541	22 870	373
Investments in associated companies	30 998	778	814	10 500	18 905
Other assets	8 206	5 846	332	2 054	-26
Total assets	**96 552**	**39 189**	**2 686**	**35 424**	**19 252**
Capital employed	43 093	24 727	1 401	17 374	-409
Maintenance investments	573	271	-	267	35
Increased capacity investments	3 125	2 195	370	560	-
Investments in shareholdings	750	471	253	26	-

* Includes investments in E.ON Sverige.

ENVIRONMENT

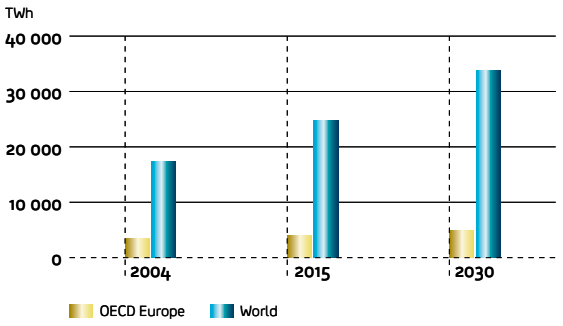
Statkraft generates environment-friendly energy, almost entirely from renewable resources and with zero carbon emissions. Even though this situation will change slightly when Statkraft's planned gas power plants go into operation, the Group's product is of great value with regard to the challenges posed by global warming. At the same time, Statkraft's operations have a direct impact on the environment, primarily through landscape and river system interventions. Sustainability is of key importance in Statkraft's business strategy and environmental considerations are an integral part of the Group's management systems, and play a natural role in day-to-day operations. No serious environmental non-compliances occurred in 2006.

Increased demand for sustainable energy solutions

Global energy consumption may rise by more than 50% by 2030 unless significant measures are implemented[1]. Almost half of this increase will stem from the production of electrical power, and over 80% will be produced from non-renewable energy sources such as oil and coal. These sources will thus maintain their share of the total energy supply, but produce a far higher volume than they do today. This will result in a considerable increase in carbon dioxide emissions. Forecasts indicate that energy-related carbon dioxide emissions will rise from 26 billion tonnes in 2004 to 40 billion tonnes in 2030. The link between increased carbon dioxide emissions and global warming is well documented, and such an increase may have serious and unpredictable consequences for the earth's climate and environment.

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 emission trading schemes, and the Clean Development Mechanisms and Joint Implementation.

EXPECTED ELECTRICITY PRODUCTION IN EUROPE AND THE WORLD



Source: World Energy Outlook 2006, IEA.

Statkraft wishes to contribute to a more sustainable energy supply in Europe by producing pure energy. Statkraft sees great opportunities to exploit the growing demand for more environment-friendly energy, and will increase the supply of hydropower, wind power and gas power. Furthermore, the Group will develop new technology and realise new

BUSINESS PRINCIPLE – ENVIRONMENTAL RESPONSIBILITY

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 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 or 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.

[1] World Energy Outlook 2006, published by the International Energy Agency (IEA).

energy capacity based on new environment-friendly energy sources, in addition to seizing business opportunities within environment-friendly market mechanisms.

Environmental policy

Statkraft's environmental 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 group scorecards. Its operations are continually being monitored through an environmental management system, which for Statkraft Energi AS, and Statkraft Development AS and Statkraft Suomi Oy, is certified in accordance with the ISO 14001:2004 standard.

The environmental management system provides a complete system for charting and monitoring environmental aspects, from day-to-day operations to strategic planning. The Group's environmental work shall be characterised by openness and a willingness to learn, in order to avoid undesirable events.

Environmental targets

Statkraft reviewed the environmental aspects of its operations in 2006 and defined the following overarching environmental targets, which reflect the company's ambition of being a leading international energy company:

SIGNIFICANT ENVIRONMENTAL ASPECT	ENVIRONMENTAL TARGETS
General	→ Zero serious environmental non-compliances
Landscape and river basin intervention	→ Evaluate own activity and environmental impact in Norway in accordance with the Global Reporting Initiative, through the Group project for non-financial indicators → Carry out R&D projects to understand and document the environmental consequences of wind power on birdlife
Energy and resource consumption	→ All electricity consumption by the company shall carry proof of origin through the Renewable Energy Certificate System (RECS) → Clarify methods for documenting energy efficiency in the present power generation using internationally recognised methods (e.g. LCA, EPD, ExternE) → Carry out an R&D project to document sustainability in an example power plant → 10% reduction in electricity consumption at Statkraft Energi AS by 2010 → Establish criteria and targets for environment-friendly purchasing of a defined selection of goods and services by 2008
Waste management	→ Continuous improvements to realise the national objective of a waste recycling rate of 80% by 2010 → Establish joint sets of criteria for the handling and reporting of waste in the Group by 2008
Local pollution	→ No serious pollution → Develop methods, conduct analyses and describe measures to reduce the risk of pollution from own hydropower operations by 2008
Greenhouse gases	→ Identify the greenhouse gas emission profile for all our technologies and evaluate principles for sustainable energy trading by 2008

Environmental follow-up for 2006 was also measured in terms of the avoidance of serious environmental non-compliances, which was achieved. Another target was to increase the waste recycling rate by 5 percentage points for the certified areas of the business. An improvement of around 40% was achieved, due in particular to one individual project at the Aura power plant, which alone returned 400 tonnes of materials for recycling. Having previously set an environmental goal of defining specific criteria and targets for environment-friendly purchasing, in 2006 environment criteria were established for purchasing and subsequently applied to the procurement of hydraulic oil. Appropriate purchasing criteria are also being established for waste management. Last year's environmental target of improving the environment-friendliness of river management operations has been further followed up through day-to-day operations, a review of environmental aspects and environmental inspections. Together with the measurement of deviations from permissions and self-imposed restrictions, this forms the basis for improvement measures. In 2006, a major river basin project, involving over 50 measures designed to improve conditions for fish and fishing, was implemented. In December 2006, an application was filed for a temporary change to be made to the discharge regulation rules in Bjoreio in order to improve conditions for salmon. The experiences learned from low reservoir water levels in 2006 will be evaluated.

Environment-friendly energy

Almost 100% of Statkraft's electricity generation comes from renewable energy sources, and produces no greenhouse gas emissions. The generation of environment-friendly energy is Statkraft's most important contribution to the environment.

Environment-friendly energy production

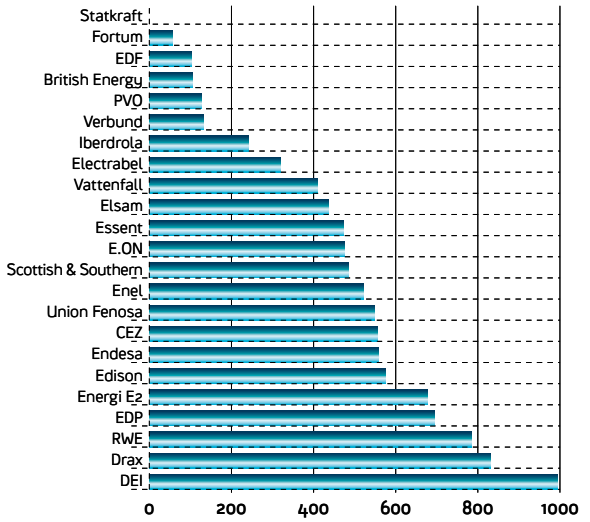
Hydropower accounts for 41.5 TWh of a mean annual output of 42.2 TWh. Neither hydropower nor wind power generation produce any emissions of carbon dioxide or other greenhouse gases, apart from those resulting from the use of petrol and oil for transport or the operation of equipment. In addition, the issue of whether hydropower reservoirs could provide a net release of greenhouse gas emissions, over and above the naturally occurring level, is currently being investigated.

The Group is involved in district heating through Trondheim Energi Fjernvarme and Skagerak Energi. Parts of the heat production are based on energy sources that are not renewable, although biofuels, heat pumps and electricity from renewable sources are also utilised.

A comparison of the 23 largest European energy companies shows that Statkraft has the lowest carbon factor, i.e. the lowest emissions of carbon dioxide per MWh. These 23 companies generate 70% of the electricity and 55% of greenhouse gas emissions in the European power and heating industry. Carbon emissions from these companies totalled 790 million tonnes in 2005.

This picture will change somewhat in the coming years, when the three gas 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 approximately 50 TWh in 2008, of which some 85% will be from emission-free, renewable sources.

EUROPEAN ENERGY COMPANIES' CARBON INTENSITY



Source: Facteur Carbone Européen, November 2006, PricewaterhouseCoopers/Enerpresse.

Environmental products

Statkraft actively trades in carbon quotas and green certificates. The carbon quota trading scheme was launched by the EU in 2005 as a way of reducing greenhouse gas emissions. The quota trading system means that emission-heavy operations that 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. In December 2006, the EU Commission set for the second trading period, which runs from 2008 to 2012, total emission quotas for ten member countries that are approximately 7% lower than in the first trading period.

Increasing emissions of greenhouse gases and a growing demand for energy have given renewable energy increased value on the market. A number of schemes and mechanisms facilitating the sale of environmental value connected with renewable energy have been established in recent years. Environmental value can be defined as the added value over and above market value resulting from the fact that energy production is renewable and, in the case of individual schemes, from the fact that such production meets other specified requirements. Certificates issued by independent certification bodies via RECS (Renewable Energy Certification System) provide one example of this type of scheme. In 2006 Statkraft sold 12.4 TWh of power production with environmental value, which corresponds to around 27% of total production.

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. 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. Another opportunity is small-scale power plants with an installed capacity of 1–10 MW. Statkraft considers such opportunities in connection with the company's existing hydropower facilities. In addition, Statkraft's subsidiary Småkraft AS invests in and develops this kind of project.

Modernisation projects resulting in greater operational efficiency led to a 10 GWh increase in theoretical electricity production in 2006. Statkraft aims to develop 3.5 TWh of hydropower by 2015. The unexploited hydropower potential in Norway today is illustrated in the table below:

UNEXPLOITED HYDROPOWER POTENTIAL IN NORWAY

	TWh
For schemes with an installed effect under 10 MW	23.8
For schemes with an installed effect over 10 MW	15.2
Protected against hydropower schemes	44.2

Source: Norwegian Water Resources and Energy Directorate (NVE).

Further expansion of Norway's wind power potential

Norway has substantial wind resources, and the Norwegian coastline offers some of the best wind resources in Europe. Norway's realistic wind power potential on land is estimated at approximately 12–15 TWh. There is also wind power potential at sea. Opportunities for developing the wind power potential are limited due to technical, financial, environmental and regulatory conditions. 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 three wind power projects, at Smøla, Hitra and in Kjøllefjord. These three facilities have a total average annual output of 0.75 TWh, corresponding to the consumption of almost 40,000 households. In addition, there are ongoing reviews and licence applications for several wind power projects, which together can meet Statkraft's target of generating 2.25 TWh of wind power annually by 2015.

In the autumn of 2006, the Ministry of Petroleum and Energy presented its new incentive scheme for renewable energy, which will come into effect from 2008. Producers of wind power will receive NOK 80 per MWh of produced electricity over a period of 15 years. Statkraft considers the model itself to be good, but it is felt that the level of support is too low. With the current level of costs for developing wind power, it is difficult to see that many of Statkraft's current wind power projects can be realised with this level of support. The Norwegian Water Resources and Energy Directorate estimates that the majority of planned wind power projects will require up to NOK 500 per MWh in total revenues over a long period of time if they are to generate ordinary profitability.

International investments in hydropower, wind power and gas power

Statkraft has ambitions to grow in Europe and to position the Group for an integrated European power market by developing and acquiring new environment-friendly generation capacity. The Group has two gas power plants under construction in Germany, and is continuing to look for potential investments in hydropower in Southeast Europe and Russia. Future ambitions entail evaluating the development of wind power in the United Kingdom and additional gas power in Northwest Europe, as well as strengthening Statkraft's presence in the hydropower market in Southeast Europe and Russia. Outside Europe, Statkraft will focus on investments in new power projects through SN Power. Statkraft will also investigate the opportunity for investing in infrastructure that supports the Group's flexible power

generating assets. Examples of this include infrastructure such as Baltic Cable and gas stocks.

New, environment-friendly technologies

Statkraft concentrates a large part of its innovation efforts on environment-friendly energy sources of the future. Osmotic power, which utilises the osmotic pressure differences between salt water and freshwater, is a promising business opportunity in the field of renewable energy. Tidal power is a renewable and emission-free energy source that is based on exploiting the ocean currents created by the ebb and flow of the tides in order to drive turbines. Statkraft's involvement in tidal energy is part of a portfolio of sea-based energy activities, which also include floating wind power technology and wave power. Statkraft's involvement in the development of carbon-dioxide cleaning technology is important in order to produce energy generation with lower emissions of greenhouse gases. 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 as the only local emission it produces is water.

Important environmental aspects

Statkraft reports its impact on the environment in accordance with the overarching principle of materiality. This means that 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, Group management reviews the Group's environmental management system annually and assesses the most important environmental aspects of the Group's operations. The following are the most important environmental aspects:

- → Landscape and river basin intervention
- → Energy and resource use
- → Waste management
- → Local pollution
- → Greenhouse gas emissions

Together with the company's environmental targets, these environmental aspects form the structure of Statkraft's environmental reporting, and also serve as guidelines for Statkraft's efforts and use of resources in respect of the environment.

Landscape and river basin intervention

Statkraft's operations affect many people, both directly and indirectly, through landscape and river basin intervention. 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. This applies to both wind farms and various hydropower projects. 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 stakeholders.

Water flow regulation

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 introduce a number of voluntary environmental measures extending beyond the official water flow regulations, e.g. with respect to biological diversity, outdoor pursuits or aesthetic considerations.

After a winter with limited levels of snow in the mountains and very little precipitation during the spring and summer, water inflow in Norway's hydropower reservoirs was low in the first half of 2006. At the same time, demand for electricity was high. This resulted in lower than normal water levels in Statkraft's hydropower reservoirs. Water levels remained within the limits stipulated in currently applicable regulations, but in some reservoirs this situation made boating and fishing difficult. In addition, the situation was considered to be visually disturbing, and many people believed that it would have dramatic consequences for fish stocks. Statkraft provided information about the current status and ongoing measures in the various reservoirs. In addition, several slipways and jetties were also extended and established. Researchers have been commissioned to obtain more knowledge about the consequences this special situation may have for fish stocks. As a regulator, Statkraft has nevertheless been criticised for showing poor judgement in respect of local business interests and the management of natural resources. In October, Statkraft was reported to the police by several landowners along the regulated watercourse in Tokke-Vinje, and the police are currently investigating the matter.

River husbandry and fish populations

Regulating a river or lake'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 flow rate fluctuate. Statkraft's objective is to maintain healthy river systems with self-recruiting fish populations, and a number of measures are being implemented to contribute to this. Some of these measures ensue from conditions laid down in the operating licence, while others are the result of the fact that Statkraft itself has identified a need and a potential for improvement. All measures are implemented in cooperation with the regulatory authorities and other stakeholders. Statkraft also carries out extensive monitoring of fish stocks by means of various biological studies.

In addition to careful regulation of water level and rate of flow for environmental reasons, the measures include moderate river adjustments, the safeguarding of wetland areas for spawning and growth, restocking, the construction of fishways for Atlantic salmon and the improvement of thresholds and migration obstacles.

Statkraft operates seven fish farms, and is a major producer and buyer of fish for restocking. The company releases a number of salmon, sea trout and inland trout each year, and this year released 729,000. In addition, a large amount of spawn was planted. 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 also operates two of the country's three gene banks to safeguard the Norwegian salmon population's 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 and Orkla rivers, where the Statkraft Group is the regulator.

Localisation of wind farms

Statkraft places emphasis on finding locations for wind farms that conflict 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.

Most of the interventions associated with wind power generation are reversible. A wind farm has a lifespan of 20–25 years, although upgrades and renewal can extend the useful lifetime of the infrastructure, 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

Statkraft distributes electricity via an extensive 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.

Energy and resource consumption

Statkraft produces electrical energy and heat by exploiting various natural resources, primarily wind and water. This has different environmental consequences and it is therefore highly important that these resources are utilised in an effective and sustainable manner. Among other things, this means that the produced amount of energy must be in proportion to the natural resources that are utilised and the environmental impact this has. Statkraft currently uses resources in an environmentally efficient way that is adapted to new knowledge and almost entirely renewable. Statkraft will take the initiative to develop and use methods to compare the environmental achievements of different forms of energy production.

Statkraft also consumes electrical energy in connection with the operation of its installations and offices. All electricity consumption has been environmentally certified in accordance with RECS [1]. In 2006, electricity consumption totalled 213 GWh, excluding energy losses at transformer stations and along power lines. Energy consumption in connection with pumps, 105 GWh, is included.

Measures to reduce energy consumption are being planned, and the company's objective is to reduce electricity consumption by 10% in the business area Generation & Markets by 2010. Statkraft also aims to reduce energy and resource consumption by purchasing the right products and services, and through increased recycling and improved efficiency.

SUBSTANCE CONSUMPTION AND LOSS

SUBSTANCE	UNIT OF MEASUREMENT	2006	2005	2004*
Transformer and lubricating oils	litre	**10 388**	2 515	1 700
Fuel	m^3	**1 421**	1 499	327
Chemicals	litre	**32 919**	4797**	4 100
Gases (fire-retarding)	kg	**4 420**	416**	73

* Does not include Trondheim Energi and Skagerak Energi.

**Does not include Trondheim Energi.

[1] RECS (Renewable Energy Certificate System) is a system for approving renewable power generation and for the issuing, trading and redemption of certificates for renewable energy.

Waste management

Statkraft generated over 2,400 tonnes of waste in 2006. Around 267 tonnes of this 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, 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 collecting and recycling. In 2007, an electronic system for recording substances and waste products will be implemented in the business area Generation & Markets. At the same time, all agreements with waste collection facilities will be reviewed.

The target for the ISO 14001-certifiied part of Statkraft was to increase the recycling rate by 5% in 2006 compared with the year before. The result was 73%, compared with 36% in 2005. For the Group as a whole, the result was 55%, the same as in 2005. The Statkraft Group's goal is to achieve a total recycling rate of 80% by 2010.

In connection with large maintenance, modernisation and construction projects, waste management is followed up through separate environmental plans.

WASTE

TYPE OF WASTE	UNIT OF MEASUREMENT	2006	2005	2004*
Hazardous waste	tonnes	**267**	342	66
Other waste	tonnes	**2 154**	1 467	551
Percentage of waste recycled	%	**55**	55	66

* Does not include Trondheim Energi and Skagerak Energi.

Local pollution

Hydropower and wind power generation do not produce any systematic emissions to air or water. Nevertheless, the size of the company's operations may result in some emissions to the soil, air or water from the loss of gases, e.g. 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 will be apparent from the electronic system for recording substance and waste products, which tracks consumption and loss of environmentally hazardous substances from their acquisition to their disposal. Statkraft does not record the environmental impact of travel activity.

Greenhouse gases

Statkraft's new gas power plants will produce carbon emissions. Nevertheless, the electricity they generate will be environment-friendly, primarily because it will replace electricity generated in much more polluting coal-fired power plants. The emissions from gas power plants built with the best available technology contain approximately 50% less carbon dioxide (CO_2) and up to nine times less nitrogen oxide (NO_x) than coal-fired power plants [2]. In the national budget for 2007, the Norwegian government granted NOK 860 million for research into technological innovations regarding CO_2 capture from gas power plants and the investigation of possible CO_2-related value chains. Statkraft wishes to play an active role in the Norwegian community of specialists in gas power and technological innovation for the emission-free facilities of the future.

The Group is actively participating in a number of development projects that focus on CO_2 capture and storage. The aim of the largest of these,

"Just Catch", is to build a prototype before 2009 and a full-scale plant before 2013. Statkraft is already investing its capital and skills in this project, and is currently discussing the extent of its commitment to the development of a possible prototype.

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 power plants will represent a direct alternative to coal power. One great advantage of modern gas power plants is flexible production, so that output can be easily adjusted to meet current demand.

Carbon quotas totalling 132,082 tonnes have been allocated to Trondheim Energi Fjernvarme for the period 2005–2007, and quotas totalling 575,894 tonnes have been allocated to Naturkraft's facility at Kårstø for 2007, while Knapsack and Herdecke are expected to be allocated quotas during the course of 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 that undergoes anaerobic decomposition, resulting in the release of both carbon dioxide and methane. In Norway and other cold and temperate countries, this is not a particular problem and is unlikely to affect the climate, as established by the UN Intergovernmental Panel on Climate Change. This is due to low 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 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. Extensive international research is being carried out in this field, and there is now a broad understanding that the problem is limited to emissions of methane from certain hydropower reservoirs in tropical areas.

Statkraft takes an active part in Nordic and international research with the aim of obtaining complete and correct information about this problem. In 2003, Statkraft initiated a research project at the Follsjøen reservoir on the edge of the Trollheim mountain range to identify whether net emissions of greenhouse gases, both methane and carbon dioxide, increase as a result of the regulation of water flowing out of the reservoirs. The project is being carried out by the SINTEF research institute, and the results show a low to zero release of methane from Follsjøen. The project will run for another three years.

