Statkraft

2007 ANNUAL REPORT

SUSTAINABILITY REPORT

YOU CAN GO A LONG WAY WITH PURE ENERGY

Key figures→

2007: A big step forward

Statkraft manages its substantial asset base in the best possible way for its owner, and to achieve this we are pursuing an aggressive growth strategy. In Norway we have joined forces with Group companies Trondheim Energi, Skagerak Energi and Fjordkraft to build new electricity generating facilities and develop values within the distribution, retail and district heating sectors. Outside Norway our expertise provides a strong foundation for further growth, both within power generation and the trading of energy and energy-related products. With pure energy we aim to go a long way on behalf of our owner, our customers and other stakeholders, and make an active contribution to sustainable development in the European energy market. In 2007 we took a significant step in this direction.

Financial key figures

STATKRAFT AS GROUP	UNIT OF MEASUREMENT	ADJUSTED** 2007	2007	ADJUSTED** 2006	2006	ADJUSTED** 2005	2005	ADJUSTED** 2004	PRO FORMA 2004
FROM THE INCOME STATEMENT									
Gross operating revenues	NOK mill.	**17 619**	17 619	16 200	16 200	14 015	15 021	9 832	10 842
Net operating revenues	NOK mill.	**14 000**	13 261	14 970	16 945	-	-	-	-
– of which unrealised changes in values and non-recurring items	NOK mill.	**-**	-739	-	1 975	-	-	-	-
EBITDA	NOK mill.	**9 620**	8 881	11 406	13 335	9 505	10 233	5 936	6 791
Operating profit	NOK mill.	**7 981**	7 242	9 918	11 847	8 008	8 375	4 522	5 377
Share of profit from associates	NOK mill.	**2 643**	2 613	1 803	2 009	1 936	1 577	1 493	1 493
– of which unrealised changes in values and non-recurring items		**-**	-30	-	206	-	-	-	-
Net financial items	NOK mill.	**-1 317**	-1 090	-1 143	-2 274	-1 838	-1 504	-2 572	-2 240
– of which unrealised changes in values and non-recurring items	NOK mill.	**-**	227	-	-1 131	-	-	-	-
Profit before tax	NOK mill.	**9 307**	8 765	10 578	11 582	8 107	8 449	3 443	4 630
Net profit	NOK mill.	**7 031**	6 632	6 945	7 735	5 343	5 620	3 169	4 415
FROM THE BALANCE SHEET									
Property, plant & equipment and intangible assets	NOK mill.	**57 817**	57 817	58 276	58 276	52 812	52 812	47 816	47 816
Investments in associates	NOK mill.	**32 131**	32 131	30 634	30 634	28 793	28 793	28 751	28 751
Other assets	NOK mill.	**20 164**	20 164	14 153	14 153	9 249	9 249	11 948	11 948
Total assets	NOK mill.	**110 112**	110 112	103 063	103 063	90 854	90 854	88 515	88 515
Total equity	NOK mill.	**48 546**	44 418	47 050	44 565	39 994	39 994	39 015	39 015
Interest-bearing debt	NOK mill.	**37 284**	37 284	32 021	32 021	31 251	31 251	39 827	39 827
Capital employed, basic [1]	NOK mill.	**46 756**	42 628	43 653	41 169	41 364	41 364	41 493	41 493
CASH FLOW									
Net change in cash flow from operating activities	NOK mill.	**7 720**	7 720	6 544	6 544	12 250	12 250	4 013	4 013