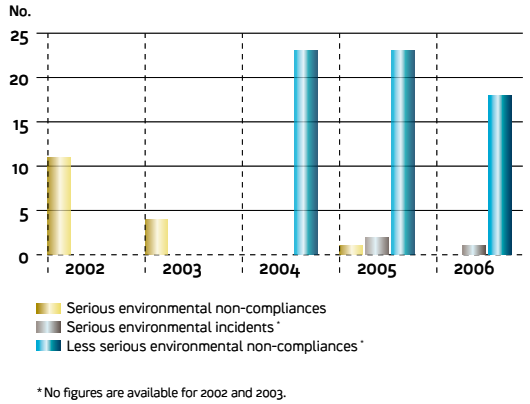
Environmental non-compliances and incidents

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. No serious environmental non-compliances were registered in 2006.

Serious environmental incidents are defined as incidents with potentially serious consequences to the environment and/or the company's reputation and which do not fall under the definition of an environmental non-compliance. One serious environmental incident was registered in 2006 involving collisions between sea eagles and wind turbines at Smøla Wind Farm. Since 2003, Statkraft has contributed actively to research on the white-tailed sea eagle population at Smøla and the relationship between sea eagles and windmills. The first collisions between sea eagles and windmills occurred in 2005 when four eagles where killed. During the course of 2006 a total of six sea eagles were recorded as having died following collisions with windmills. The sea eagle deaths have been classified as a serious environmental incident owing to the high number of deaths. Even though the sea eagle is not an endangered species, and the sea eagle population is large and stable in Central Norway, this is still considered a serious incident. Statkraft has therefore stepped up its research efforts at Smøla, focusing in particular on measures that can reduce the danger of collisions. These measures include systematic monitoring with video cameras, behavioural studies and the measuring of successful reproduction. Since the transmission cable between the island of Smøla and the mainland was laid as a ground cable, ten kilometres of suspended power lines have been removed, thus reducing the risk of collisions between birds and power lines.

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 18 less serious environmental non-compliances were registered in 2006. The majority of these occurred in connection with brief violations of the minimum water flow requirements. There were also some minor discharges of oil and halon and one incident of waste incineration.

ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS



* No figures are available for 2002 and 2003.

Statkraft experienced one serious environmental non-compliance in 2005 at Trollheim power station, where a generator breakdown resulted in reduced flow of water and the stranding of fish fry. The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) investigated the incident for contravention of the Water Resources Act. Statkraft was given a fine of NOK 1.5 million and confiscated profits totalling NOK 2 million, decisions which the company accepted in March 2007. Statkraft intends to construct a bypass valve to secure the flow of water in Surna river in the event of unforeseen stoppages in power generation.

[2] Source: Naturkraft.

SOCIETY

Statkraft creates considerable value for society, primarily through the secure production and supply of environment-friendly energy. Other important contributions include direct and indirect value creation and the innovative development of energy solutions for the future. Statkraft wishes to make a positive contribution over and above mere compliance with its statutory and regulatory obligations.

Social responsibility policy

Statkraft's social responsibility policy is set down in the Group's business principles. Statkraft contributes to sustainable social development by offering its customers flexible, environment-friendly energy that is generated and transported according to high safety standards, and by making a positive contribution to the communities in which the company has a presence. 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 that 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 13,735 million in 2006. NOK 5,598 million of this was returned to the company's owner as dividends. This represents a dividend ratio of 89% of profit after tax.

Central and local government taxes totalled NOK 4,569 million. NOK 1,225 million was local tax, with an aggregate of NOK 571 million, or 47%, being paid to the ten largest local authorities.

The local authority to which Statkraft paid the largest amount in local tax, Vinje, received NOK 81 million.

The Group's just over 2,000 employees received NOK 1,139 million in salaries and pensions in 2006.

Statkraft currently has an extensive portfolio of electricity supply contracts with 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 very low-priced statutory-priced contracts, which will be phased out in the period to 2011. Industrial contracts will in future total approximately 17.5 TWh per year.

Statkraft's total investments in 2006 amounted to NOK 4.4 billion. Around 70 percent of this amount related to the expansion of production capacity, primarily in respect of gas-powered projects in Germany (NOK 1.7 billion), the district heating project in Trondheim Energi (NOK 0.4 billion) and Kjøllefjord Wind Farm (NOK 0.3 billion). Generating more environment-friendly power and increasing the beneficial extended effects of the Group's investments are important for society's welfare.

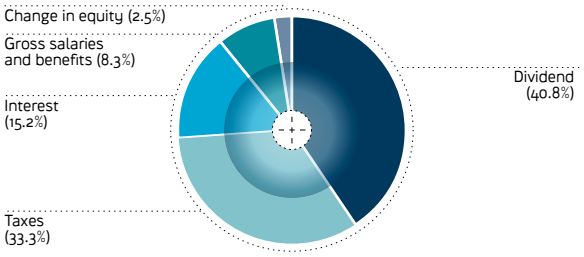
BUSINESS PRINCIPLE – SOCIAL RESPONSIBILITY

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 innovation, 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 social change through good corporate citizenship, also in areas that are a natural extension of our business activities.
- → 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.

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. 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. 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. Contingency plans were implemented at Statkraft Region Northern Norway and at Statkraft's head office in connection with the winter storm "Narve" in January 2006, as well as for the ICT department following a component failure in the power supply at Statkraft's head office.

Customer focus

Statkraft's customers have historically been large manufacturing companies and local authorities providing concessionary sales as a result of concessionary provisions and contracts on statutory terms. These customer relationships have been developed over time, and Statkraft currently serves a number of large enterprises, including industrial companies, local authorities and other power plants and power companies. In addition, trading operations in Sweden and on the Continent have a large number of customers and trading partners. Statkraft will further develop relations and services in respect of these customer groups.

The sale and distribution of electricity to private customers and enterprises also takes place through the Group companies Trondheim Energi and Skagerak Energi. Trondheim Energi sells electricity to almost 70,000 customers, and has more than 90,000 distribution grid customers. Skagerak Energi has 175,000 distribution grid customers, while Fjordkraft has around 315,000 electricity customers. In future the Statkraft Group will adopt a more holistic attitude to the end-user market. Through tighter integration and a coordinated Group effort, Statkraft aims to increase effectiveness and strengthen the services it offers its customers.

Both Trondheim Energi and Skagerak Energi are large and important regional players with a broad range of contacts and extensive experience in the end-user market. Customer satisfaction surveys carried out in 2006 show a high level of customer satisfaction. Behind these figures lie targeted efforts in respect of customer service, service development and market concepts. Among other things, Trondheim Energi has achieved success with its concept of guaranteeing the origin of the electricity it supplies. With effect from 15 October 2005, Trondheim Energi has been the country's first electricity supplier able to document that all the electricity it purchases for resale to private customers is generated entirely from hydropower. A common measuring method will be developed for the Group in 2007.

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 by exercising good business practice in all it does. 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.

The target group of professionals comprises nationwide political groups, public administration, mayors, county authority chief executives, professional communities, the media and journalists, and financial communities. Society at large is surveyed quarterly, and recent surveys have shown a downward trend in 2006. The different surveys in the Group are not currently comparable, but with effect from 2007, a new set of common survey methods will be developed.

Statkraft's poor reputation among the general public is largely an industry problem, related to the fact that electricity is a product that essentially generates very little interest. In addition, increased variations in electricity prices in recent years have received a growing amount of media attention. The industry is also criticised for claims of unnecessary tapping of reservoirs and the export of surplus power, which results in a need for costly import of electricity when there is a deficit of power in Norway. The industry here is faced with the challenge of communicating how the Nordic power market works, including the consequences of a higher demand for power than that which the domestic market in Norway is capable of supplying.

Statkraft has traditionally maintained an attitude of reserve about external communication of the company's identity, but will now step up its communication efforts in respect of external stakeholders and work to ensure improved awareness of the Statkraft brand. The basis for this work is the Group's brand strategy, which builds on Statkraft's unique character and qualities, summed up in the term "Pure Energy". Systematic efforts to build the company's brand identity are important to boost internal motivation, recruit skilled employees, maintain and enhance Statkraft's environmental profile and to secure the goodwill of decision-makers and customers. Statkraft's brand-building initiatives reflect the strategic direction defined for the Group for the period 2007–2009. One key aspect in this respect will be stronger coordination of the Group companies – also as regards brands.

Stakeholder dialogue

Statkraft communicates actively with its stakeholders, and particular emphasis is placed on involving all those affected by construction projects in open and thorough planning processes. Clear lines of dialogue are important, among other things, to create an understanding of the role and responsibility Statkraft has to identify opportunities for increased power generation in Norway.

Environmental cooperation in planning processes

Environmental considerations play a key role in the Group's processes to develop new generating capacity. Statkraft places great emphasis on thorough and professional processes that 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, landscapes and 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. Development and licence processes are carried out in compliance with provisions laid down in the Planning and Building Act and other relevant legislation. An impact assessment is conducted by impartial specialists whose task is to investigate the various environmental aspects of the project and to 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 adhere to during the construction and operation of the plant.

Particular emphasis is placed on utilising the competence and systems that have been developed in planning processes in Norway, also in connection with studies and licence applications abroad. This also applies to projects carried out under the auspices of SN Power.

Statkraft is a member of the International Association for Impact Assessment (IAIA) and the International Hydropower Association (IHA). Both institutions provide Statkraft with important impulses in respect of environmental performance optimisation initiatives both in Norway and abroad.

Cooperation with other stakeholders

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. Statkraft currently sponsors Det Norske Teatret, the Nobel Peace Prize Concert, the Oslo Jazz Festival, the Alta Canyon Festival, Songs by the Canal, the Hardanger Music Festival, cultural events/festivals in Sunndalsøra, Sogndal Football Club, the Norwegian Energy Centre and Bellona B7. Statkraft paid out a total of around NOK 10 million in sponsorship in 2006.

Statkraft emphasises the importance of being present in arenas where the professional energy environment and authorities meet. At Offshore Northern Seas (ONS) in Stavanger, the world's second largest oil and energy conference and exhibition, Statkraft was represented with the message that the energy solutions of tomorrow must be sustainable.

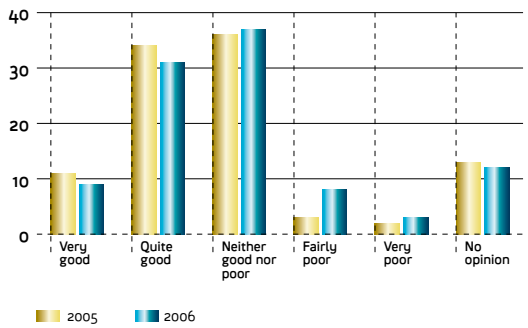
Statkraft wishes to play a part in increasing public knowledge of energy and environmental issues. Its "Power School", an interactive online learning scheme for pupils at all levels, is extremely popular and has more than 50,000 participants each year. The Power School also received acclaim when it won second place in a competition for best media production at the annual international conference Communicating Science and Technology in 2006.

In September, Statkraft was one of two European energy companies to be invited to the European Parliament in Brussels to offer its views on the EU Commission's green paper "A European Strategy for Sustainable, Competitive and Secure Energy". The board chairman's speech emphasised the need for a stable regulatory framework in order to boost investments in environment-friendly energy in the future. In addition, his speech stressed how important it is that the ongoing deregulation of the European gas and power markets continues.

Statkraft has been a member of the World Business Council for Sustainable Development (WBCSD) since 2004, which is a coalition of 180 international companies that 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 the project "Electricity and Utility" in the focus area Energy and Climate where it points out the advantages of hydropower when meeting climate challenges, as well as the need for market mechanisms in order to introduce sustainable energy solutions. Statkraft uses the WBCSD as an arena for learning and sharing experiences in order to strengthen the company's sustainability.

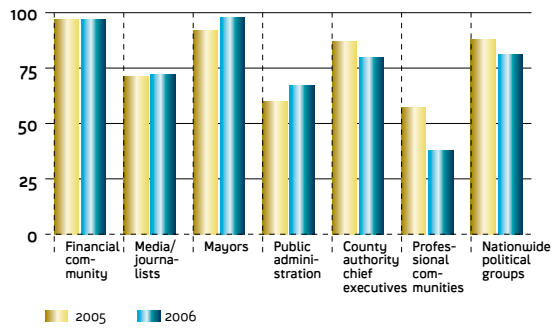
Statkraft is also a member of Transparency International, which works to combat corruption around the world. Statkraft considers free

GENERAL PUBLIC'S IMPRESSION OF STATKRAFT



Source: MMI, December 2005/December 2006

PROFESSIONAL TARGET GROUPS' IMPRESSION OF STATKRAFT



Percentage with a very good or quite good impression of Statkraft
Source: MMI, December 2006

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 anti-corruption tools will be useful in the continued effort to ensure good business practice across cultural and language boundaries and national regulations.

International social responsibility

Statkraft develops new power production outside of Europe through SN Power. SN Power is a 50-50 joint venture between Statkraft and Norfund, with Statkraft as the industrial partner. SN Power's long-term ambition is to build up a project portfolio with a total output capacity of 3,000–4,000 MW, and has identified Latin America, Africa and Asia as priority areas.

As a long-term investor and developer in these markets, Statkraft wishes to contribute to the development of profitable power plants that make a permanent economic, social and environmental contribution to the societies where they are built. The plants are planned in consultation with local authorities and experts in the fields of environmental affairs, human rights and development issues. SN Power is a member of Transparency International and a participant in the UN Global Compact. In connection with the construction of hydropower facilities in developing countries, key issues include the damming up of agricultural areas and cultural monuments. Before reaching a decision to construct a power plant, SN Power analyses environmental and social consequences in accordance with the standards laid down by the World Bank. Risk management processes and social development programmes also form part of every project. In this respect, SN Power works closely with the United Nations Development Programme (UNDP), among others.

The Statkraft Fund – Teaming up with Nature

The "Statkraft Fund – Teaming up with Nature" was set up 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. Stipulated criteria include, for example, making the countryside more accessible to the local population and various user groups, stimulating a more sustainable use of the countryside, encouraging the use of environment-friendly energy, and promoting local involvement in areas in which Statkraft has operations.

The Statkraft Fund for 2006 was awarded to the Norwegian Trekking Association (DNT), Save the Children Norway, the Norwegian YMCA-YWCA scout troops in Alta and Inderøy, Friends of the Earth Norway's branch in Vest-Agder and Blekkulf's Eco-detectives' club in Telemark.

Suppliers

In 2006, Statkraft purchased goods and services worth some NOK 1.3 billion from a total of 2,800 suppliers (not including procurements in Trondheim Energi and Skagerak Energi).

Statkraft's detailed procurement guidelines make it clear that the company shall always conduct itself in compliance with good business practices, shall maintain a high ethical business standard in its internal administrative procedures and shall ensure that all suppliers and business connections receive equal treatment. Statkraft prefers to use suppliers that are approved in accordance with the Nordic energy industry's Sellihca procurement scheme. Furthermore,

STATKRAFT IS A MEMBER OF:

World Business Council for Sustainable Development

TRANSPARENCY INTERNATIONAL

Statkraft's contractors are made aware of the company's ethical purchasing guidelines, in particular the guidelines concerning gifts and other forms of customer care.

In 2006, Statkraft began work on developing routines designed to secure social responsibility among suppliers. The result is that demands are now made in respect of social responsibility in connection with the prequalification of critical suppliers, in addition to HSE requirements. Furthermore, requirements are made in respect of the inclusion of proper pay and work conditions in service agreements in Norway. Statkraft has, for a long time, stipulated environmental and HSE requirements in connection with all services carried out on its own facilities. Work is now underway to introduce environmental requirements in respect of purchased products.

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 threefold:

- → to develop new business opportunities within the field of environment-friendly energy
- → to continue to improve core operations and support processes, and
- → to develop new services adapted to the customers' needs

Statkraft's activities cover the monitoring of technology, technological developments, river basin research, optimisation of environment-friendly power generating technologies and associated services, as well as the development of new energy sources. In addition, increased emphasis will be placed on innovation in respect of the sale and distribution of power.

In 2006, Statkraft's innovation efforts were strengthened in several areas. A head of innovation efforts (SVP Innovation) has been appointed, who will have primary responsibility for innovative processes and technological developments within the Group. In addition, more resources have been made available at head office to allow it to become a driving force and coordinator for increased innovation. The Statkraft Group and the part-owned companies Agder Energi and BKK have established a joint innovation scheme (INNOSA). In addition, the Group cooperates with a number of partners, both in the academic world and in industry, within different technological areas. The total annual budget for the current year for Statkraft's innovation effort is NOK 65 million. This is an estimate of the activities connected to the Innovation department's overarching role within the fields of innovation, IPR, technology analysis and R&D. The framework will be expanded if commercially-based idea qualification and idea development-related activities prove to be higher than forecasts. Statkraft is also considering establishing a venture fund as a tool to make available the technology and services the Group requires.

COMPETENCE

Statkraft considers its employees and their competence to be a competitive advantage. The company focuses systematically on organisational and competence development, health and safety, equality and diversity. By monitoring its performance, introducing appropriate support systems and adopting a clear corporate culture, Statkraft will continue to develop as an attractive, safe and secure workplace.

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. Emphasis is placed on performance monitoring, both for the individual unit and the individual employee. Central parameters relating to competence and organisational conditions form part of the group score card.

Organisational development

Each year Statkraft carries out an evaluation of its organisation and managers. This evaluation covers areas such as strategy, objectives, competence and the working environment. The purpose of this is to identify improvement areas and to lay the foundation for systematic follow-up. The overall result is included in the group scorecard. In 2006, the overall result was 4.1 on a scale of 1 to 5 – the best result ever achieved in the history of the Group and an increase from 4.0 the year before. As earlier, the response rate was very high, with 89% of employees taking part.

The Group works on an ongoing basis to coordinate and further develop cost-effective systems and patterns of interaction between the various units. The goal is to achieve improved utilisation of resources and to foster increased cooperation. In 2006, great emphasis has been placed on increased integration with Trondheim Energi at all levels. Within the fields of personnel, HSE, communications, finance, accounting and purchasing, Statkraft's group systems and principles will apply.

Competence development

Years of experience in the development and operation of hydropower and wind power facilities, and power trading in the Nordic region and on the Continent have given Statkraft 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 competence. Correct and adequate competence will be a critical factor of success in implementing Statkraft's strategy in the years ahead.

BUSINESS PRINCIPLE – BUILDING COMPETENCE

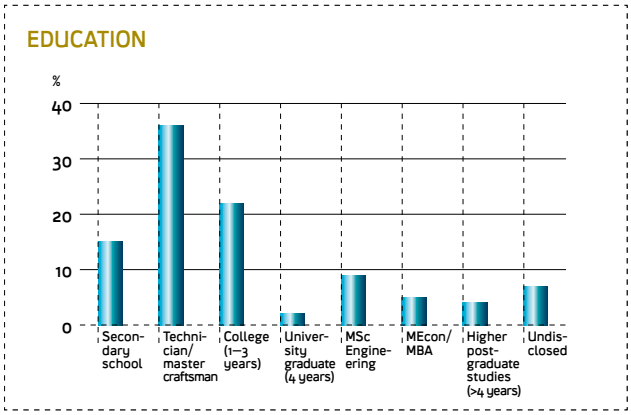
Statkraft will promote competence at all levels and will value and further develop its employees. We will provide a healthy workplace and a corporate culture that encourages active employee involvement and commitment.

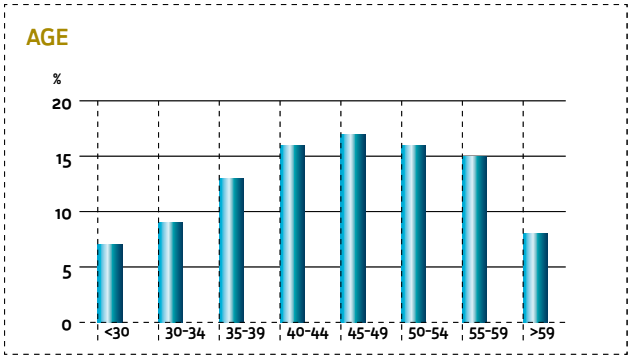
This means that:

- → 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 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, performance management and management.
- → We will work in close cooperation with our employees and will ensure that our processes are inclusive, predictable and transparent. We will take the initiative to engage in a dialogue with employees and will involve employee representatives in making important decisions.
- → We will work to extend the intentions behind our competence-building principles and the way we perform our duties as an employer to encompass employees outside Norway, but will adapt our practices to local conditions and the highest standards in the countries concerned. We will also strive to follow up the compliance of our primary business partners with these intentions.
- → We will make it plain to each employee what is expected of him or her, and will ensure that our principles and procedures are complied with in practice.

Competence profile

The range of competences at Statkraft's disposal is well adapted to the tasks it undertakes. Around 20% of its employees are educated to degree level, around 22% have a college level education, while some 36% are qualified skilled workers. The average age of Statkraft's employees is 47. The number of employees within each five-year group between 35 and 60 is relatively even. 33% of the workforce is aged between 40 and 50. The average length of service is 16 years, while the annual rate of staff turnover is 2.7%. These statistics highlight the fact that Statkraft's employees are highly skilled, with extensive 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.

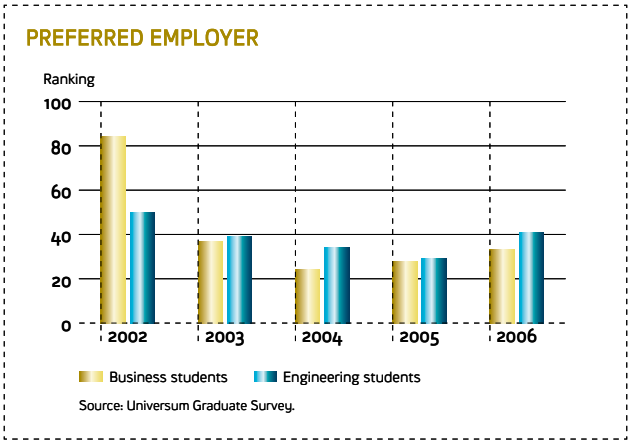




Recruitment

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 probably not be sufficient in the future. In order to remedy this, Statkraft has for many years offered an apprenticeship scheme, even when the company has not had an opportunity to hire the apprentices after they have completed their training. The Group employed 47 apprentices in 2006.

In 2006, Statkraft established a "Top 10 programme", where the objective has been to be one of the ten preferred employers among recent graduates from selected key recruitment lines. Among other things, Statkraft 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 employed 14 such trainees in 2006. In 2006, according to a survey in which around 10,000 final-year students indicated who they most wanted to work for, Statkraft was ranked in 33rd place by business students and 41st place by engineering students. This reflects a considerably improved labour market and tougher competition for labour.



Competence-building measures

A number of internal measures have been implemented to ensure systematic and effective competence building. These measures take as their basis the Group strategy and analyses of current and future gaps in competence, both in respect of current operations and future growth potential. In line with this, special focus has now been directed at developing competence that supports integration activities within the Group, the stronger focus within the Group on downstream activities and on international activities. Internal mobility is an important tool for ensuring the effective sharing and development of competences, particularly since the staff turnover rate is relatively low. In 2006, the Group hired 175 new employees, which will provide the organisation with a considerable supply of competence. 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 up new opportunities for employees to gain experience from international projects.

Management development scheme

Statkraft's strategy and objectives also make demands in respect of effective change management and the development of skilled managers at all levels. Management development in Statkraft consists of three main elements: The Foundation – the current strategy and management model; Performance Measurement – performance assessment and organisational and management assessments (OLE); and Management Development Initiatives at different levels. Statkraft has three separate management development programmes adapted to different needs and levels. Special emphasis is placed on developing young talents. Among other things, Statkraft focuses on project management training and individual studies at recognised educational establishments such as IMD, NTNU, NHH and BI [1]. Another subject that is to be emphasised further in training programmes is the managers' role in the continued development of a leading safety culture and in respect of good business ethics. A total of 69 employees completed the Group's management development programmes in 2006.

[1] The International Institute for Management Development (IMD), the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and BI Norwegian School of Management.

Incentive schemes

Statkraft, with the exception of Trondheim Energi and Skagerak Energi which have their own agreements, operates a collective, variable bonus scheme for its 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 an operational index (which includes performance indicators relating to added value from power trading and energy optimisation, power plant uptime and operational efficiency), and an HSE index (with performance indicators for sickness absence, environmental breaches, participation in OLE, injuries and hazardous conditions). The two indices are weighted equally and can give a maximum bonus of NOK 30,000 a year for each employee. Employees received a total of NOK 15,000 under the collective bonus scheme in 2006. 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% of salary costs, with a ceiling for each employee of 10% 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

Health and safety considerations shall characterise all Group operations, so that they influence the company's own employees, hired resources, contractors and partners. Statkraft has set itself a clear goal of incurring no lost-time injuries resulting from the Group's business activities, and enhancing the safety culture through strong management, responsible commitment and by establishing targets for continuous improvement. The H1 indicator (total number of lost-time injuries per million hours worked) for 2006 was 6.3, while the H2 indicator (number of injuries per million hours worked) was 15.9. This represents a slight improvement on the corresponding prior-year figures of 6.6 and 17.9, respectively. Most injuries are caused by individual behaviour. Statkraft's corporate culture must therefore be characterised by openness and a willingness to learn from mistakes, near misses and hazardous conditions. Statkraft records and follows up all supplier injuries. The purpose is to focus attention on safety, regardless of who is performing the work. There were 61 supplier injuries at Statkraft in 2006, two of which were serious and 17 of which resulted in lost-time. Statkraft's focus on HSE in 2006 was reinforced with additional resources and the appointment of an VP HSE at group level.

There were four fatalities at associated companies in 2006; one in Agder Energi, one at the gas power plant at Herdecke and two at SN Power. Statkraft's focus on safety will be further intensified in 2007 in order to ensure the full commitment of suppliers and associates.

The sickness absence rate was 4.1% in 2006, slightly higher than 3.8% the year before. The target is for a sickness absence rate of under 4%. 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, in a diverse workplace. 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 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 Norwegian energy industry: 22% of the workforce are women and 78% are men. The percentage of women managers is lower than the workforce as a whole, 17%, but has risen slightly compared with 2005. Statkraft will continue to place emphasis on recruiting women to management positions. Two out of the seven members of Statkraft's Group management team are women, which corresponds to 29%. Four out of the company's nine board members are women, which corresponds to 44%, three out of six shareholder representatives and one of three employee representatives are women. Statkraft has introduced a life-phase policy for employees over the age of 62, which affords greater flexibility for the company and a greater incentive for employees to remain at work for a longer period.

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.

In 2006, the coordination of central business systems in respect of Trondheim Energi has been of key importance. With effect from 1 January 2007, a shared organisational unit has been established for IT infrastructure and data services. In addition, a project has been initiated to implement SAP as a group solution for common functions relating to finance, accounting, personnel, purchases, project management and quality processes. The task of coordination will continue in 2007. The intention is to incorporate Skagerak Energi as well, so that these solutions cover the entire Group. Work is also under way to implement SAP in business operations in Germany.

The operation, construction and development of hydropower and wind power facilities, including the management of complex projects, is supported by IT solutions that provide for efficient information flow and task completion, as well as the availability and reuse of previously acquired data. Solutions have also been developed that allow flexible and scalable production management, 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 data 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 collaborations and a competence system.

Statkraft's long-term IT goal is to develop a flexible and easily modifiable IT platform that 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.

INCOME STATEMENT

PRO FORMA FIGURES (UNAUDITED)			ACTUAL FIGURES		
2004	NOK million	Note	2006	2005	2004*
7 110	Power sales revenues	3	**13 072**	11 386	1 695
3 732	Other operating revenues	5	**3 153**	3 635	1 733
10 842	**Gross operating revenues**		**16 225**	15 021	3 428
-651	Transmission costs		**-968**	-746	-213
10 191	**Net operating revenues**		**15 256**	14 275	3 215
1 236	Salaries and payroll costs	6.7	**1 313**	1 342	455
354	Compensation and licence fees	8	**331**	342	89
1 443	Other operating costs	9, 10	**1 560**	1 865	456
1 414	Depreciation and write-downs	14, 15	**1 501**	1 858	391
367	Property tax		**599**	493	90
4 814	**Operating expenses**		**5 304**	5 899	1 481
5 377	**Operating profit**		**9 952**	8 375	1 734
1 493	**Share of profit from associated companies**	16	**1 689**	1 577	502
714	Financial income	11	**272**	808	539
-2 954	Financial expenses	11	**-2 087**	-2 312	-982
-2 240	**Net financial items**		**-1 816**	-1 504	-443
4 630	**Profit before tax**		**9 826**	8 449	1 793
-215	Taxes	12	**-3 541**	-2 829	261
4 415	**Net profit**		**6 285**	5 620	2 054
118	Of which minority interests	21	**346**	147	14
4 297	Of which majority interests	21	**5 939**	5 473	2 040

* Applies to the period 01.10.–31.12.

BALANCE SHEET

ACTUAL FIGURES

NOK million	Note	31.12.06	31.12.05	31.12.04
ASSETS				
Intangible assets	14	**6 255**	5 976	2 580
Property, plant and equipment	15	**51 093**	46 836	45 236
Investments in associated companies	16	**30 997**	28 793	28 751
Other long-term financial assets	17	**1 460**	1 110	2 535
Fixed assets		**89 806**	82 715	79 102
Inventory		**55**	50	44
Receivables	18	**4 553**	3 380	3 747
Short-term financial investments	19	**379**	335	330
Cash and cash equivalents	20	**1 758**	4 374	5 292
Current assets		**6 746**	8 139	9 413
Assets		**96 552**	90 854	88 515
EQUITY AND LIABILITIES				
Paid-in capital	21	**31 569**	31 553	31 553
Retained earnings	21	**4 735**	4 689	3 675
Minority interests	21	**2 501**	3 752	3 787
Total equity		**38 805**	39 994	39 015
Provisions	22	**12 240**	10 300	7 018
Long-term interest-bearing debt	23	**29 976**	29 011	38 268
Long-term liabilities		**42 216**	39 311	45 286
Short-term interest-bearing debt	24	**2 493**	2 240	1 559
Taxes payable	12	**2 161**	2 197	610
Other interest-free liabilities	24	**10 877**	7 111	2 045
Current liabilities		**15 530**	11 548	4 214
Equity and liabilities		**96 552**	90 854	88 515
Pledges	25	**2 094**	2 150	2 249
Guarantees	25	**7 378**	8 275	4 496

The Board of Directors of Statkraft AS
Oslo, 7 March 2007

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 and CEO

STATEMENT OF CASH FLOW

PRO FORMA FIGURES (UNAUDITED)			ACTUAL FIGURES		
2004	NOK million		2006	2005	2004*
	CASH FLOW FROM OPERATING ACTIVITIES				
4 630	Profit before tax		**9 826**	8 449	1 793
-1 311	Gains on the sale of fixed assets		**-6**	-276	-1 302
1 434	Depreciation and write-downs		**1 501**	1 858	391
-1 493	Share of profit from associated companies		**-1 689**	-1 577	-502
-1 237	Taxes paid		**-2 169**	-448	-45
2 023	**Cash flow from operating activities**		**7 463**	8 006	335
442	Change in long-term items		**-659**	1 776	758
638	Change in short-term items		**-1 347**	1 523	-1 237
910	Dividend from associated companies		**1 087**	945	6
4 013	**Net cash flow from operating activities**	A	**6 544**	12 250	-138
	CASH FLOW FROM INVESTING ACTIVITIES				
-1 548	Investments in property, plant and equipment		**-3 648**	-2 235	-539
1 416	Sale of fixed assets (gross proceeds)		**63**	39	1 394
-98	Loans to third parties		**-20**	-42	-98
569	Repayment of loans to third parties		**5**	98	569
-287	Investments in other companies		**-750**	-4 511	-44
2 764	Proceeds from the sale of other companies		**-**	2 029	2 741
2 816	**Net cash flow from investing activities**	B	**-4 350**	-4 622	4 023
	CASH FLOW FROM FINANCING ACTIVITIES				
7 016	New long-term borrowings		**6 584**	992	4 177
-8 269	Repayment of long-term borrowings and subordinated loans		**-5 367**	-9 428	-4 985
-	Capital reduction		**-1 035**	-	-
-2 769	Dividend paid		**-4 990**	-72	-
-4 022	**Net cash flow from financing activities**	C	**-4 808**	-8 508	-808
2 807	**Net change in cash and cash equivalents**	A+B+C	**-2 614**	-880	3 077
	Impact of foreign exchange differences on cash flow		**-2**	-38	3
	Cash and cash equivalents as at 1 January		**4 374**	5 292	-
	Cash received relating to formation of the Group		**-**	-	2 212
	Cash and cash equivalents as at 31 December		**1 758**	4 374	5 292

* Applies to the period 01.10.–31.12.

ACCOUNTING PRINCIPLES STATKRAFT AS GROUP

Accounting regulations
The annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP).

Statkraft will prepare its financial statements in accordance with International Financial Reporting Standards (IFRSs) with effect from 2007. In the following description of accounting principles a review of changes that follow as a result of the transition to IFRSs will be given, in addition to the currently applicable Norwegian GAAP. Comments relating to IFRSs are presented in italics.

In material areas where the Group's accounting principles are required to be changed in accordance with IFRSs, and where the IFRS solutions are compatible with Norwegian GAAP, Statkraft has also chosen to change its accounting principle with effect from the 2006 financial year. This relates primarily to fixed assets and pensions. The changes were implemented with effect from 1 January 2006 and are described in greater detail for the respective areas below.

Pro forma figures
Statkraft AS's share capital was increased by NOK 31,553 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. The financial statements for the Statkraft AS Group therefore include the operations of Statkraft Energi AS and 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 and Statement of Cash Flow for 2004. These pro forma figures have been calculated on the assumption that the reorganisation applied to the entire accounting period. The pro forma figures have not been audited.

Consolidation principles and consolidated financial statements

Subsidiaries
The consolidated financial statements 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 consolidated financial statements 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 case of acquisitions, the date on which the contract was entered into determines the cost price and assessments of over/undervaluation. Retained earnings and other changes in equity, as well as interest on the consideration, are recognised directly in equity in the period from the contract date until completion. The cost price of shares in subsidiaries is written off against equity at the date of acquisition. Value in excess of book equity is allocated to those of the company's assets and liabilities whose value differs from that recorded in the balance sheet. Provisions are made for deferred tax on over/undervaluations. Any over/undervaluations that cannot be allocated 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.

In accordance with IFRSs, the consolidated financial statements will include companies in which Statkraft has a direct or indirect controlling interest. The consolidation principles will also be the same.

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 in line with Statkraft's ownership share. 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.

In accordance with IFRSs, partly owned power plants will fall under the rules concerning joint ventures in IAS 31 and their treatment in the financial statements will remain unchanged.

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

The treatment of leased power plants in the financial statements will be the same after implementation of IFRSs.

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, are shown on a separate line in the Group's income statement. Such investments are classified as fixed assets in the balance sheet and are recorded at cost adjusted for the accumulated share of the companies' result, dividends received, currency adjustments, and equity holdings in the company.

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

There is no difference between Norwegian GAAP and IFRSs with respect to the consolidation of the Group's associated companies. The same applies to joint ventures, since the equity method will be applied in accordance with IAS 31.

In accordance with IFRSs, financial instruments used to hedge foreign currency investments in associated companies and joint ventures, and which satisfy the criteria for hedge accounting, will be reported at fair value, and classified together with the hedged object.

Valuation and classification principles

Uncertainty relating to estimates
The financial statements 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 financial statements were prepared 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 at net value. Revenues from subsidiaries are recognised when they are earned, while dividends from

other companies are recorded in accordance with the cash principle. Gains/losses on the sale of ordinary fixed assets are treated as operating revenues or expenses.

Under IFRSs, the financial statements will be more balance sheet-oriented, and the Norwegian matching principle will no longer be used. Assets and liabilities will be defined in accordance with each individual standard, and items that do no comply with the definitions will not be capitalised.

The concept of fair value will be used more extensively under IFRSs. Under Norwegian GAAP, financial instruments were primarily recognised in the financial statements at the time of realisation and delivery. Statkraft has a number of financial instruments that are covered by IAS 39, and which will therefore be capitalised at fair value and any change in value will be recognised in the income statement. For Statkraft, these financial instruments consist of financial power contracts, forward exchange contracts, interest swaps and combined interest and foreign currency swaps. In addition, certain contracts concerning the purchase and sale of physical goods will be treated as though they were financial instruments. Certain contracts concerning the physical purchase and sale of power must thus also be capitalised at fair value and any change in value will be recognised in the income statement. This applies, for example, to contracts that contain issued options or which form part of a trading portfolio. Physical power contracts that are settled financially may also be covered by these rules.

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 financial statements. 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.

Under IFRSs, Statkraft will not continue hedge accounting for power contracts whose aim is to secure cash flows from future power generation. All financial contracts and certain physical contracts covered by the definition of derivative financial instruments in IAS 39 will thus be capitalised at fair value and any change in value will be recorded in the income statement.

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 Norwegian GAAP for recording at fair value. The portfolio is therefore recorded in accordance with the lower value principle at the portfolio level.

The origination portfolios consist of both physical and financial contracts. Depending on how these portfolios are managed, and which positions are taken with respect to financial and non-financial contracts, non-financial contracts will also be covered by IAS 39 in accordance with the criteria concerning net financial settlement. Under IFRSs, both trading and origination portfolios will be reported at fair value, and any change in value will be recognised in the income statement.

Distribution grid revenues

With effect from 1997, the Norwegian Water Resources and Energy Directorate (NVE) introduced a regulatory regime for distribution grid operations that is intended to cover the grid owner's actual costs. 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 due to or receivable due 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 any corrections under the KILE scheme.

Under IFRSs, income excess/shortfall will not qualify as a balance sheet item, and thus only invoiced revenues will be recognised on an ongoing basis. The same change also applies to income excess/shortfall related to the KILE scheme.

Public subsidies

Public subsidies are assessed on an individual basis and are recorded in the financial statements 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 forest, 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. These liabilities related to annual payments and tax-free allowances were previously recorded against the investment value of the right to use waterfalls and land. Under IFRSs, the gross value of these is required to be presented, a solution which is also permitted under Norwegian GAAP. Statkraft has therefore chosen to change its presentation of liabilities relating to compensation and tax-free allowances in its reporting in accordance with Norwegian GAAP. The liabilities are calculated based on the current value of these at the time when the various companies in the Group prepared opening balances at fair values, with an addition for contracts entered into at a later juncture. The value of investments in plant is increased correspondingly, and is classified as land. The provision is valued at amortised cost.

The implementation effect of this reclassification is estimated at NOK 788 million, and capitalised at 1 January 2006.

After implementation of the change in principles as of 1 January 2006 there will be no differences in the treatment of these items in the financial statements in accordance with IFRSs.

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.

Concessionary sales
Each year concessionary sales are made to municipalities at statutory prices stipulated by the Norwegian Storting (parliament). In the case of certain concessionary sales contracts, agreements have been made regarding financial settlement, in which Statkraft is invoiced for the difference between the spot price and the concessionary price. The shortfall arising from the sale of concessionary power in relation to the spot price is presented in Note 3, and the capitalised value of the future delivery obligation is calculated and shown in Note 8.

Under IFRSs concessionary sales that are settled financially could be covered by IAS 39. In such cases the liability must be recognised at market value.

Pension costs
In November 2005 the Norwegian Accounting Standards Board adopted to grant Norwegian companies general permission to apply IAS 19, which deals with employee benefits, instead of the rules in NRS 6 Pension costs, with effect from the 2005 financial year. This has been regulated through the adoption of NRS 6A: Application of IAS 19 under Norwegian accounting legislation.

In order to harmonise its accounting principles, Statkraft has chosen to implement IAS 19 in accordance with Norwegian GAAP with effect from 1 January 2006. The most important difference in relation to previous accounting principles concerning pensions is that in connection with the transition to IAS 19 the Group has chosen to charge estimate deviations directly to equity on an ongoing basis. At the time of implementation on 1 January 2006, NOK 290 million of non-capitalised estimate deviations and plan changes for the Group's schemes was charged as an increase in pension liabilities, and a contra entry was made to reduce other equity and deferred tax assets.

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 that are made retroactively, ie where the earning of pension rights is not dependent on continued service time, is recorded directly in the income statement. The effect of plan changes that are not made retroactively is spread over the remaining accrual period. Deviations in estimates are charged against equity.

Net pension fund assets for overfunded schemes are classified as long-term assets and recorded in the balance sheet at fair value. Net pension obligations for underfunded schemes are classified as provisions under long-term liabilities.

After implementation of the change in principles as of 1 January 2006 there are no differences in the treatment of pensions in accordance with IFRSs.

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 can be identified as deriving from the development of an identifiable intangible asset.

Maintenance costs
The cost of maintenance was previously charged as an expense as it accrued. Under IFRSs, periodical maintenance must be recorded by depreciating costs over the entire period up until such time as similar maintenance is expected to be carried out. This solution is also permitted under Norwegian GAAP. Statkraft has therefore chosen to change the accounting principle regarding periodical maintenance under Norwegian GAAP as well, with effect from 1 January 2006. Daily maintenance costs will continue to be expensed as they accrue.

In connection with a change in principles, a review has been made of maintenance projects concluded in previous years as well as ongoing maintenance projects, where these have been assessed in accordance with the new principles. On the basis of this review, an implementation effect of NOK 1,012 million as an increased value of fixed assets has been capitalised, with a contra entry in equity and deferred tax. The implementation effect was capitalised with effect from 1 January 2006. This change in principle will result in a reduction in other operating costs, and an increase in annual depreciation. In the first years the reductions in other operating costs will be greater than the increase in depreciation. In the longer term these effects are expected to cancel each other out.

After implementation of the change in principles as of 1 January 2006 there are no differences in the treatment of maintenance in the financial statements in accordance with IFRSs.

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 revenue for the power plant at a fixed rate of interest in perpetuity less the net present value of the power plant's calculated costs for the replacement of operating assets. Property tax is charged at a rate ranging from 0.2 per cent to 0.7 per cent and is paid to the individual local authority. Property tax is presented as an operating cost.