Dividend for the year to owner (incl. minority interests)	NOK mill.	**6 838**	6 838	5 598	5 598	4 788	4 788	3 474	3 474
Depreciation	NOK mill.	**1 639**	1 639	1 488	1 488	1 497	1 858	1 414	1 414
Maintenance investments [2]	NOK mill.	**571**	571	573	573	468	468	487	487
Expansion investments in new generating capacity [3]	NOK mill.	**1 413**	1 413	3 125	3 125	1 767	1 767	1 061	1 061
Investments in shareholdings [4]	NOK mill.	**1 800**	1 800	750	750	4 511	4 511	287	287
Cash and cash equivalents	NOK mill.	**3 150**	3 150	1 758	1 758	4 374	4 374	5 292	5 292
Unused drawing rights	NOK mill.	**5 400**	5 400	5 600	5 600	5 334	5 334	5 700	5 700
FINANCIAL VARIABLES									
FFO interest coverage [5]		**5.0**	4.6	6.4	7.7	3.6	4.1	2.3	2.7
Interest-bearing debt ratio [6]	%	**43.4**	45.6	40.5	41.8	43.9	43.9	50.5	50.5
Equity ratio [7]	%	**47.7**	40.3	48.7	43.2	44.0	44.0	44.1	44.1
Long-term rating – Standard & Poor's		**BBB+**	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Long-term rating – Moody's		**Baa1**	Baa1	Baa1	Baa1	Baa1	Baa1	Baa2	Baa2
KEY FIGURES, ACCOUNTS									
EBITDA margin [8]	%	**55**	50	70	82	68	68	60	63
ROACE before tax [9]	%	**17.7**	17.3	22.9	29.4	19.3	20.2	11.1	13.2
Net return on investments in associates [10]	%	**8.2**	8.1	5.9	6.6	6.7	5.5	5.2	5.2
Return on total assets after tax [11]	%	**8.3**	7.4	8.4	8.6	7.8	8.1	6.0	7.5
Return on equity after tax [12]	%	**14.7**	14.9	15.0	17.8	13.5	14.2	8.7	12.2
Tax rate [13]	%	**24.5**	24.3	34.3	33.2	34.1	33.5	8.0	4.6
KEY FIGURES, UPSTREAM BUSINESS*									
Production cost/MWh [14]	NOK/MWh	**59.3**	59.3	54.7	54.7	53.3	53.3	52.5	52.5
Production capacity	TWh	**49.4**	49.4	42.2	42.2	42.0	42.0	41.3	41.3
Production, actual	TWh	**44.9**	44.9	45.6	45.6	48.5	48.5	34.3	34.3
Installed capacity	MW	**12 028**	12 028	10 921	10 921	10 888	10 888	10 698	10 698
Reservoir capacity	TWh	**39.7**	39.7	38.1	38.1	37.5	37.5	39.0	39.0
Wholly and partly owned power plants (excl. small-scale power plants)	No.	**170**	170	161	161	156	156	140	140
KEY FIGURES, DOWNSTREAM BUSINESS*									
No. of distribution grid customers	1000	**271**	271	268	268	265	265	266	266
Energy supplied	TWh	**9.1**	9.1	7.4	7.4	9.0	9.0	-	-
Distribution grid capital (NVE capital) [15]	NOK mill.	**3 657**	3 657	3 694	3 694	3 721	3 721	3 736	3 736
No. of end-user customers	1000	**401**	401	67	67	82	82	79	79
Total volume supplied	TWh	**2.2**	2.2	2.0	2.0	2.0	2.0	1.8	1.8
MARKET VARIABLES*									
System price	NOK/MWh	**224**	224	391	391	235	235	242	242
Electricity consumption in the Nordic market	TWh	**395**	395	390	390	390	390	385	385
Electricity generated in the Nordic market, actual	TWh	**393**	393	379	379	391	391	375	375
Statkraft's share of Nordic electricity production	%	**11.4**	11.4	12.0	12.0	12.4	12.4	9.1	9.1

The numbers for 2007 and 2006 are in accordance with IFRSs.

* Key figures include consolidated companies (not associates) in Norway.