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 carryforwards. Deferred tax assets are only recorded in the balance sheet to the extent that it is probable that the asset will be realisable 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 paid. Any natural resource tax that exceeds income can be carried forward with interest to subsequent years, and is recorded as prepaid tax (long-term 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 2006 was set at 7.2 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 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. Previously the timeframe for calculating the deferred resource rent tax asset was set at 15 years. With effect from 1 January 2006, this timeframe has been changed to 10 years. Earlier an estimated actual rate of resource rent tax was calculated for power plants where it was probable that there would be positive resource rent revenues. With effect from 1 January 2006, this principle was changed, so that a

nominal rate of resource rent tax is applied. NOK 87 million as the implementation effect of these changes was capitalised as at 1 January 2006, which reduces the deferred resource rent tax asset and equity. A further NOK 196 million relating to deferred resource rent tax linked to subsequently capitalised periodical maintenance was recognised as of 1 January 2006.

Under IFRSs, net deferred resource rent tax cannot be charged against tax positions related to ordinary income tax, despite the fact that these tax positions are expected to be reversed in the same period, since this tax is collected from another body. There will otherwise be no difference in the treatment of Group taxes in the financial statements under IFRSs.

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 for payment 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 in the balance sheet at the nominal amount, adjusted for any amortised premium or discount. Current assets are valued at the lower of acquisition cost or fair value. Current liabilities are recorded in the balance sheet at the nominal amount received at the time the liability was incurred.

Under IFRSs the terms current assets and fixed assets will no longer exist. Instead they will be replaced by the terms current and non-current assets. The one-year distinction will continue to apply after implementation of IFRSs.

Under Norwegian GAAP, it has been possible to choose whether following year's loan instalments should be classified as short-term or long-term liabilities. Statkraft has previously chosen the latter alternative, but under IFRSs it is a requirement that next year's loan instalments on non-current liabilities are classified as current liabilities.

Proposed but not yet adopted dividend payments are shown as liabilities under Norwegian GAAP. Under IFRSs proposed dividends are shown as equity until a decision to pay the dividend has been made.

Intangible assets. Costs relating to intangible assets, including waterfall rights and goodwill, are recorded in the balance sheet at historic cost to the extent to which the requirements for doing so have been met. Goodwill deriving from the acquisition of business activities 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.

Under IFRSs it will no longer be possible to depreciate goodwill [and other intangible assets with an "undetermined life"]; instead these will be tested for impairment once a year.

Property, plant and equipment. Investments in production facilities and other property, plant and equipment are recorded in 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 in the balance sheet as facilities under construction. Acquisition cost consists solely of directly attributable costs. Indirect administration costs in connection with the recording of own hours worked are therefore not included. 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. In connection with time-limited licences, provisions are made for removal obligations, with a contra entry in increased capitalised value of the relevant investment, which is depreciated over the licence period. As regards the capitalisation of future compensation payments and tax-free allowances for landowners, reference is made to the description provided under "Compensation" above.

The IFRSs makes stringent requirements in respect of the decomposition of fixed assets, which may result in changes in annual depreciation. Where this is relevant in accordance with the criteria laid down in IFRSs, decomposition of the Group's fixed assets has been implemented as at 1 January 2006, since these criteria are also compatible with Norwegian GAAP. The effects on profits caused by changes in depreciation are therefore reflected in the financial statements presented for 2006 in accordance with Norwegian GAAP.

Long-term shareholdings. All long-term investments are accounted for using the cost method in the company financial statements. Dividends received are treated as financial income. In the consolidated financial statements investments made where one has a controlling or considerable influence are valued at acquisition cost.

Under IFRSs, investments made where one has a controlling or considerable influence are valued at fair value and changes in value are charged against equity. In cases where the investments are made for trading purposes, the change in value will be recognised in the income statement.

Inventories/spare parts. Standard inventories and spare parts relating to operations are classified as current assets and are valued in accordance with FIFO at the lower value principle.

Reservoirs. Water held in reservoirs is not capitalised. Information relating to reservoir water levels is stated in Note 4. The purchase of water is capitalised until the point of production.

Water held in reservoirs will also not be capitalised under IFRSs.

Receivables. Accounts receivable and other receivables are recorded at nominal value minus 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 at which the product it is intended to cover is delivered. An annual interest cost is calculated and recorded as a financial cost.

Under IFRSs it will no longer be possible to expense an estimated interest cost relating to received prepayments.

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.

In order to capitalise a provision for contingent liabilities, IFRSs requires that there exists a legal or actual obligation, that it can be shown that it is probable that this obligation will have financial consequences, and that this obligation can be calculated based on reliable estimates.

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 financial statements 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.

Under IFRSs more stringent requirements are made with respect to documentation in connection with hedge accounting. Statkraft will not therefore in accordance with IFRSs apply hedging accounting to power generation, end-user operations or forward exchange contracts, nor to interest swaps or combined interest and foreign currency swaps. The only exception to this is foreign currency exposure related to the investment in E.ON Sverige AB.

The extent of hedge accounting of the investment in E.ON Sverige AB is reduced since not all the hedging instruments used as hedging instruments under Norwegian GAAP qualify as hedging instruments under IFRSs. For that part of the hedging instrument that qualifies as hedging under IFRSs, the change in fair value during the period will be recorded temporarily against equity and be reversed against profit once the hedging ceases to exist. As under Norwegian GAAP, gains/losses incurred as a result of foreign currency hedging will be recognised in the income statement in the same period as the hedge object.

Foreign currencies

Balance sheet items in foreign currencies are valued at the exchange rate in effect in the balance sheet date. 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 a non-Norwegian unit are taken to Group equity together with any translation differences arising from the translation of the investment.

As described under "Hedging", the range of foreign currency hedging instruments that qualify as hedging under IFRSs will be smaller.

Under IFRSs, other foreign currency financial instruments will be capitalised at fair value, and the change in value will be recorded in the income statement.

Interest

Interest instruments are recorded in the financial statements in the same way as interest on interest-bearing debt and receivables. Unrealised gains/losses on fixed interest rates 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.

As described under "Hedging", the Group's interest instruments will not be treated in the financial statements as a hedging transaction under IFRSs. Interest instruments will thus be capitalised at fair value and the change in value will be recorded in the income statement.

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.

The cash flow statement will be prepared in accordance with the same principle under IFRSs.

IFRSs

The EU has adopted a directive that requires all listed companies in the EU to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs). As a result of the EEA agreement, these rules also apply to Norwegian listed companies. Reporting in accordance with IFRSs was required to be implemented no later than 1 January 2005 for companies that issue listed equity instruments and by 1 January 2007 for companies that issue listed debt instruments. As an issuer of listed debt instruments through its issued bonds, Statkraft has elected to report in accordance with IFRSs from 1 January 2007. Statkraft's first annual financial statements prepared in accordance with IFRSs will be the annual financial statements for 2007, although comparable figures for 2006 will be prepared. An opening balance sheet as at 1 January 2006 will be established in accordance with IFRSs. As quarterly figures are reported in 2007, comparable figures will be prepared in accordance with IFRSs for the corresponding quarters in 2006.

The final and audited figures will be published in the annual financial statements for 2007. Up until the presentation of the annual financial statements for 2007, new standards may be introduced, existing standards may be changed, and new interpretations and statements may be made in respect of existing standards.

IFRS 1

IFRS 1 "First-Time Adoption of International Reporting Standards" describes how implementation of IFRSs shall take place. The IFRSs shall essentially be applied retrospectively, which means that the financial statements are to be prepared as though IFRSs had always been applied. The same accounting principles shall be applied in the opening balance sheet and in all periods shown in the first annual financial statements prepared in accordance with IFRSs. These accounting standards shall be in effect in connection with preparation of the first annual IFRS financial statements, i.e. at 31 December 2007.

IFRS 1 provides several transitional regulations with respect to the requirements relating to the retrospective application of IFRSs. Statkraft will avail itself of the optional exemptions within the following areas:

- *Previous business combinations and investments are not required to be fully restated. Statkraft will avail itself of the option not to restate in full the financial statements from previous business combinations and investments as though IFRSs had been applied on the date of these business combinations and investments.*
- *All cumulative translation differences are reset to zero. Under IFRSs, accumulated translation differences are presented as a separate part of equity. Statkraft will avail itself of the option to assume there were no translation differences at the time the opening balance sheet was created (1 January 2006), but will subsequently present the accumulated translation differences occurring after this time.*

Other factors

IFRSs permit the option of presenting the income statement by the nature of expense or by function. Statkraft has chosen to continue using the current format presented by nature of expense.

The requirements concerning the format of primary statements under IFRSs are otherwise relatively overarching. In so far as it is possible, Statkraft has therefore elected to continue to use its existing format, with the addition of certain lines. For Statkraft, the greatest effects on the income statement caused by implementation of IFRSs will be linked to financial instruments, which in accordance with IAS 39 are to be capitalised at fair value with any change in value being recognised in the income statement. The effect on the income statement of any change in unrealised values of energy contracts will be presented as a separate line under operating revenues, while the effect of interest and foreign currency contracts will be presented on a separate line under financial items. On the balance sheet financial instruments that are capitalised at fair value will be reported in separate lines, one on the assets side for financial instruments with a positive value, and one line on the liabilities side for financial instruments with a negative value.

Statkraft has opted to implement IFRS 8 early. IFRS 8 will replace IAS 14 from 1 January 2009. In accordance with IFRS 8, segment reporting shall follow management's structure. Segment reporting can thus be changed from the current division which is based on business areas with the same yield and risk profile.

NOTES GROUP

01 IMPORTANT EVENTS

2006

NEW WIND FARM

Statkraft's third wind farm, Kjøllefjord Wind Farm, opened for test production in October. The farm's 17 wind turbines are expected to generate up to 150 GWh of electricity each year.

NEW INDUSTRIAL CONTRACT

In 2006 Statkraft entered into a long-term agreement with Eramet Norway to supply power from 2011 until 2020. The supply, which is for around 9 TWh over the entire agreement period, will cover the majority of the consumption requirements at Eramet's smelting plants in Sauda and Porsgrunn. At the same time, Eramet terminated its statutory-priced power contracts in Sauda and Porsgrunn, and opted instead for a commercial solution with Statkraft.

NEW BOND LOAN

In 2006 Statkraft issued two new 10-year loans under the EMTN programme. The first loan is for NOK 2.2 billion with a variable rate of interest, while the other is a fixed rate loan for NOK 2.1 billion. These loans, which are listed on the Oslo Stock Exchange, replace earlier bond loans.

TRANSFER OF SHARES 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 owned shares in the Nepalese energy company Himal Power Ltd. In 2006 Statkraft SF used its investment as a contribution in kind to SN Power. The shareholding in SN Power has been transferred to Statkraft AS. Statkraft AS's shareholding in SN Power nevertheless remained unchanged after these transactions because the company's other shareholder has invested an equivalent amount in the company as the contribution in kind invested by Statkraft.

CONTINUED INTERNATIONAL FOCUS

Statkraft has continued its international focus in 2006 by establishing subsidiaries in England for wind power development in the United Kingdom, and a trading office in Bulgaria. Statkraft is also assessing business opportunities in Southeast Europe, and has established cooperation with the state-owned energy companies in Montenegro and Serbia.

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 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 were transferred to Statkraft AS with effect from 1 January 2005. In addition, 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 in Statkraft's financial statements 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 book 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 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 approximately 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 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 (TRONDHEIM ENERGI)

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, Smøla and Smøla 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 financial statements in December 2005.

2004

FORMATION 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 in turn is owned by the Ministry of Trade and Industry on behalf of the Norwegian state. The company was formed as 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 FORMATION OF THE STATKRAFT AS GROUP
On 1 October 2004 the parent company, Statkraft SF transferred all its shares in Statkraft Energi AS. This contribution in kind increased Statkraft AS's share capital by NOK 31,553 million. The Statkraft AS Group's consolidated financial statements 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 share in E-CO Vannkraft AS in December for NOK 2,550 million. This resulted in a book 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 resulted in a book 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.

02 SEGMENT INFORMATION

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

Around 93 per cent of the Group's operating revenues are generated in Norway. Transactions between business segments are carried out on commercial terms.

Figures for the Statkraft Group

NOK million	Group	Generation and hedging	Trading and origination	Distribution grid	End-user	Other	Shared services and eliminations
2006							
Gross operating revenues	16 225	13 786	669	1 772	780	520	-1 302
Depreciation and write-downs	1 501	995	6	393	15	32	60
Other operating expenses	4 772	3 405	413	794	761	543	-1 144
Operating profit	9 952	9 386	250	585	5	-55	-219
Share of profit from associated companies	1 689	561	37	111	21	1 083	-124
Profit before financial items and tax	11 641	9 947	287	696	26	1 028	-342
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	1 577	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	1 604	-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 31.12.2006							
Investments in associated companies	30 997	9 476	44	1 963	331	18 811	372
Other assets	65 555	51 577	821	5 901	477	2 213	4 565
Total assets	96 552	61 052	866	7 864	808	21 025	4 937
Current liabilities	15 530	5 982	503	548	258	949	7 291
Long-term interest-free liabilities	12 240	10 755	32	795	33	176	449
Long-term interest-bearing liabilities	29 976	-	-	-	-	-	29 976
Total liabilities	57 746	16 737	535	1 343	290	1 125	37 716
Maintenance investments	573	371	-	115	2	85	-
Investments in new generating capacity	3 125	2 674	8	111	-	332	-
Investments in shares	750	734	-	-	-	16	-
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 liabilities	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.

03 POWER SALES

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

NOK million	**2006**	2005
Net physical spot sales, including green certificates	**9 926**	6 982
Concessionary sales at statutory prices	**241**	218
Sales of electricity to industry at statutory prices	**1 773**	1 685
Long-term commercial contracts	**1 495**	1 400
Dynamic hedging	**28**	1 398
Trading and origination	**561**	519
Other/eliminations	**-952**	-816
Total	**13 072**	11 386

The Statkraft Group 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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Statutory-priced industrial contracts	11.3	9.3	9.3	9.3	1.5	0.5	0.5	0.5	0.5	0.3
Concessionary power sales	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Total fixed-price contracts	14.5	12.5	12.5	12.5	4.7	3.7	3.7	3.7	3.7	3.5

Price and volume of concessionary sales and statutory-priced contracts

	2006	2005
Concessionary sales – Volume (TWh)	**2.5**	2.7
Concessionary sales – Price (NOK/MWh))	**83**	81
Statutory-priced contracts – Volume (TWh)	**13.1**	14.3
Statutory-priced contracts – Price (NOK/MWh)	**135**	118

Statutory-priced industrial contracts will largely expire on an ongoing basis up until 2011. As the statutory-priced contracts have expired, they have mainly been replaced by commercial agreements. The total volume which will be supplied to industry under commercial contracts in the period 2007–2020 is approximately 165 TWh.

In addition, Statkraft has other physical contractual obligations of varying duration to both domestic and international customers. In connection with the construction of the gas power plants in Norway and Germany, Statkraft has entered into long-term agreements concerning the purchase of gas from Statoil and Wingas respectively. Statkraft has no other significant long-term physical purchasing obligations. The energy volume traded in 2006 relates entirely to the Nordic home market.

04 RESERVOIR WATER LEVELS AND POWER OUTPUT (UNAUDITED)

	Water level as at 31.12.			Max	Power generation [1]			
Tall i TWh	**2006**	2005	2004	capacity	**2006**	2005	2004	Mean
Group	**23.3**	29.8	30.1	38.1	**45.7**	48.5	9.4	42.4

[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 2006 was lower than in a normal year. The reservoir water level as at 31 December 2006 was lower than normal.

05 OTHER OPERATING REVENUES

NOK million	**2006**	2005	2004*
Power plant leasing revenues	**110**	104	17
Net revenues from distribution grid operations	**1 403**	1 295	426
End-user sales revenues	**769**	531	144
District heating revenues	**265**	234	76
Other leasing and service sales revenues	**460**	417	66
Gains/losses on sale of property, plant and equipment	**22**	36	997
Compensation payments	**124**	1 018	7
Total	**3 153**	3 635	1 733

* Applies to the period 01.10.–31.12.

The item "Compensation payments" for 2006 includes NOK 38 million in insurance payments received for water-losses incurred in connection with breakdowns at the Svartisen and Bleikvassli power plants.

The item "Compensation payments" for 2005 includes NOK 1,006 million paid by the Dutch company Nuon in connection with the termination of contracts for the sale of green certificates held by the Group's operational wind farms. 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.

06 SALARIES AND OTHER PAYROLL COSTS

NOK million	**2006**	2005	2004*
Salaries	**966**	838	287
Employers' national insurance contributions	**174**	157	50
Pension costs	**109**	265	71
Other benefits	**64**	82	47
Total	**1 313**	1 342	455

* Applies to the period 01.10.–31.12.

On average the Group had the equivalent of 2,055 full-time jobs in 2006.

Statkraft is organised into three business areas and three key group functions. Each of these units is headed by an executive vice president who reports to the CEO. The CEO and the executive vice presidents comprise Group management.

Salaries and other benefits – executive management

NOK	Salary	Bonus	Payment in kind	Salary and other benefits
Bård Mikkelsen, president and CEO	2 762 438	-	232 906	**2 995 344**
Jørgen Kildahl, executive vice president	1 823 034	200 000	169 794	**2 192 828**
Jon G. Brandsar, executive vice president	1 484 757	200 000	150 950	**1 835 707**
Ingelise Arntsen, executive vice president	1 617 431	200 000	141 420	**1 958 851**
Eli Skrøvset, executive vice president	1 407 798	190 000	149 185	**1 746 983**
Stein Dale, executive vice president	1 448 972	200 000	141 432	**1 790 404**
Ragnvald Nærø, executive vice president	1 631 420	180 000	129 022	**1 940 442**

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.

Benefits in kind consist of a company car scheme, and the provision of free telephones and home offices. The CEO and Group management have not received any fees or financial benefits from other Group companies other than those mentioned above. Nor has any additional fee been paid for special services beyond those comprising normal managerial functions.

Directors' fees and fees to the Auditing Committee

NOK	Directors' fees	Auditing Committee
Arvid Grundekjøn, board chair	310 000	-
Marit Büch-Holm, deputy chair	260 000	70 000
Olav Fjell, board member	205 000	-
Halvor Stenstadvold, board member	205 000	50 000
Aud Mork, board member	205 000	-
Gunn Wærsted, board member	205 000	-
Astri Botten Larsen, employee representative	205 000	50 000
Thorbjørn Holøs, employee representative	205 000	-
Odd Vanvik, employee representativee	205 000	-

The board of directors has no remuneration agreements other than the directors' fee, nor have any loans or pledges been granted with respect to board members.

The reported remuneration corresponds to the annual fee adopted on 1 July.

Halvor Stenstadvold received an additional NOK 10,000 for work performed on the art committee.

Pensions – executive management

NOK	Pensions*
Bård Mikkelsen, president and CEO	2 315 996
Jørgen Kildahl, executive vice president	686 204
Jon G. Brandsar, executive vice president	547 105
Ingelise Arntsen, executive vice president	497 385
Eli Skrøvset, executive vice president	342 066
Stein Dale, executive vice president	403 751
Ragnvald Nærø, executive vice president	1 064 892

* Pension scheme charge for the year per financial statements.

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.

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.

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.

07 PENSIONS

OCCUPATIONAL PENSION SCHEMES OPERATED BY GROUP COMPANIES

The companies in the Statkraft Group have public occupational pension schemes for their employees. The Skagerak Energi Group has its pension plans in a separate pension fund, while the rest of the Group have their pension plans through the National Pension Fund. The exception to this is foreign subsidiaries which have pension schemes adapted to local legislation and rules. The pension schemes cover retirement, disability, surviving spouse and child's pension. These schemes provide pension benefits amounting to 66 per cent of pensionable income, up to 12G (12 times the National Insurance Scheme's basic amount).

Pension scheme benefits are coordinated with the benefits provided by the National Insurance Scheme. All the schemes are members of the transfer agreement. Moreover, all the companies offer early retirement at the age of 62 under the AFP pension scheme.

The National Pension Fund scheme is not asset-based. The pension benefits are guaranteed by the Norwegian state (Section 1 of the Pension Act). Management of the pension fund assets (fictive assets) is simulated as though the assets were invested in long-term government bonds. In this simulation it is assumed that the bonds are held to maturity.

OTHER SCHEMES

Statkraft SF previously had a supplementary scheme with its own pension fund, which provided a retirement and surviving spouse's pension. This scheme has been terminated and free paid-up policies were issued to cover the pension fund's remaining liabilities.

Uncovered pension obligations. The companies that represent a continuation of operations in Statkraft SF (hereafter referred to as Statkraft) have in addition to the above 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.

Portfolio	Percentage	Description of investment strategy	Yield in 2006
National Pension Fund – Statkraft	37.8	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. 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 – Overseas.	4.7%
National Pension Fund – TEV	6.0	As described above	4.4%
Trondheim Municipal Pension Fund on behalf of Trondheim Energiverk	16.0	Interest-bearing Norwegian and foreign securities and shares, as well as loans to members.	7.2%
Skagerak Pension Fund	40.2	Diversified portfolio of Norwegian and foreign interest-bearing securities, secured loans to members, shares (max. 25 per cent), hedge funds (max. 7 per cent) and real property (max. 10 per cent) through external managers.	7.0%
Total	100		

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

	31.12.06	01.01.06	2005	2004
Annual discount rate	4.4%	4.2%	4.5%	5.1%
Salary adjustment	4.0%	2.7%	2.7%	3.3%
Adjustment of current pensions	4.0%	2.4%	2.4%	2.9%
Adjustment of National Insurance Scheme's basic amount (G)	4.0%	2.4%	2.4%	2.9%
Forecast voluntary exit				
· Up to age 45	2.5%	2.5%	2.5%	2.5%
· Between age 45 and 60	0.5%	0.5%	0.5%	0.5%
· Over age 60	-	-	-	-
Projected yield	4.4–6.0%	4.2%	4.5%	5.7%
Rate of inflation	2.25%	1.5%	1.5%	2.5%
Tendency to take early retirement (AFP)	20%	20%	20–25%	20–25%

Assumptions as at 1 January 2006 are applied when calculating pension assets and liabilities at 1 January 2006 and costs through the year.

Assumptions as at 31 December 2006 are adapted to the guidelines issued by the Norwegian Accounting Standards Board and applied when calculating pension assets and liabilities at 31 December 2006 and expected estimate deviations at 31 December 2006.

PENSION COST BREAKDOWN

NOK million	**2006**	2005	2004*
Net present value of accrued pension entitlements for the year	**90**	94	16
Interest costs on pension liabilities	**102**	102	27
Gross pension cost for the year	**192**	196	43
Projected yield on pension fund assets	**-83**	-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	**109**	265	71

* Applies to the period 1.10.–31.12.

NOK million	**2006**	2005	2004
Gross pension liabilities	**3 214**	2 339	2 138
Pension fund assets	**-2 105**	-1 887	-1 802
Net pension liabilities	**1 109**	452	336
Unamortised estimate deviations	**-**	-199	-178
Unrecognised plan changes	**-**	-17	-17
Employers' national insurance contribution	**156**	39	29
Net pension liabilities on the balance sheet	**1 266**	275	170
Pension liabilities	**-1 266**	-312	-260
Pension assets	**-**	37	90

Specification of capitalised pension liability as a result of the charging of estimate deviations and plan changes to equity

NOK million	**2006**
Unamortised estimate deviations as at 01.01.2006 (implementation effect in connection with transition to IAS 19)	**290**
Estimate deviations as at 31.12.2006	**748**
Total increase in capitalised pension liability including employers' contributions when charging to equity and deferred tax in 2006	**1 038**

08 COMPENSATION AND LICENCE FEES

NOK million	**2006**	2005	2004*
Licence fees	**255**	256	58
Compensation payments	**76**	86	31
Total	**331**	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 and 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.

Following the change in the accounting principle regarding annual compensation and free electricity to landowners which came into effect from 1 January 2006, provisions for these obligations have been recognised in the balance sheet. The book value of the plant investments, which are classified as land, are increased accordingly. The implementation effect as at 1 January 2006 amounted to NOK 788 million.

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, discounted at an interest rate of 4 per cent in accordance with the regulations relating to licence fees, annual compensation, funds, etc.

09 OTHER OPERATING EXPENSES

NOK million	2006	2005	2004*
Materials	**182**	141	41
Consultants and temporary employees	**489**	789	215
Costs, power plants operated by third parties	**157**	193	70
Other operating expenses	**732**	742	130
Total	**1 560**	1 865	456

* Applies to the period 01.10.–31.12.

Following the change in accounting policy relating to periodic maintenance, a larger share of maintenance expenses is now capitalised while there has been a corresponding reduction in other operating expenses.

10 FEES PAID TO EXTERNAL AUDITORS

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	2006	2005
Statutory auditing	**6 723 000**	5 415 000
Other attestation services	**932 000**	1 205 000
Tax advisory services	**650 000**	672 000
Other services	**190 000**	599 000
Total	**8 495 000**	7 891 000

Statutory auditing includes NOK 1,267,000 for auditing of the IFRS opening balance at 1 January 2006. Cf. Note 9 Other operating expenses.

Fees paid for statutory auditing of the parent company totalled NOK 1,697,000. This figure includes NOK 563,000 relating to the audit of the opening IFRS balance as of 1 January 2006.

11 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME

NOK million	2006	2005	2004*
Interest received	**218**	190	112
Other financial income	**54**	618	427
Total	**272**	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.

FINANCIAL EXPENSES

NOK million	2006	2005	2004*
Interest expenses relating to Statkraft SF	**1 150**	1 423	460
Other interest expenses	**559**	556	193
Other financial expenses	**378**	333	329
Total	**2 087**	2 312	982

* Applies to the period 01.10.–31.12.

The Group item "Other financial expenses" in 2006 primarily consists of net unrealised foreign currency losses on signed contracts securing future cash flows in EUR and SEK.

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.

12 TAXES

THE TOTAL TAX EXPENSE IS CALCULATED AS FOLLOWS

NOK million	2006	2005	2004*
Income tax	**2 540**	1 898	47
Resource rent tax	**1 148**	680	64
Corrections from previous years	**-89**	17	-1
Change in deferred tax	**-58**	234	-371
Total tax expense in the Income Statement	**3 541**	2 829	-261

Income tax payable

Taxes payable on the Group's profit for the year	**2 814**	1 973	47
Effect of Group contributions on tax liability	**-1 881**	-474	
Income tax payable before offsetting against natural resource tax for the year	**933**	1 499	47

Taxes payable in the Balance Sheet

Natural resource tax	**571**	561	140
Resource rent tax	**1 148**	680	64
Income tax exceeding natural resource tax	**362**	938	406
Tax correction	**36**	0	0
Tax due from previous financial year	**44**	18	0
Taxes payable in the balance sheet	**2 161**	2 197	610

* Applies to the period 01.10.–31.12.

RECONCILIATION OF NOMINAL TAX RATE AND EFFECTIVE TAX RATE

NOK million	2006	2005	2004*
Profit before tax	**9 826**	8 449	1 793
Expected tax expense at a nominal rate of 28%	**2 751**	2 366	502
Effect on taxes of:			
Resource rent tax	**1 264**	842	64
Tax rate differences outside Norway	**-11**	2	-
Share of profit from associated companies	**-472**	-445	-20
Effect of abolition of dividend tax	**-**	-	-399
Tax-free income	**-8**	-69	-94
Corrections from previous years	**-89**	17	-1
Other permanent differences – net	**106**	116	-313
Total tax expense	**3 541**	2 829	-261
Tax rates	**36.0%**	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 carryforwards, as well as a calculation of deferred tax assets, cf. Note 14. Deferred tax assets are recognised in 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 recognised 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, as well as translation effects, the change in deferred tax liabilities/assets from 2004 to 2005 at group level does not correspond with the change in temporary differences. Due to the deferred tax effect of the implementation of IFRSs relating to pensions and fixed assets, the change in deferred tax liabilities/assets from 2005 to 2006 at group level does not correspond to the change in temporary differences.

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

NOK million	2006	2005	2004
Current assets/current liabilities	**-26**	990	292
Fixed assets	**-198**	-1 804	-1 441
Pension liabilities	**-1 374**	-358	-270
Other long-term items	**-571**	-403	-291
Tax loss carryforward/credit	**-666**	-609	-121
Sum of temporary differences and tax loss carryforward	**-2 835**	-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	**-2 835**	-2 105	-3 233
Total deferred tax asset	**-803**	-744	-794
Tax rates	**40/28%**	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	2006	2005	2004
Excess value, acquired companies	**11 858**	11 691	8 337
Current liabilities	**404**	309	-
Fixed assets	**675**	492	-
Other long-term items	**1 488**	1 383	1 100
Temporary differences, resource rent tax	**2 537**	1 011	1 275
Negative resource rent carryforward	**-1 018**	-115	-159
Sum temporary differences and resource rent carryforward	**15 944**	14 771	10 553
Total deferred tax (15/26/27/28/55%)	**5 614**	5 204	3 944

Explanation of tax rates applied:
28% – Corporation tax rate in Norway and Sweden
26% – Corporation tax rate in Finland
40% – Corporation tax rate in Germany
27% – Resource rent tax rate in Norway
55% – Marginal rate of taxation in Norway (resource rent tax rate + corporation tax rate)
15% – Rate of taxation applied on excess value on power generating assets in acquired Norwegian companies

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

With respect to power utilities in which Statkraft Energi AS has shares but no operating responsibility, cf. Note 15, the company appropriates a proportion of the power utility's output corresponding to its shareholding for its own use. 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	2006	2005	2004*
Power sales revenues	**1 297**	856	162
Other operating revenues	**11**	9	4
Transmission costs	**-52**	-42	-4
Net operating revenues	**1 255**	823	162
Compensation and licence fees	**20**	20	4
Other operating expenses	**96**	122	47
Depreciation	**72**	72	19
Property tax	**38**	33	7
Net operating expenses	**226**	247	77
Operating profit	**1 029**	576	85

* Applies to the period 01.10.–31.12.

14 INTANGIBLE ASSETS

NOK million	2006	2005	2004
Waterfall rights, etc.	**5 222**	5 083	1 650
Deferred tax assets	**803**	744	794
Goodwill	**127**	149	136
Other	**103**	-	-
Total	**6 255**	5 976	2 580

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

NOK million	Rights	Goodwill	Other	Total
Acquisition cost 01.01.2006	5 207	291	9	**5 507**
Additions 2006	6	-	86	**92**
Disposals 2006	-	-	-	**-**
Reclassification	-49	-	-	**-49**
Foreign exchange effects	207	-6	12	**213**
Acc. amortisation 31.12.2006	-150	-158	-4	**-312**
Book value 31.12.2006	5 221	127	103	**5 451**
Amortisation and write-downs	21	15	-	**36**
Estimated useful economic life	7 years to perpetuity	5–25 years		

RESEARCH AND DEVELOPMENT

The Group's research and development activities comprise activities relating to new energy sources and the further development of existing plants and technologies. Research activities relating to new energy sources include general research projects. These projects are intended to provide further knowledge on technologies or other areas that could provide a basis for future activities/ projects relating to energy sources such as hydrogen, wave and osmotic power. In order to gain new knowledge and develop new methods within the fields of energy optimisation and preservation, the Group also performs research and development activities in connection with existing plants/energy sources. Research and development activities performed in 2006 primarily related to research. A total of NOK 37.5 million was recognised in the income statement in respect of research and development activities.

15 PROPERTY, PLANT AND EQUIPMENT

NOK million	Water regulation facilities	Turbines generators etc.	Distribution grid facilities	Shares in power plants operated by third parties	Underground facilities, buildings, roads, bridges and quays	Plants under construction	Other*	Total
Acquisition cost 01.01.2006	24 265	19 884	9 457	3 093	6 446	1 797	2 507	**67 449**
Consolidation of new companies	-	-	-	-	40	-	-	**40**
Implementation of new accounting principles	305	211	10	-	897	553	17	**1 993**
Additions 2006	386	406	214	9	9	2 185	350	**3 559**
Disposals 2006	-	-6	-73	-	-12	-	-200	**-290**
Capitalised interest on building loans	-	-	-	-	-	53	-	**53**
Foreign exchange effects	24	24	71	-	41	13	-	**174**
Acc. depreciation and write-downs 31.12.2006	-4 247	-9 240	-4 323	-830	-1 863	-7	-1 376	**-21 885**
Book value 31.12.2006	20 733	11 280	5 356	2 273	5 559	4 594	1 298	**51 093**
Depreciation and write-downs	259	476	345	83	116	-	186	**1 465**
Acc.depreciation of the implementation effect of new accounting principles	-39	-52	-	-	-	-	-7	**-98**
Depreciation period	30–75 years	15–40 years	25–35 years	5–50 years	50–75 years	-	3–40 years	-

* Comprises mainly district heating facilities, buildings, office and computer equipment, electrical installations and vehicles.

A more detailed specification of the various assets capitalised in the balance sheet useful economic lives is provided below:

	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 gir	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%	345
Mørkfoss-Solbergfoss [1]	33.33%	39
Røldal-Suldal Kraft AS [1, 2]	8.74%	-
I/S Sira-Kvina kraftselskap [3]	46.70%	1 230
Kraftverkene i Orkla [4]	48.60%	659
Total		2 273

[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.

16 SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

SHARES IN CONSOLIDATED COMPANIES

Name	Registered office	Parent company	Shareholding and 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 Financial Energy AB	Stockholm	Statkraft AS	100.0%
Statkraft Markets GmbH	Düsseldorf	Statkraft AS	100.0%
Statkraft Markets Hungaria LLC	Budapest	Statkraft Markets GmbH	100.0%
Statkraft Southeast Europe Ltd	Sofia	Statkraft Markets GmbH	100.0%
Statkraft Energy 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%
Knapsack Power Verwaltungs GmbH	Düsseldorf	Statkraft Markets 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%
Graninge AB	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%
Kjøllefjord Vind AS	Oslo	Statkraft Development AS	100.0%
Fairwind Statkraft Orkney Ltd	Orkney Islands	Statkraft Development AS	75.0%
Statkraft UK Ltd	London	Statkraft AS	100.0%
Statkraft Regional Holding AS	Oslo	Statkraft 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%
Trondheim Energiverk Eiendom AS	Trondheim	Trondheim Energiverk AS	100.0%
Sluppen Eiendom AS	Oslo	Statkraft Regional Holding 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 accounted for using the equity method in the consolidated financial statements. 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	Dusseldorf	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 accounted for using the equity method in the consolidated financial statements.

[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 approximately EUR 2 billion.

BOOK VALUE 31.12.06

NOK million	BKK	Agder	Fjordkraft	SN Power	Naturkraft
Opening balance	6 021	4 154	289	557	305
Share of profit	401	244	35	5	-13
Amortisation of excess value	-14	-44	-28	-	-
Investments/asset sales	-	-	-	253	400
Dividend	-308	-180	-7	-	-
Translation differences [1]	-	-	-	-	-
Other [2]	-221	-218	-	-	-
Closing balance	5 879	3 956	289	815	693
Excess value 31.12.2006	2 392	2 608	173	-	-
Of which unamortised waterfall rights	1 818	333	-	-	-

NOK million	E.ON Sverige	Istad	Herdecke	Others	Total
Opening balance	17 106	310	21	30	28 793
Share of profit	1 303	10	-11	-19	1 956
Amortisation of excess value	-189	-12	-	-	-287
Investments/asset sales	-	-	79	17	749
Dividend	-585	-7	-	-	-1 087
Translation differences [1]	1 231	-	-	-	1 231
Other	4	-	-	78	-358
Closing balance	18 870	301	89	106	30 997
Excess value 31.12.2006	4 869	134	-	-	7 154
Of which unamortised waterfall rights	1 729	-	-	-	1 729

[1] Urealised gains/losses resulting from foreign exchange fluctuations on investments are recognised as translation differences in equity. Urealised gains/loans 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 recognised in equity, since these are considered as hedging the net investment in foreign currency.

[2] The equity effect in connection with the changes in principles and estimate deviations on pensions is recorded directly against equity.

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)		
Million	2006	2005	2004	2006	2005	2004	2006	2005	2004
Gross operating revenues	26 293	26 133	24 578	4 584	3 076	2 726	3 554	3 291	2 852
Operating profit	5 522	6 164	6 232	1 515	891	1 021	1 505	1 444	1 162
Profit before tax and minority interests	4 806	5 181	4 815	1 312	612	679	1 346	1 183	797
Net profit	3 442	3 591	3 479	607	280	439	824	663	477

Balance Sheet (unaudited)									
Million	2006	2005	2004	2006	2005	2004	2006	2005	2004
Fixed assets	70 704	69 304	73 129	9 938	9 876	9 732	14 375	14 462	14 929
Current assets	10 634	10 019	9 045	923	934	792	1 211	1 447	840
Total assets	81 338	79 323	82 174	10 861	10 810	10 524	15 586	15 909	15 769
Equity	34 172	32 232	29 784	2 913	3 370	3 558	7 487	7 490	7 665
Minority interests	2 047	2 039	2 036	-	-	-	22	17	26
Long-term liabilities	37 683	36 724	42 038	5 741	4 977	4 369	6 220	6 697	6 832
Current liabilities	7 436	8 328	8 316	2 207	2 463	2 597	1 857	1 705	1 246
Total equity and liabilities	81 338	79 323	82 174	10 861	10 810	10 524	15 586	15 909	15 769

17 OTHER LONG-TERM FINANCIAL ASSETS

NOK million	**2006**	2005	2004
Loans to associated companies	**40**	28	-
Loans to Statkraft SF	**453**	439	-
Bonds and other long-term receivables	**810**	364	599
Pension fund assets	**-**	37	90
Other shares and securities	**157**	242	1 846
Total	**1 460**	1 110	2 535

For the Group, bonds and other long-term receivables include paid natural resource tax with NOK 624 million, which may subsequently be offset against payable income tax.

18 RECEIVABLES

NOK million	**2006**	2005	2004
Accounts receivable	**990**	1 377	512
Accrued revenues etc.	**1 197**	896	1 224
Interest-bearing restricted funds	**1 063**	64	426
Other receivables	**1 153**	1 022	907
Current receivables from Group companies	**150**	21	678
Total	**4 553**	3 380	3 747

Accounts receivable are net of a NOK 16 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).

19 SHORT-TERM FINANCIAL INVESTMENTS

NOK million	2006	2005	2004
Money market funds	**92**	62	11
Shares and financial instruments	**75**	46	16
Bonds	**213**	227	303
Total	**379**	335	330

Bonds by debtor category:

NOK million	2006	2005	2004
Commercial and savings banks	**83**	65	84
Industrial sector	**39**	49	19
Public sector	**91**	113	200
Total	**213**	227	303

2006	Market value *	Modified duration	Average rate of interest (%)
Commercial and savings banks	83	1.16	4.05
Industrial sector	39	3.55	3.59
Public sector	91	3.50	4.31
Total	213		

* All bonds are in NOK and are recorded at their market value on 31 December.

20 CASH AND CASH EQUIVALENTS

NOK million	2006	2005	2004
Money market funds, certificates, promissory notes and bonds	**59**	489	2 000
Cash in hand and bank deposits	**1 699**	3 885	3 241
Foreign certificates	**-**	-	51
Total	**1 758**	4 374	5 292

Cash in hand and bank deposits for 2006 include NOK -303 million in cash collateral (including capitalised interest), and NOK 308 million in restricted funds, largely placed in custody accounts associated with the sale of electricity in power exchanges. Cash collateral represents payments made by contractual parties as security for net unrealised gains and losses Statkraft has on interest rate and currency swap agreements. Since such gains/losses are not taken to income, a contra entry in the amount of NOK 793 million has been recorded under other interest-free liabilities, cf. Note 24, while NOK 1,062 million has been recorded under receivables, cf. note 18.

The Statkraft Group had unused long-term committed credit lines of up to NOK 5,000 million and overdraft facilities totalling NOK 600 million. Statkraft's overdraft facility and credit lines were unused as at 31 December 2006.

21 EQUITY

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
Change in translation differences	-	-125	5	-120
Reduction in minority interest	-	-	-20	-20
Group contribution received after tax	-	462	-	462
Group contribution paid after tax	-	-5	-	-5
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
Change in translation differences	-	-138	10	-128
Change resulting from acquisitions	-	122	-124	-2
Group contribution paid after tax	-	-1 343	-	-1 343
Allocated to dividend for 2005	-	-3 100	-68	-3 168
Equity as at 31.12.2005	31 553	4 689	3 752	39 994
Implementation of new accounting principles 01.01.	-	255	18	237
Profit 2006	-	5 940	346	6 286
Change in translation differences	-	487	16	503
Merging of subsidiaries	16	-16	-	-
Change resulting from acquisitions	-	-104	126	23
Estimate deviations of pensions 31.12.06	-	-480	-58	-538
Equity effects in associated companies	-	-439	-	-439
Capital reduction in Skagerak Energi AS	-	-	-1 035	-1 035
Extraordinary dividend	-	-	-197	-197
Group contribution paid after tax	-	-4 836	-	-4 836
Allocated to dividend for 2006	-	-762	-431	-1 193
Equity as at 31.12.2006	31 569	4 735	2 501	38 805

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 2,244 million of the minority interest's total equity as at 31 December 2006.

22 PROVISIONS

NOK million	2006	2005	2004
Pension liabilities	**1 266**	312	260
Deferred tax	**5 614**	5 204	3 944
Other provisions	**5 360**	4 784	2 814
Total	**12 240**	10 300	7 018

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

The item "Other provisions" for 2006 includes prepayments of NOK 3,810 million in connection with future power agreements. The largest of these are the exchange agreements with Elsam and the Rana power leasing contract.

Furthermore, a gain of NOK 296 million linked to terminated exchange contracts which are amortised in the period to 2010 have been recorded in the balance sheet.