** Adjusted for unrealised changes in values and material non-recurring items.

Sustainability key figures

HEALTH AND SAFETY	UNIT	2007	2006	2005	2004
H1	Number of lost-time injuries per million hours worked	**5.9**	6.5	6.6	6.9
H2	Total number of injuries per million hours worked	**16.5**	16.2	17.9	14.1
Sickness absence	%	**3.9**	4.1	3.8	4.2

ENVIRONMENT-FRIENDLY ENERGY	UNIT	2007	2006	2005	2004
Power production capacity, hydropower	TWh	**41.7**	41.5	41.4	41.2
Power production capacity, wind power	TWh	**0.7**	0.7	0.6	0.1
Power production capacity, gas power	TWh	**7.0**	-	-	-
Hydropower production, actual	TWh	**42.7**	45.2	48.1	34.2
Wind power production, actual	TWh	**0.7**	0.5	0.4	0.1
Gas power production, actual	TWh	**1.5**	-	-	-
District heating production	TWh	**0.5**	0.4	0.4	0.4
Proportion of renewable power production	%	**96.4**	99.6	99	99

EMISSIONS AND ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS	UNIT	2007	2006	2005	2004
Emissions of CO_2-equivalents	Tonnes	**292 000**	150 900	134 100	-
Environmental non-compliances and incidents					
Serious environmental non-compliances	Number	**1**	0	1	0
Serious environmental incidents	Number	**0**	1	2	0

CONTRIBUTIONS TO SOCIETY	UNIT	2007	2006	2005	2004
Distribution of value added *					
Owner (incl. minority interests)	NOK mill.	**6 837**	5 598	4 788	3 474
State and local authorities	NOK mill.	**3 301**	4 878	3 735	985
Lenders	NOK mill.	**1 717**	2 087	2 312	2 954
Employees	NOK mill.	**1 419**	1 139	1 185	1 075
The company	NOK mill.	**-371**	342	685	823
Statutory-priced industrial contracts					
Volume sold	TWh	**10.3**	13.1	14.6	17.8
Value lost (based on volume sold) [16]	NOK mill.	**-587**	-3 357	-1 719	-2 296
Concessionary fixed-price contracts					
Volume sold	TWh	**2.9**	2.5	2.8	2.8
Value lost (based on volume sold) [16]	NOK mill.	**-395**	-785	-533	-521

* 2004 figures are proforma figures.

REPUTATION	UNIT	2007	2006	2005	2004
Reputation among professionals [17]	Scale of 1 to 100, where 100 is best	**84**	74	77	-
Reputation among general public [17]	Scale of 1 to 100, where 100 is best	**45**	40	45	-

EMPLOYMENT AND RECRUITMENT	UNIT	2007	2006	2005	2004
Full-time equivalents 31.12	Number	**2 287**	2 087	1 971	1 887
Percentage of women					
Total	%	**24**	22	21	22
Managers	%	**22**	17	16	15
Apprentices 31.12	Number	**49**	47	25	-
Trainees 31.12	Number	**23**	14	6	-
Employee satisfaction	Scale of 1 to 5 where 5 is best	**4.1**	4.1	4.0	4.0
Preferred employer [18]					
Business students	Ranking	**53**	33	28	24
Technology students	Ranking	**28**	41	29	34

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

[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 associates
- 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 associates x 100
Investments in associates