23 LONG-TERM INTEREST-BEARING DEBT

NOK million	2006	2005	2004
Loans from Statkraft SF (back-to-back agreements)	**15 068**	19 225	28 236
Bond issues in the Norwegian market	**11 883**	7 088	7 000
Loans from the Norwegian state	**-**	425	850
Other loans raised in non-Norwegian markets	**1 741**	469	213
External debts in subsidiaries	**1 285**	1 804	1 969
Total	**29 976**	29 011	38 268

The figures include the effect of underlying currency swaps

BREAKDOWN OF DEBT BY CURRENCY

NOK million	2006	2005	2004
Debt in NOK	**12 425**	13 622	21 919
Debt in SEK	**17 551**	14 960	16 349
Debt in USD	**-**	429	-
Total	**29 976**	29 011	38 268
Nominal average interest rate NOK, including the effect of terminations	**6.56%**	6.36%	6.88%
Nominal average interest rate SEK	**2.49%**	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-RATE DEBT PORTFOLIO

	Date of interest rate adjustment				
NOK million	2007 [1]	1–3 years	3–5 years	5 years or later	Total
Debt in NOK	5 375	-1 789	241	6 830	10 658
Debt in SEK	17 500	42	-	9	17 551
Total	22 875	-1 747	241	6 839	28 209

[1] The interest rate exposure takes into account a cash reserve of NOK 1,785 million, which reduces the interest rate exposure in 2007 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 amortisation of transactions costs.

PAYMENT SCHEDULE

NOK million	2007	2008	2009	2010	2011	After 2011	Total
Loans from Statkraft SF (back-to-back agreements)	3 957	4 875	2 021	3 162	653	400	15 068
Bonds issued in the Norwegian market	-	-	1 580	-	2 020	8 300	11 900
Other loans raised in non-Norwegian markets	-	-	-	-	873	508	1 381
Exchange rate regulation, currency and interest rate swaps	403	-102	-	38	25	-5	359
Total for the parent company	4 360	4 773	3 601	3 200	3 571	9 203	28 708
External debt in subsidiaries							
Bonds issued in the Norwegian market	22	15	41	29	14	444	566
Other debt	24	24	24	17	28	603	719
Total for the Group	4 406	4 812	3 666	3 246	3 613	10 250	29 993

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.

24 CURRENT LIABILITIES

SHORT-TERM INTEREST-BEARING DEBT
NOK 793 million in short-term interest bearing debt relates to cash collateral (cf. Note 20). The remaining debt consists of NOK 1,699 million in certificated loans.

TAXES PAYABLE
NOK 2,161 million in taxes payable is described in more detail in Note 12.

OTHER INTEREST-FREE LIABILITIES

NOK million	2006	2005	2004
Accounts payable	**1 027**	447	378
Public charges payable	**449**	566	313
Accrued costs	**576**	695	601
Other interest-free liabilities	**597**	152	99
Dividend payable	**1 164**	3 168	74
Current liabilities to Group companies	**7 064**	2 083	580
Total	**10 877**	7 111	2 045

NOK 7,064 million in short-term debt to Group companies relates mainly to Group contributions to the parent company Statkraft SF.

25 PLEDGES, OBLIGATIONS AND GUARANTEES

PLEDGES
Under certain circumstances county authorities and publicly owned energy companies 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 1,899 million. As at 31 December 2006, the book value of the pledged assets in Statkraft Energi AS totalled NOK 6,435 million. Other subsidiaries have a total of NOK 195 million in correspondingly pledged assets.

OBLIGATIONS AND GUARANTEES
The Statkraft Group has off-balance-sheet obligations and guarantees totalling NOK 7,378 million. Of this, an amount of NOK 3,307 million relates to parent company guarantees, NOK 1,448 to million power swap agreements, NOK 1,072 million to Nord Pool guarantees, NOK 855 million to property rental obligations, NOK 270 million to a right of recourse guarantee, NOK 192 million to investment obligations, NOK 76 million to security for employee taxes, while NOK 157 million relates 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 15 years with an option to renew for a further 10 years. The annual rent totals NOK 57 million.

26 FINANCIAL INSTRUMENTS

CURRENCY AND INTEREST RATE AGREEMENTS
Statkraft trades in financial instruments for various purposes. Their accounting treatment depends on their purpose as described in the note on accounting principles.

Book value and fair value of interest rate and currency instruments

	31.12.06		31.12.05		31.12.04	
NOK million	Book value	Fair value	Book value	Fair value	Book value	Fair value
Interest rate swaps	-	631	-	598	-	570
Forward rate agreements	-	-	-	-1	-	-
Interest rate and cross currency swaps	-359	-85	916	1 403	198	855
FX forwards	-296	-296	47	43	-26	39
Total	-655	250	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 on organised markets.

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, in 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 the interest rate and cross currency swap agreements is recorded at the exchange rate in effect on the balance sheet date. The change in value recorded in the Income Statement is offset 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 for which unrealised gains/losses are not recorded in the accounts.

POWER CONTRACTS
Derivates are recorded at fair value

NOK million	Fair value 2006	Recognised change in value 2006	Fair value 2005
Trading portfolio	137	65	72

With respect to power trading, it is the trading portfolios that are valued at fair value in accordance with Section 5-8 of the Norwegian Accounting Act. The portfolios comprise financial forward and option contracts traded via Nord Pool, as well as bilateral financial contracts with terms otherwise identical to standardised contracts traded via Nord Pool. With respect to the trading portfolios, acquisition cost relates solely to the net of paid and received option premiums.

With respect to the trading portfolios, contracts are traded within a three-year timeframe. As at 31 December 2006 fair value was broken down per future time period as follows:

NOK million	
2007	126
2008	30
2009	-19
Total fair value 31.12.2006	137

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 has four power trading portfolios whose financial instruments are not recorded at fair value in the financial statements. 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	
Management – Nordic hydropower	Hedging	Norwegian Accounting Act, section 4-1, paragraph 1, no. 5
Origination	Lower value principle	Norwegian Accounting Act, section 5-2
Statkraft Financial Energy	Lower value principle	Norwegian Accounting Act, section 5-2
Baltic Cable	Lower value principle	Norwegian Accounting Act, section 5-2
Statkraft Markets Continental	Lower value principle	Norwegian Accounting Act, section 5-2

A brief description of the portfolios is provided below:

ADMINISTRATION – NORDIC HYDROPOWER
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 via 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 2006, 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 via 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 based 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 (i.e. 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 2006, 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.

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 2006, 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 time-frame of 3–5 years. The company has initiated hedging activities for gas, provisionally on a small scale.

As at 31 December 2006, fair value was higher than acquisition cost.

STATKRAFT MARKETS CONTINENTAL
Statkraft Markets Continental has organised its derivative trading activities in three portfolios: power trading, origination and CO_2/ green certficates. All the portfolios are treated in the accounts in accordance with the lower value principle.

The power trading portfolio primarily consists of contracts in the Scandinavian, German and Dutch markets. Despite the development of organised financial markets, such as the EEX (Germany) and APX (the Netherlands), contracts for physical deliveries still dominate the bilateral market in continental Europe. The portfolio also includes physical contracts traded on the most liquid market places, such as the NBP (National Balancing Point) in the UK and Zeebrugge in Belgium.

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.

CO_2/green certficates cover trading in various green certificates and CO_2 quotas as well as documentation of the the physical flows of envionment-friendly power.

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 are treated as hedging instruments for accounting purposes.

27 MARKET RISK, FINANCIAL RISK AND INSURANCE RISK

Statkraft is exposed to various types of risk in its business and regards effective risk management as an important condition for success. The most important risks relate to the generation of and trading in electrical power, but the Group is also exposed to other financial and operational risks.

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 (IFRSs) with effect from 1 January 2007 could result in a significant discrepancy between the results recorded in the Group's financial statements and its actual cash flow. In this case the company's financial statements might not represent such an accurate reflection of the actual value created by the Group.

MARKET RISK RELATED TO THE GENERATION OF AND TRADING IN ELECTRICAL POWER
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 significant impact on Statkraft's results. However, since power generation and price are often negatively correlated, i.e. 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.

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 respect 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.

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 risk criteria and uncertainty regarding both future prices and production. At the end of 2006 the Group had presold more than 40 per cent of its mean production up to and including 2016.

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.

Risk management. The board has issued mandates for market operations related to hedging objects, trading and origination. The mandates both contain frameworks that limit exposure and risk assessment guidelines. The mandates are delegated downward through the organisation, and Statkraft attaches significant importance to establishing clear lines of responsibility. An independent unit is responsible for the on-going follow-up of issued authorities and frameworks.

FINANCIAL RISK
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. The operational currency for trading at Nord Pool was changed as Nord Pool converted 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 net borrowing portfolio is exposed to 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, the same limits apply for each individual currency. The E.ON Sverige investment is financed entirely at a floating interest rate. A management framework has also been establised to limit the interest rate exposure in currencies other than NOK. 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.

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.

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. In addition, Statkraft has established an EMTN Programme which is registered on the London Stock Exchange. The programme gives the company the opportunity to issue loans both in the international and on the Norwegian bond market. The programme may also be used to raise bilateral loans in respect of individual investors.

Revolving credit facilities are used to secure access to short-term financing. Statkraft's revolving credit facilities are large enough to cover outstanding certificate liabilities at any time. A guarantee framework has been established to cope with significant fluctuations in the collateral required for financial contracts in the forward market relating to 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.

Counterparty risk. Statkraft is exposed to credit risk through power trading, investing its surplus liquidity, and trading in financial instruments. The limits for each counterparty are determined by a formal credit rating or an analysis of key financial figures. Bilateral contracts are subject to limits for each counterparty, with regard to volume, amount and duration. Investments are largely spread between issuers with A-ratings or better. For financial instruments a loss potential is calculated in the event the counterparty 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 counterparties (cash collateral). Credit exposure associated with such agreements is therefore substantially reduced. The limits for each counterparty are monitored continuously and reported on a regular basis. In addition, the counterparty risk is quantified by combining exposure with the probability of an individual counterparty default. The total counterparty risk is calculated and reported on for all relevant units, in addition to it being consolidated at group level and forms part of the Group risk management.

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.

28 RELATED PARTIES

Statkraft owns shares in a number of energy companies. For further details, cf. Note 16. Transactions with these energy companies are carried out at market terms. Statkraft Energi AS is also responsible for 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.

29 CONTRACTUAL OBLIGATIONS

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

In connection with the construction of its gas 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 power plant at Knapsack has already been sold to the Dutch energy company Essent.

INCOME STATEMENT STATKRAFT AS

NOK million	Note	2006	2005	2004*
Gross operating revenues	1	**362**	305	-
Salaries and payroll costs	2,3	**172**	227	-
Other operating costs	4,5	**288**	238	5
Depreciation	8	**35**	83	-
Operating expenses		**496**	548	5
Operating loss		**-133**	-243	-5
Financial income	6	**10 641**	5 467	1 095
Financial expenses	6	**-1 773**	-1 866	-1 076
Net financial items		**8 868**	3 601	19
Profit before tax		**8 734**	3 358	14
Taxes	7	**-1 636**	-255	-12
Net profit		**7 098**	3 103	2
Allocation of net profit for the year				
Dividend	13	**762**	3 100	-
Group contribution	13	**4 836**	-	-
To other equity	13	**1 500**	3	2

* Applies to the period 01.10.–31.12.

BALANCE SHEET STATKRAFT AS

NOK million	Note	31.12.06	31.12.05	31.12.04
ASSETS				
Deferred tax asset	7	**20**	-	-
Property, plant and equipment	8	**83**	85	-
Investments in subsidiaries and associated companies	9	**35 444**	40 600	31 580
Other long-term financial assets	10	**25 975**	26 750	55 985
Fixed assets		**61 521**	67 435	87 565
Receivables	11	**12 930**	5 179	7 807
Cash and cash equivalents	12	**1 152**	3 157	4 132
Current assets		**14 082**	8 336	11 939
Assets		**75 603**	75 771	99 504
EQUITY AND LIABILITIES				
Paid-in capital	13	**31 569**	31 553	31 553
Retained earnings	13	**1 432**	5	2
Total equity		**33 001**	31 558	31 555
Provisions	14	**399**	607	5
Long-term interest bearing debt	15	**28 691**	27 207	58 625
Long-term liabilities		**29 090**	27 814	58 630
Short-term interest bearing debt	16	**5 366**	11 700	8 178
Other interest-free liabilities	17	**8 146**	4 699	1 141
Current liabilities		**13 512**	16 399	9 319
Equity and liabilities		**75 603**	75 771	99 504
Guarantees	18	**4 093**	5 800	-

The Board of Directors of Statkraft AS
Oslo, 7 March 2007

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 and CEO

CASH FLOW STATEMENT STATKRAFT AS

NOK million		2006	2005	2004*
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax		**8 734**	3 358	14
Depreciation		**35**	83	-
Tax paid		**-12**	-1	-
Cash flow from operating activities		**8 757**	3 440	14
Change in long-term items		**57**	-	-
Change in other short-term items		**-8 700**	7 709	-3 736
Net cash flow from operating activities	A	**114**	11 149	-3 722
CASH FLOW FROM INVESTING ACTIVITIES				
Investments in property, plant and equipment		**-35**	-	-
Sale of fixed assets (sales figure)		**2**	-	-
Loans to third parties		**-**	-400	-454
Repayment of loans to third parties		**-**	860	4 737
Investments in other companies		**-663**	-4 495	-4
Net cash flow from investing activities	B	**-696**	-4 035	4 279
CASH FLOW FROM FINANCING ACTIVITIES				
New long-term borrowings		**6 574**	963	4 000
Repayment of long-term debt		**-4 897**	-9 051	-425
Dividend paid		**-3 100**	-	-
Net cash flow from financing activities *	C	**-1 423**	-8 088	3 575
Net change in cash and cash equivalents	A+B+C	**-2 005**	-975	4 132
Cash and cash equivalents as at 01.01		**3 157**	4 132	-
Cash and cash equivalents as at 31.12		**1 152**	3 157	4 132

* Applies to the period 01.10.–31.12

As part of the process to etablish a group after the reorganisation of Statkraft into a limited company, Statkraft AS took part in several major transactions that had no effect on 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 also had no impact on 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.

As the final stage in the process of establishing a group, Statkraft Energi AS paid an extraordinary dividend of NOK 7 billion to Statkraft AS. This dividend took the form of Stakraft Energi AS reducing its receivables against Statkraft AS.

ACCOUNTING PRINCIPLES STATKRAFT AS

The annual financial statements 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 recognised under dividends from subsidiaries.

Statkraft AS was established on 25 June 2004 with initial paid-in equity of NOK 100,000. All the 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 company was formed in connection with 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 calendar year.

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

NOTES STATKRAFT AS

01 OPERATING REVENUES

NOK million	2006	2005	2004*
Other leasing and service sales revenues	**362**	305	-
Total	**362**	305	-

* Applies to the period 01.10.–31.12.

02 SALARIES AND OTHER PAYROLL COSTS

NOK million	2006	2005	2004*
Salaries	**118**	112	-
Employers' national insurance contributions	**20**	20	-
Pension costs	**23**	88	-
Other benefits	**11**	7	-
Total	**172**	227	-

* Applies to the period 01.10.–31.12.

On average the parent company had the equivalent of 167 full-time jobs in 2006.

For information concerning salaries and other payroll costs for Group management and the board of directors, see Note 6 to the consolidated financial statements.

03 PENSIONS

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 was performed at fair value, based on actuarial assumptions as at 1 January 2005.

OCCUPATIONAL PENSION SCHEMES OPERATED BY GROUP COMPANIES
Statkraft AS operates occupational pension schemes for its employees through its National Pension Plan. 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 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. Statkraft SF previously had supplementary schemes which provided retirement and surviving spouse pensions. These schemes have been terminated and free paid-up policies have been issued to cover the pension fund's remaining liabilities.

Uncovered pension obligations. In addition to the above, Statkraft AS has entered into pension agreements that provide all employees whose pensionable income exceeds 12G with a retirement and disability pension equivalent to 66 per cent of that portion of

their pensionable income exceeding 12G. This scheme also provides 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 AS has a surviving spouse pension providing benefits beyond those provided by the National Pension Fund, which is a continuation of a an earlier scheme provided by Statkraft's Pension Fund. Ther scheme is closed and does not cover employees who joined Statkraft after 1 October 2003.

PENSION COST BREAKDOWN

NOK million	**2006**	2005	2004*
Net present value of accrued pension entitlements for the year	**20**	22	-
Interest costs on pension liabilities	**9**	8	-
Projected yield on pension fund assets	**-6**	-4	-
Recognised effect of estimate deviations	**-**	10	-
Termination of the Statkraft Pension Fund	-	53	-
Net pension cost for the year	**23**	88	-

* Applies to the period 01.10.–31.12.

RECONCILIATION OF PENSION LIABILITIES AND PENSION FUND ASSETS

NOK million	**2006**	2005	2004
Gross pension liabilities	**313**	207	-
Pension assets in the National Pension Funde	**-118**	-103	-
Unamortised estimate deviations	**-**	-12	-
Employers' national insurance contribution	**27**	13	-
Net pension liabilities on the balance sheet	**222**	104	-

Breakdown of increase in book pension liability after charging estimate deviations to equity

NOK million	**2006**
Unamortised estimate deviations as at 1 January 2006 (implementation effect of transition to IAS 19)	**31**
Estimate deviations at 31 December 2006	**81**
Total increase in book pension liability including employers' national insurance contribution by charging to equity in 2006	**112**

ASSUMPTIONS

	31-12-06	01-01-06	2005	2004
Annual discount rate	4.4%	4.2%	4.5%	5.1%
Salary adjustment	4.0%	2.7%	2.7%	3.3%
Adjustment of current pensions	4.0%	2.4%	2.4%	2.9%
Adjustment of National Insurance Scheme's basic amount (G)	4.0%	2.4%	2.4%	2.9%
Projected yield on assets	4.4%	4.2%	4.5%	5.7%
Forecast voluntary exit				
– Up to age 45	2.5%	2.5%	2.5%	2.5%
– Between age 45 and 60	0.5%	0.5%	0.5%	0.5%
– Over age 60	-	-	-	-
Rate of inflation	2.25%	1.50%	1.5%	2.5%

These actuarial calculations are based on demographic assumptions ordinarily used in calculating life insurance and pensions.

The tendency to take early retirement (AFP) is estimated at 20 per cent.

Assumptions at 1 January 2006 form the basis for calculating pension assets and liabilities as at 1 January 2006 and for costs through the year. Assumptions at 31 December 2006 are adapted to guidelines from Norwegian Accounting Standards Board and form the basis for calculating pension assets and liabilities as at 31 December 2006 and estimate deviations as at 31 December 2006.

04 OTHER OPERATING EXPENSES

NOK million	**2006**	2006	2004*
Materials	**2**	2	-
Consultants and temporary employees	**109**	92	5
Other operating expenses	**177**	144	-
Total	**288**	238	5

* Applies to the period 01.10.–31.12.

05 FEES PAID TO EXTERNAL AUDITORS

Deloitte Statsautoriserte Revisorer is the auditor for the Statkraft Group and Statkraft AS. The fees paid for auditing and other services provided for Statkraft AS in 2006 break down as follows:

NOK	**2006**	2005
Statutory auditing	**1 697 000**	995 000
Other attestation services	**759 000**	342 000
Tax advisory services	**307 000**	59 000
Other services	**-**	431 000
Total	**2 763 000**	1 827 000

Statutory auditing includes NOK 563,000 for auditing of the IFRS opening balance at 1 January 2006.

06 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME

NOK million	2006	2005	2004*
Interest received from Group companies	**1 026**	896	1 055
Other interest received	**113**	129	35
Other financial income	**9 502**	4 442	5
Total	**10 641**	5 467	1 095

* Applies to the period 01.10.–31.12.

The item "Other financial income" in 2006 includes NOK 3,193 million in dividends from subsidiaries. Furthermore, NOK 6,296 million in Group contributions received was recognised in income, while NOK 12 million was recognised in other financial income.

FINANCIAL EXPENSES

NOK million	2006	2005	2004*
Interest paid to Group companies	**1 481**	1 564	933
Other interest expenses	**43**	22	104
Other financial expenses	**249**	280	39
Total	**1 773**	1 866	1 076

* Applies to the period 01.10.–31.12.

The item "Other financial expenses" in 2006 primarily consists of net unrealised foreign currency losses on contracts hedging future cash flows in EUR and SEK. Other financial expenses in 2005 include NOK 207 million in net realised losses incurred in connection with the buyback of bonds and their underlying interest rate swaps.

07 TAXES

THE TOTAL TAX EXPENSE IS CALCULATED AS FOLLOWS

NOK million	2006	2005	2004*
Income tax	**1 891**	-	7
Corrections from previous years	**-**	-6	-
Change in deferred tax	**-255**	261	5
Total tax expense in the income statement	**1 636**	255	12
Income tax payable:			
Tax payable on profit for the year	**1 880**	-	7
Effect of Group contributions on tax liability	**-1 880**	-	-7
Income tax payable	**-**	-	-

* Applies to the period 01.10.–31.12.

Tax payable in the Balance Sheet:			
Income tax	**-**	-	-
Correction income tax	**36**	-	-
Tax due from previous financial year	**-**	-	-
Tax payable in the Balance Sheet	**36**	-	-

RECONCILIATION OF NOMINAL TAX RATE AND EFFECTIVE TAX RATE

NOK million	2006	2005	2004*
Profit before tax	**8 734**	3 358	14
Expected tax expense at a nominal rate of 28%	**2 446**	940	4
Effect on taxes of:			
Tax-free income	**-895**	-646	-
Corrections from previous years	**-**	-6	-
Other permanent differences – net	**85**	-33	8
Total tax expense	**1 636**	255	12
Effective tax rate	**19%**	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 carryforwards, as well as a calculation of deferred tax assets. In connection with the implementation of new accounting principles concerning pensions (IAS19), estimate deviations are recognised directly in equity and in deferred tax. The deferred tax effect totals NOK 31 million, and is recognised directly in the Balance Sheet.

NOK million	2006	2005	2004
Current assets/current liabilities	**195**	1 104	16
Fixed assets	**-47**	-52	-
Pension liabilities	**-222**	-104	-
Sum of temporary differences and tax loss carryforward	**-74**	948	16
Total deferred tax (+)/deferred tax asset (-)	**-20**	265	5
Tax rates	**28%**	28%	28%

08 PROPERTY, PLANT AND EQUIPMENT

NOK million	Plots, buildings and other real property	Moveables, inventories, office equipment etc.	Plant under construction	Total
Acquisition cost 01.01.06	24	220	16	260
Additions 2006	-	30	5	35
Disposals 2006	-	-64	-	-64
Reclassification	-	11	-11	-
Accumulated depreciation and write-downs 31.12.06	-11	-137	-	-148
Book value 31.12.06	13	60	10	83
Depreciation for the year	3	32	-	35
Depreciation period	50 years to perpetuity	3–5 years		

09 SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

NOK million	Registered office	Shareholding & voting rights	Book valuei
Subsidiaries			
Statkraft Energi AS	Oslo	100%	10 062
Statkraft Carbon Invest AS	Oslo	100%	4
Statkraft Markets Continental Gmbh	Dusseldorf	100%	1 380
Statkraft Suomi Oy	Kotka	100%	911
Statkraft Financial Energy AB	Stockholm	100%	-
Statkraft Sverige AB	Stockholm	100%	3 159
Statkraft UK Ltd.	London	100%	6
Statkraft Development AS	Oslo	100%	366
Statkraft Regional Holding AS	Oslo	100%	13 951
Statkraft Forsikring AS	Oslo	100%	80
Statkraft Energy Enterprise AS [1]	Oslo	100%	3 933
Småkraft AS [2]	Oslo	20%	20
Associated companies			
Naturkraft AS	Bærum	50%	719
Statkraft Norfund Power Invest AS	Oslo	50%	853
Hydra Tidal Energy Technology AS	Oslo	29%	1
Total			35 444

[1] The company will be merged with Statkraft AS on 1 January 2007.
[2] Småkraft AS 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.

10 OTHER LONG-TERM FINANCIAL ASSETS

NOK million	2006	2005	2004
Loans to enterprises in the same Group	**25 961**	26 739	55 985
Other shares	**14**	11	-
Total	**25 975**	26 750	55 985

11 RECEIVABLES

NOK million	2006	2005	2004
Accounts receivable	**54**	203	-
Accrued revenues etc.	**382**	11	5
Interest-bearing restricted funds	**1 063**	64	498
Other receivables	**444**	701	162
Current receivables from enterprises in the same Group	**10 987**	4 200	7 141
Total	**12 930**	5 179	7 807

As at 31 December 2006, 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) in connection with interest rate and currency swap agreements.

12 CASH AND CASH EQUIVALENTS

NOK million	2006	2005	2004
Certificates, bonds and promissory notes	-	385	2 000
Cash in hand and bank deposits	**1 152**	2 772	2 132
Total	**1 152**	3 157	4 132

Cash in hand and bank deposits for 2006 includes NOK -303 million in cash collateral (including capitalised interest). Cash collateral represents payments made to/by contractual parties as security for net unrealised gains/losses Statkraft has on interest rate and currency swap agreements. Since such gains/losses are not taken to income, a contra entry in the amount of NOK 793 million has been recorded under other interest-free liabilties, while NOK 1,062 million has been recorded under receivables.

As at 31 December 2006, Statkraft AS has unused long-term committed credit lines of up to NOK 5,000 million and overdraft facilities totalling NOK 400 million.

13 EQUITY

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
Implementation effect of new principles/estimate deviations	-	-23	-23
Profit 2006	-	7 098	7 098
Merging of subsidiary	16	6	22
Pension estimate deviations	-	-56	-56
Group contribution paid	-	-4 836	-4 836
Dividend to Statkraft SF	-	-762	-762
Equity as at 31.12.2005	31 569	1 432	33 001

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.

14 PROVISIONS

NOK million	**2006**	2005	2004
Pension liabilities	**222**	104	-
Deferred tax	**-**	265	5
Other provisions	**177**	238	-
Total	**399**	607	5

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

15 LONG-TERM INTEREST-BEARING DEBT

NOK million	**2006**	2005	2004
Loans from Statkraft SF (back-to-back agreement)	**15 068**	19 225	28 236
Debt to Statkraft Energi AS in connection with the restructuring	**-**	-	22 326
Bonds issued in the Norwegian market	**11 883**	7 088	7 000
Loans from the Norwegian state	**-**	425	850
Other loans raised in non-Norwegian markets	**1 741**	469	213
Total	**28 691**	27 207	58 625

The figures include the effect of underlying currency swaps.

BREAKDOWN OF DEBT BY CURRENCY

NOK million	**2006**	2005	2004
Debt in NOK	**11 212**	11 994	42 276
Debt in SEK	**17 480**	14 875	16 349
Debt in USD	**-**	338	-
Total	**28 691**	27 207	58 625
Nominal average interest rate NOK including the effect of termination	**5.30%**	6.36%	6.88%
Nominal average interest rate SEK	**2.49%**	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

		Future interest rate adjustments			
NOK million	2007 [1]	1–3 years	3–5 years	5 years and later	Total
Debt in NOK	5 113	-1 913	112	6 250	9 562
Debt in SEK	17 480	-	-	-	17 480
Total for the Group	22 593	-1 913	112	6 250	27 042

[1] The interest rate exposure takes into account a cash reserve of NOK 1,667 million, which reduces the interest rate exposure in 2007 correspondingly. This also takes into account currency converted in NOK.

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

STATKRAFT'S REPAYMENT SCHEDULE

NOK million	2007	2008	2009	2010	2011	After 2011	Total
Loans from Statkraft SF (back to back agreement)	3 957	4 875	2 021	3 162	653	400	15 068
Bonds issued in the Norwegian market	-	-	1 580	-	2 020	8 300	11 900
Other loans raised in non-Norwegian markets	-	-	-	-	873	508	1 381
Exchange rate regulation, currency and interest rate swaps	403	-102	-	38	25	-5	359
Total	4 360	4 773	3 601	3 200	3 571	9 203	28 708

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.

16 SHORT-TERM INTEREST BEARING LIABILITIES

NOK 2,874 million of the total sum of NOK 5,366 million relates to debt to Group companies associated with the Group account scheme, while NOK 793 million relates to cash collateral (see Note 12). The remaining NOK 1,699 million relates to certificated loans.

17 OTHER INTEREST-FREE LIABILITIES

NOK million	**2006**	2005	2004
Accounts payable	**50**	20	4
Public charges payable	**6**	6	-
Accrued costs	**1**	17	-
Other interest-free liabilities	**575**	19	36
Tax payable	**36**	-	-
Allocated to dividend	**762**	3 100	-
Current liabilities to enterprises in the same Group	**6 716**	1 537	1 101
Total	**8 146**	4 699	1 141

Tax payable of NOK 36 million is specified in Note 7.

Current liabilities to enterprises in the same Group for 2006 relate to Group contributions to Statkraft SF.

18 OBLIGATIONS AND GUARANTEES

Statkraft AS has off-balance sheet obligations and guarantees totalling NOK 4,093 million. Of this NOK 3,242 million relates to parent company guarantees, NOK 841 million to property rental obligations and NOK 9 million to employee tax deductions.

Included under property rental obligations is Statkraft's office building in Lilleakerveien 6, Oslo. The lessor is Mustad Eiendom AS. The rental agreement runs for a period of 15 years with an option to renew for a further 10 years. The annual rent totals NOK 57 million.

19 FINANCIAL INSTRUMENTS

Statkraft trades in financial instruments for various purposes. Their accounting treatment depends 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

	31-12-06		31-12-05		31-12-04	
NOK million	Book value	Fair value	Book value	Fair value	Book value	Fair value
Interest rate swaps	-	618	-	676	-	570
Forward interest rate agreements	-	-	-	-1	-	-
Interest rate and currency swaps	-359	-76	916	1 409	198	855
Forward currency agreements	-212	-212	28	28	-26	39
Total	-571	329	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 on organised markets.

Interest rate instruments (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 recognised at acquisition cost, zero, in 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 interest rate and cross currency swap agreements is recognised at the exchange rate in effect on the balance sheet date. The change in value recognised in the Income Statement is offset by an equal change in value of underlying loans in the same currency. The difference between book value and fair value of FX forwards arises as a result of FX forwards that have been entered into as cash-flow hedging instruments for which unrealised gains/losses are not recorded in the accounts.

20 RELATED PARTIES

Statkraft AS has shareholdings in several companies. For a more detailed specification, see Note 9. Transactions with these companies take place under market terms and conditions.

AUDITOR'S REPORT

Deloitte.

Deloitte 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 2006

We have audited the annual financial statements of Statkraft AS as of 31 December 2006, showing a profit of NOK 7 098 million for the parent company and a profit of NOK 6 285 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 prepare the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have 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 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 2006, 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 see to proper and well arranged recording and documentation of accounting information in accordance with 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, is consistent with the financial statements and complies with law and regulations.

Oslo, 7 March 2007
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

Audit.Tax & Legal.Consulting.Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Org.nr.: 980 211 282

SUSTAINABILITY STATEMENT

ENVIRONMENT:

ENVIRONMENT-FRIENDLY PRODUCTION

POWER AND DISTRIBUTION HEATING PRODUCTION, ACTUAL

	Unit of measurement	2006	2005	2004
Power production. actual	TWh	**45.7**	48.5	34.3
Of which hydropower	TWh	**45.2**	48.1	34.2
Generation & Markets	TWh	**37.4**	39.3	26.2
Regional	TWh	**7.9**	8.8	8.1
Of which wind power	TWh	**0.5**	0.4	0.1
New Energy	TWh	**0.5**	0.4	0.1
District heating production	TWh	**0.4**	0.4	0.4
Proportion of renewable power production *	%	**99.6**	99	99

* Non-renewable production relates to district heating production based on waste and oil.

ENVIRONMENTAL VALUE

	Unit of measurement	2006	2005	2004
Electricity sold with environmental value	TWh	**12.4**	2.6	-

LANDSCAPE AND RIVER BASIN INTERVENTION

EFFECT ON NATURE

	Unit of measurement	2006	2005	2004
Affected water basin				
Affected river course with anadrome fish	km	**896**	874	-
Presence in national salmon rivers	number	**6**	6	-
Presence in protected rivers	number	**23**	23	-
Fish management				
Restocking of fish and smolt	number	**729 000**	897 000	657 000
Egg planting	number	**850 000**	289 000	62 000
Access roads	km	**1 194**	1 058	-

ENERGY AND RESOURCE CONSUMPTION

CONSUMPTION

	Unit of measurement	2006	2005	2004*
Electricity ***	GWh	**213**	98 *	-
Of which certified renewable (RECS) ****	%	**100**	-	-
Fuel	m^3	**1 421**	1 499	327
Transformer and lubricating oils	litres	**10 388**	2 515 *	1 700
Chemicals	litres	**32 919** **	4 797 **	4 100
Gases	kg	**4 420**	416 **	73

* Does not include Trondheim Energi and Skagerak Energi.
** Does not include Trondheim Energi.
*** 2005: Does not include energy losses at transformer stations and lines, or energy consumption in connection with pumps.
2006: Does not include energy losses at transformer stations and lines.
**** Renewable Energy Certificate System.

Chemical consumption increased substantially in 2006 due to the fact that an increasing number of chemicals are now included in the sustainability statement. The figures are therefore not comparable with previous years. The largest individual volume relates to potassium silicate (27,550 litres), which is used at the fishing plant in Eidfjord.

The significant increase in gases is primarily attributable to CO_2 emissions (4,020 kg) as a result of the phasing out of fire extinguishing systems. The remaining gas emissions comprised SF_6. Statkraft has been temporarily exempted from the requirement to phase out halon as an explosion suppression medium in transformer rooms. The Department of the Environment has announced the termination of the exemption period.

WASTE

Type of waste	Unit of measurement	2006	2005	2004*
Hazardous waste	tonnes	**267**	342	66
Other waste	tonnes	**2 154**	1 467	551
Percentage of waste recycled	%	**55**	55	66

* Excluding Trondheim Energi and Skagerak Energi.

Statkraft has set a target of recycling 80% of total waste before 2010.

LOCAL POLLUTION

DISCHARGES TO AIR

	Unit of measurement	2006	2005	2004
CO_2	tonnes	**141 300**	132 000	-
Of which CO_2 from fuel consumption *	tonnes	**3 800**	4 000	-
SO_2	tonnes	**21**	92	-
NO_x	tonnes	**141**	203	-

* CO_2 from fuel consumption related to the Group's own equipment.

ENVIRONMENTAL NON-COMPLIANCES

ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS

		2006			
	Unit of measurement	Target	Actual	2005	2004
Serious environmental non-compliances	number	**0**	**0**	1	0
Serious environmental incidents	number	-	**1**	2	0
Less serious environmental non-compliances	number	-	**18**	23	23

DEFINITIONS

Serious environmental non-compliances: 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.

Less serious environmental non-compliances: violations of licence conditions, water flow regulations, legislation, environment plans and self-imposed requirements which have moderate or minimal consequences for the environment and no impact on the company's reputation.

Serious environmental incidents: incidents which have serious or potentially serious consequences for the environment and/or the company's reputation which are not classified as environmental non-compliances.

There was one serious environmental incident in 2006, which involved collisions between sea eagles and the wind turbines in Smøla Wind Park. There were also 18 less serious environmental non-compliances, the majority of which related to brief violations of minimum water flow requirements.

SOCIETY:

CONTRIBUTION TO SOCIETY

VALUE ADDED STATEMENT

	Unit of measurement	2006	2005	2004*
Gross operating revenues	NOK million	**16 225**	15 021	10 842
Paid to suppliers for goods and services	NOK million	**2 604**	2 697	2 206
Gross value added	NOK million	**13 620**	12 324	8 636
Depreciation	NOK million	**1 501**	1 858	1 414
Net value added	NOK million	**12 120**	10 466	7 222
Financial income	NOK million	**272**	808	714
Share of profit from associated companies	NOK million	**1 689**	1 577	1 493
Minority interests	NOK million	**346**	147	118
Total wealth for distribution	NOK million	**13 735**	12 704	9 311

* The figures for 2004 are proforma figures.

DISTRIBUTION OF VALUE ADDED

	Unit of measurement	2006	2005	2004**
Employees				
Gross salaries and benefits	NOK million	**1 139**	1 185	1 075
Lenders/owner				
Interest	NOK million	**2 087**	2 312	2 954
Dividend *	NOK million	**5 598**	4 788	3 474
Taxes	NOK million	**4 569**	3 735	985
The company				
Change in equity	NOK million	**342**	685	823
Total wealth distributed	NOK million	**13 735**	12 704	9 311

* Includes the dividend and Group contribution from Statkraft AS to Statkraft SF. In 2004, the dividend to the state was paid by Statkraft SF.

** 2004 figures are proforma figures.

TAXES PAID TO NORWEGIAN LOCAL AUTHORITIES

	Unit of measurement	2006	2005	2004
Vinje	NOK million	**81.0**	77.6	71.1
Hemnes	NOK million	**76.9**	69.7	60.1
Suldal	NOK million	**70.6**	68.3	56.7
Rana	NOK million	**69.4**	67.4	57.0
Sirdal	NOK million	**53.1**	48.9	41.6
Nore og Uvdal	NOK million	**45.5**	42.9	39.2
Meløy	NOK million	**44.7**	41.5	35.4
Tokke	NOK million	**44.7**	41.8	38.0
Eidfjord	NOK million	**42.7**	38.4	34.2
Luster	NOK million	**42.0**	40.8	35.2
Total, 10 largest local authorities to which tax is paid	NOK million	**570.5**	537.3	468.5
Total, all local authorities to which tax is paid	NOK million	**1 225.2**	1 165.8	1 041.4

The above figures include property tax, natural resource tax and licence fees paid directly to the local authorities.

→ SUSTAINABILITY STATEMENT
GRI INDEX
ISO CERTIFICATES
ABOUT THE SUSTAINABILITY STATEMENT
AUDITOR'S STATEMENT

INDUSTRIAL AND CONCESSIONARY POWER CONTRACTS

	Unit of measurement	2006	2005	2004
Statutory-priced industrial contracts				
Volume sold	TWh	**13.1**	14.6	17.8
Value lost *	NOK million	**-3 357**	-1 719	-2 296
Concessionary fixed-price contracts				
Volume sold	TWh	**2.5**	2.8	2.8
Value lost *	NOK million	**-785**	-533	-521

* The value lost on statutory-priced and concessionary fixed-price contracts is defined as the estimated loss on politically determined contracts compared with the spot price.

SUPPORT SCHEMES

	Unit of measurement	Amount awarded
Sponsorships		
Total	NOK	10 100 000
Of which major ongoing sponsorships		
Det Norske Teatret	NOK	900 000
Nobel Peace Prize Concert	NOK	650 000
Oslo Jazz Festival	NOK	275 000
Songs by the Canal	NOK	150 000
Culture festivals, Sunndalsøra	NOK	500 000
Sogndal Football Club	NOK	220 000
Norwegian Energy Centre	NOK	300 000
Bellona B7	NOK	500 000
Donations		
Total to teams and organisations	NOK	1 711 000
Issued by:		
Statkraft head office	NOK	120 000
Statkraft's regional offices	NOK	1 029 000
Trondheim Energi	NOK	357 000
Skagerak Energi	NOK	205 000
The Statkraft Fund		
Total	NOK	5 000 000
Beneficiaries		
The Norwegian Trekking Association (DNT)	NOK	2 500 000
Save The Children, Norway	NOK	2 000 000
Norwegian YMCA-YWCA scout troops in Alta and Inderøy	NOK	125 000
Friends of the Earth Norway, Vest-Agder branch	NOK	125 000
Blekkulf's Eco-detectives Club, Telemark	NOK	125 000

BRAND STRATEGY

REPUTATION AND CUSTOMER SATISFACTION

	Unit of measurement	2006 Target	2006 Actual	2005	2004
Statkraft					
Reputation, general public	% *	**50**	**40**	45	-
Reputation, professional	% *	**75**	**74**	77	-
Trondheim Energi					
Reputation, general public	% **	-	**62**	61	70
Satisfaction with customer service centre	% satisfied	**80**	**82**	82	84
Skagerak Energi					
Reputation, general public	index ***	-	**39**	-	-
Satisfaction with customer service centre	index ****	**70**	**80**	-	-

* Percentage who have a very good or quite good overall impression of the company.
** Percentage who partially or fully agree with the statement: "I have an overall good impression of Trondheim Energi".
*** RepTrack Pulse Reputation Index.
**** Based on six individual parameters.

COMPETENCE

STAFF

EMPLOYMENT AND RECRUITMENT

	Unit of measurement	2006	2005	2004
Full-time jobs (equivalent) 31.12	number	**2 087**	1 965	1 894
Of which Generation & Markets	number	**759**	697	679
Of which New Energy	number	**52**	29	22
Of which Regional	number	**1 095**	1 085	1 027
Turnover rate *	%	**2.7**	1.5	1.9
Average service time	years	**16**	16	15
Apprentices employed 31.12	number	**47**	25	-
Trainees 31.12	number	**14**	6	-

* Excluding retirements.

PREFERRED EMPLOYER RANKING

	Unit of measurement	2006 Target	2006 Actual	2005	2004
Preferred employer					
business students	ranking	**25**	**33**	28	24
engineering students	ranking	**25**	**41**	29	34

* Ranking as preferred employer among final-year students. Source: Universum Graduate Survey

GENDER EQUALITY

	Unit of measurement	2006	2005	2004
Percentage of women				
total	%	**22**	21	22
in management positions	%	**17**	16	15
in Group management	%	**29**	29	29
on the board	%	**44**	44	44

Statkraft wishes to achieve a better gender balance and ensure that the proportion of women in management positions reflects the gender balance within the company as a whole.

AGE

	Unit of measurement	2006	2005	2004
Age				
<30	%	**7**	7	6
30–34	%	**9**	9	8
35–39	%	**13**	9	14
40–44	%	**16**	17	18
45–49	%	**17**	19	18
50–54	%	**16**	17	17
55–59	%	**15**	16	15
>59	%	**8**	6	4
Average age	age	**47**	45	45

EDUCATION

	Unit of measurement	2006	2005	2004*
Competence level				
Secondary school	%	**15**	17	12
Technician/master craftsman	%	**36**	37	38
College (1–3 years)	%	**22**	25	20
University (4 years)	%	**2**	4	3
MSc Engineering	%	**9**	8	13
MEcon/MBA	%	**5**	4	7
Other post graduate studies (>4 years)	%	**4**	4	6
Undisclosed	%	**7** **	1	2

* Does not include Trondheim Energi and Skagerak Energi.
**Skills levels of employees at Knapsack, SMC and Graninge are not recorded.

HSE

INJURIES AND SICKNESS ABSENCE

	Unit of measurement	2006 Target	2006 Actual	2005	2004
H1					
Statkraft	no. of lost-time injuries per million hours worked	**5**	**6.3**	6.6	6.9
Generation & Markets	no. of lost-time injuries per million hours worked	-	**8.3**	6.4	10.1
New Energy	no. of lost-time injuries per million hours worked	-	**0**	0	0
Regional	no. of lost-time injuries per million hours workedr	-	**5.8**	8.0	6.2
H2	total no. of injuries per million hours worked	**10**	**15.9**	17.9	14.1
F	no. of sickness days per million hours worked	-	**75**	114	61
Lost-time injuries, suppliers	number	-	**17**	2 **	7 **
Sickness absence					
Statkraft	%	**4**	**4.1**	3.8	4.2
Generation & Markets	%	-	**3.7**	3.2	3.9
New Energy	%	-	**1.2**	1.3	1.8
Regional *	%	-	**4.7**	4.4	4.7

* Does not include Statkraft Regional Holding AS.
**Does not include New Energy.

There were a total of 24 lost-time injuries in the Group in 2006. The H1 indicator for 2006 was 6.3, significantly worse than the target of 5. Statkraft has set a target of zero injuries in connection with the Group's activities for 2007.

There were four fatalities in associated companies in 2006; one at Agder Energi, one at the gas power plant in Herdecke (Germany) and two at Statkraft Norfund Power Invest, one at La Higuera (Chile) and one at Allain-Duhangan (India).

EMPLOYEE SATISFACTION

	Unit of measurement	2006 Target	2006 Actual	2005	2004
Organisation and management survey	scale of 1 to 5, where 5 is best	**4.0**	**4.1**	4.0	4.0

GLOBAL REPORTING INITIATIVE INDEX

GRI Performance indicator	Reference	Page reference	Not reported
EC1	Net sales	Cover, 62	
EC2	Geographic breakdown of markets	2-3, 6-7	
EC3	Cost of all goods, materials and services purchased	57, 62,75	
EC4	Contracts paid in accordance with agreed terms		X
EC5	Total payroll and benefits	Cover, 27, 54, 60, 62, 73–75, 99	
EC6	Distributions to providers of capital (interest and dividends)	Cover, 27, 54, 64, 76, 93, 99	
EC7	Increase/decrease in retained earnings	Cover, 27, 54, 64, 82, 90, 99	
EC8	Total sum of taxes paid	Cover, 27, 54, 62, 76, 93, 99	
EC9	Subsidies received		X
EC10	Donations to community, civil society and other groups	56–57, 100	
EN1	Total materials used other than water, by type		X
EN2	Percentage of materials used that are wastes		X
EN3	Direct energy use segmented by primary source	52, 98	
EN4	Indirect energy use		X
EN5	Total water use		X
EN6	Location and size of land in biodiversity-rich habitats	98	
EN7	Major impacts on biodiversity	35, 37, 51–53, 98	
EN8	Greenhouse gas emissions	26, 37, 50, 52–53, 99	
EN9	Use and emissions of ozone-depleting substances	98	
EN10	NO_x, SO_x, and other significant air emissions by type	99	
EN11	Total amount of waste by type and destination	26, 52, 98	
EN12	Significant discharges to water by type		X
EN13	Significant spills of chemicals, oils and fuels	52, 98	
EN14	Significant environmental impacts of principal products and services	48–53	
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, 35, 53, 99	
LA1	Breakdown of workforce	Cover, 6, 27, 35, 37, 39, 59–60, 100–101	
LA2	Net employment creation and average turnover	Cover, 59, 100	
LA3	Percentage of employees represented by trade unions		X
LA4	Negotiation with employees over changes	58	
LA5	Recording and notification of occupational accidents and diseases	27, 37, 39, 60	
LA6	Formal health and safety committees		X
LA7	Standard injury, lost day and absentee rates	Cover, 27, 35, 37, 39, 60, 101	
LA8	Description of HIV/AIDS policies or programmes		X
LA9	Training per year and per employee	59–60	
LA10	Equal opportunity policies or programmes	27, 58, 60	
LA11	Composition of senior management and corporate governance bodies	27, 60, 101	
HR1	Handling of all aspects of human rights	54, 58	
HR2	Human rights considerations in investments and procurement	54, 57	
HR3	Human rights performance in the supply chain and among contractors	54, 57	
HR4	Discrimination in operations	54, 58, 60	
HR5	Freedom of association	58	
HR6	Child labour		X
HR7	Forced and compulsory labour		X
SO1	Impacts on communities in areas affected by activities	27–28, 54–57	
SO2	Bribery and corruption	42–43	
SO3	Political lobbying and contributions		X
PR1	Customer health and safety during use of products and services		X
PR2	Product information and labelling	50	
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)* 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.

In the autumn of 2006 GRI published an updated version of its guidelines. GRI is currently also working on a separate electricity industry supplement. Statkraft will evaluate its sustainability reporting for the coming year in light of this.

* 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 and environment management systems are certified in accordance with the international standards ISO 9001:2000 and ISO 14001:2004. Internal audits are carried out in accordance with an annual rolling plan, while external audits are performed as stipulated in the individual standards. These audits are coordinated by Statkraft's internal auditing department. Group management carries out an annual review of Statkraft's quality and environment management performance as required by the standards.

In 2006 Det Norske Veritas (DNV) carried out a recertification audit with respect to ISO 9001:2000 and ISO 14001:2004. The audits did not reveal any systemic non-compliances, and individual non-compliances were remedied within the specified deadlines. Positive aspects highlighted by DNV included the fact that responsibility for quality and environment management has been lifted up to a higher organisational level, and that considerable efforts are devoted to improving the respect to improvement potential, DNV recommended that Statkraft should draw up sound, quantifiable environmental targets, and that the review of the Group's environmental aspects should cover a wider range of issues than it does today.

In addition, Statkraft Suomi Oy was certified to ISO 14001:2004.

DET NORSKE VERITAS

MANAGEMENT SYSTEM CERTIFICATE

Certificate No.: 2005-OSL-SYMI-8258

This is to certify that the
ENVIRONMENTAL MANAGEMENT SYSTEM
of

Statkraft AS

The certificate includes the following companies and regions, see enclosure

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, Constructions, Operation, Generation and Trading.

Original certificate valid from: 2005-03-29
This Certificate with Appendix is valid until: 2010-06-11
Tomm Chr. Dahl
Lead Auditor

NORWEGIAN ACCREDITATION
EMS 001

Place and date: Høvik, 2006-12-14
For the accredited unit: Det Norske Veritas Certification AS
Bjørg Synøve Nergård
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-AQ-7678

This is to certify that
THE QUALITY MANAGEMENT SYSTEM
of

Statkraft AS

The certificate includes the following companies and regions, see enclosure

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, Constructions, Operation, Generation and Trading.

Original certificate valid from: 2005-03-29
This Certificate with Appendix is valid until: 2010-02-09
Tomm Chr. Dahl
Lead Auditor

NORWEGIAN ACCREDITATION
QUAL 002

Place and date: Høvik, 2006-12-14
For the accredited unit: Det Norske Veritas Certification AS
Bjørg Synøve Nergård
Jarun Laukholm
Management Representative

Lack of fulfilment of conditions as set out in the Appendix may render this Certificate invalid.

ABOUT THE SUSTAINABILITY STATEMENT

Statkraft's business principles state that the environmental impact and social consequences of the Group's operations shall be communicated openly and honestly, and that the Group shall initiate and maintain a dialogue with all affected stakeholders. The Sustainability Statement is therefore an important and integral part of the company's annual report. The statement covers the issues: environment, society and competence.

The performance indicators presented in the Sustainability Statement for 2006 are largely the same as those included in the 2005 report. These indicators have been selected on the basis of the recommendations for voluntary reporting of sustainable development which the Global Reporting Initiative (GRI) issued in 2002. The statement includes an index facilitating reference to the GRI's indicator protocols.

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. 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 companies must exhibit 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 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 2006, 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 in the auditor's statement on page 105. The auditor also addresses comments and recommendations to Group management. These are summarised below.

Statkraft has made further improvements to its sustainability reporting since 2005. Information on sustainability is integrated into the annual report in a manner that supports Statkraft's vision of being a European leader in environment-friendly energy and the company's business principles that describe a value-creating, environment-friendly, socially responsible and competence-building enterprise. The 2006 report covers the entire Group to an increased extent, both in terms of subject matter and completeness of data. However, there is still scope for further improvements in integration, including with regard to downstream activities. We recommend that Statkraft continues the work currently being performed to establish relevant indicators for the company's sustainability management and reporting activities.

Statkraft appointed an SVP HSE at group level in 2006. The new position also covers the external environment. This clearly contributes to reinforcing the focus on this area and ensuring that work is coordinated and managed at a group-overarching level.

Statkraft should consider establishing a formal practice for the Group that ensures that the subject of social responsibility is evaluated at a sufficiently early stage in decision-making processes relating to major construction projects and new ventures in countries in which Statkraft has previously not been active.

Statkraft is integrating considerations and requirements relating to the environment, HSE and social responsibility into its purchasing processes to an ever increasing extent. However, there is still room for further improvement, including with regards to ensuring the experiences gained as part of this process are transferred to the Group as whole.

AUDITOR'S STATEMENT

Deloitte.

Deloitte 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
to the Statkraft Sustainability Report 2006

We have reviewed certain aspects of Statkraft's Sustainability Report for 2006 (The "Report") and related management systems and procedures. The Report, presented on pages 48 – 60 and 98 – 105 in Statkraft's Annual Report for 2006, 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 at the business areas Generation and Markets represented by Region East Norway as well as one reporting unit within this region, and Regional represented by the head office of Skagerak Energi AS, and New Energy represented by the construction site for the gas power plant in Knapsack, Germany.

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 48 – 60, in accordance with the principles of AA1000AS.
- Statkraft applies procedures to identify, collect, compile and validate data and information for 2006 to be included in the report, as described on page 104, and data presented for 2006 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 specific reporting units that we have tested, as specified above. Data for 2006 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 102, appropriately reflects the extent to which Statkraft's reporting aligns with the core indicators in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines of 2002.

Oslo, Norway, 7 March 2007
Deloitte AS

Preben J. Sørensen
State Authorized Public Accountant
Environment & Sustainability Services

Audit.Tax & Legal.Consulting.Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Org.nr.: 980 211 282

PRESENTATION OF GROUP MANAGEMENT

FROM LEFT:

STEIN DALE
BORN: 1962
POSITION: Executive Vice President Strategy & Legal
EDUCATION: MSc Economics and Business Administration
BACKGROUND: Various executive positions with Statkraft, Enitel and the Telia Group
JOINED STATKRAFT: 2002

JON G. BRANDSAR
BORN: 1954
POSITION: Executive Vice President Regional
EDUCATION: Engineer
BACKGROUND: CEO Trondheim Energiverk; various executive positions with Statkraft, Statkraft Engineering and ABB
JOINED STATKRAFT: 1994

RAGNVALD NÆRØ
BORN: 1954
POSITION: Executive Vice President Organisation and Communications
EDUCATION: BEd, MA History, Newspaper Management Programme
BACKGROUND: EVP Communications, E-CO Energi, Widerøe's Flyveselskap and Norwegian Air Traffic and Airport Management; Partner, Geelmuyden.Kiese; Editor, Aftenposten
JOINED STATKRAFT: 2001

ELI SKRØVSET
BORN: 1965
POSITION: Executive Vice President Finance
EDUCATION: MSc Economics and Business Administration
BACKGROUND: Controller, Statkraft
JOINED STATKRAFT: 1992

BÅRD MIKKELSEN
BORN: 1948
POSITION: President and CEO of Statkraft SF and Statkraft AS
EDUCATION: Norwegian Military Academy, business studies, INSEAD Executive Programme
BACKGROUND: CEO Oslo Energi Group, Ulstein Group and Widerøe
JOINED STATKRAFT: 2001
DIRECTORSHIPS (EXTERNAL): Chair of Store Norske Spitsbergen Kulkompani AS; Vice Chair of Avinor; member of the corporate assembly of the Fred Olsen companies Ganger Rolf and Bonheur

JØRGEN KILDAHL
BORN: 1963
POSITION: Executive Vice President Generation & Markets
EDUCATION: MSc Economics and Business Administration, MBA (Finance major)
BACKGROUND: Partner, Geelmuyden.Kiese; Portfolio Manager, International Formuesforvaltning
JOINED STATKRAFT: 1999

INGELISE ARNTSEN
BORN: 1966
POSITION: Executive Vice President New Energy
EDUCATION: BSc Economics and Business Administration
BACKGROUND: Various executive positions with Arthur Andersen Business Consulting, Bearing Point Norway, Sogn og Fjordane Energiverk and Kværner Fjellstrand
JOINED STATKRAFT: 2003
DIRECTORSHIPS (EXTERNAL): Director of I.M. Skaugen ASA and Orkla Foods A.S.

ADDRESSES

Head Office
Statkraft
PO Box 200 Lilleaker
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
8512 Narvik
Norway
Tel: +47 76 96 40 00
Fax: +47 76 96 40 01
Office address: Stasjonsveien 60

Statkraft Region Central Norway
Gaupnegrandane
6868 Gaupne
Norway
Tel: +47 57 68 92 00
Fax: +47 57 68 92 01

Statkraft Region Western Norway
PO Box 233
4201 Sauda
Norway
Tel: +47 52 78 64 00
Fax: +47 52 78 64 01

Statkraft Region Eastern Norway
PO Box 4
3880 Dalen
Norway
Tel: +47 35 07 95 00
Fax: +47 35 07 72 27

Statkraft Sverige AB
Nipan 51
SE-881 52 Sollefteå
Sweden
Tel: +47 24 06 70 00
Fax: +47 24 06 70 01

Statkraft Suomi Oy
PO Box 18
FI-48601 Kotka
Finland
Tel: +358 10 77 67 600
Office address: Pajatie 65

Statkraft Markets BV
Gustav Mahlerplein 100
NL-1082 MA Amsterdam
The Netherlands
Tel: +31 20 347 27 80
Fax: +31 20 347 27 99

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
Hammersmith
GB-London W6 0NB
United Kingdom
Tel: +44 20 3008 8207
Fax: +44 20 3008 8206

Statkraft Southeast Europe EOOD
10 Tri Ushi Str., Office 5
BG-1303 Sofia
Bulgaria
Tel: +359 2 400 1380, -81, -82
Fax: +359 2 986 7012

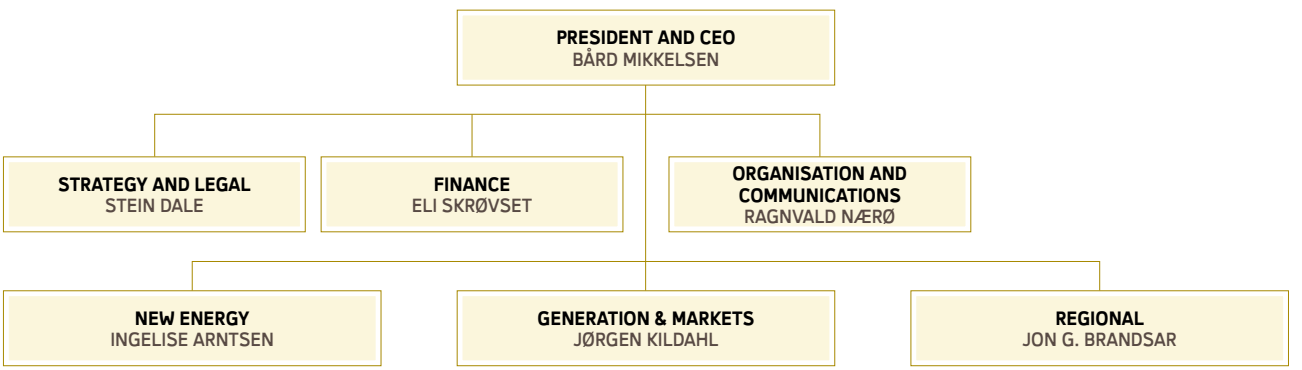
Statkraft Western Balkans d.o.o
Vladimira Popovica 6
YU-11070 New Belgrade
Serbia
Tel: +381 (11) 222 3755
Fax: +381 (11) 222 3041

Trondheim Energi AS
7005 Trondheim
Norway
Tel: +47 73 96 10 11
Fax: +47 73 96 11 90
Office address: Sluppenvegen 6

Skagerak Energi AS
PO Box 80
3901 Porsgrunn
Norway
Tel: +47 35 93 50 00
Fax: + 47 35 55 97 50
Office address: Storgata 159 b

Organisation no.:
Statkraft AS: 987 059 699

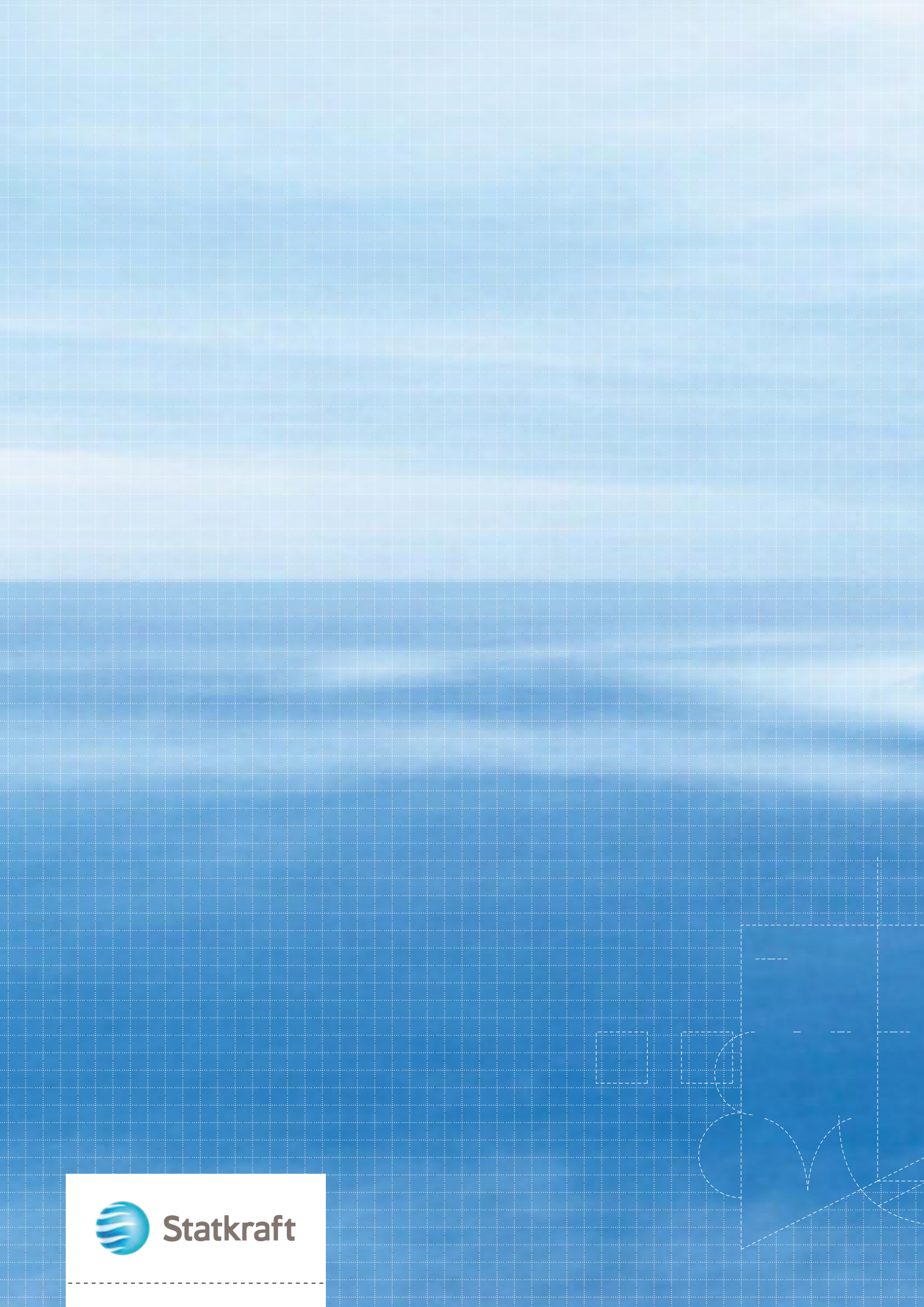
ORGANISATION



FINANCIAL CALENDAR

Results Q1 2007	10 May 2007
Results Q2 2007	16 August 2007
Results Q3 2007	1 November 2007
Results Q4 2007	mid-February 2008

Design: Cobra AS
Photo: Marco Jahnke, Christian Houge, Ole Walter Jacobsen, Getty Images, Burton McNeely/Getty Images
This report has been printed on chlorine-free paper
Production: Network Produksjon AS
Printed by: RK Grafisk AS


Statkraft