[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

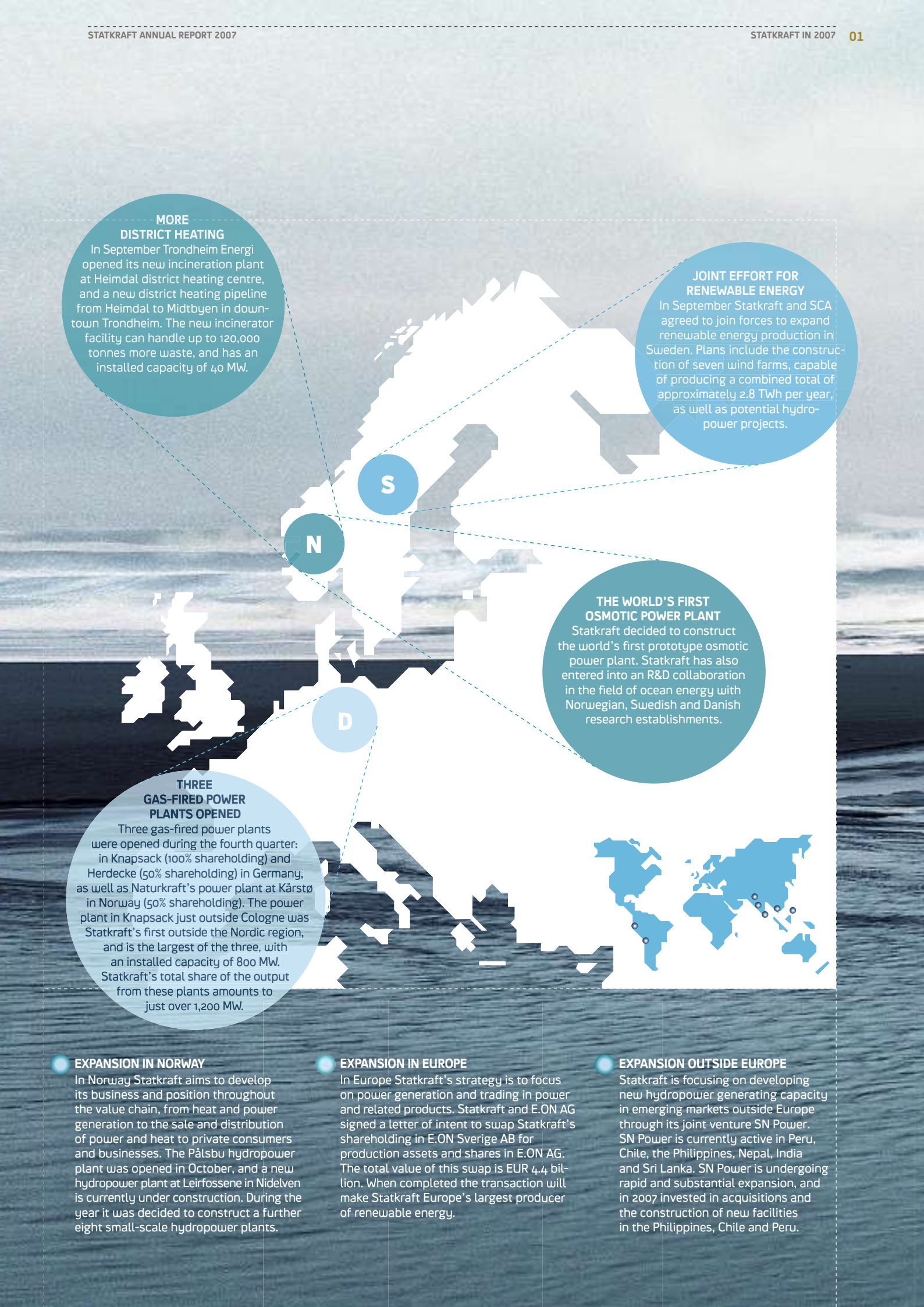
[14] Production cost, incl. property tax and depreciation, excl. sales costs, overhead, net financial items and tax
Normal output from power plants under own management

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

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

[17] Percentage with a very good or quite good overall impression of Statkraft.
Source: Synovate

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



MORE DISTRICT HEATING
In September Trondheim Energi opened its new incineration plant at Heimdal district heating centre, and a new district heating pipeline from Heimdal to Midtbyen in downtown Trondheim. The new incinerator facility can handle up to 120,000 tonnes more waste, and has an installed capacity of 40 MW.

JOINT EFFORT FOR RENEWABLE ENERGY
In September Statkraft and SCA agreed to join forces to expand renewable energy production in Sweden. Plans include the construction of seven wind farms, capable of producing a combined total of approximately 2.8 TWh per year, as well as potential hydropower projects.

THE WORLD'S FIRST OSMOTIC POWER PLANT
Statkraft decided to construct the world's first prototype osmotic power plant. Statkraft has also entered into an R&D collaboration in the field of ocean energy with Norwegian, Swedish and Danish research establishments.

THREE GAS-FIRED POWER PLANTS OPENED
Three gas-fired power plants were opened during the fourth quarter: in Knapsack (100% shareholding) and Herdecke (50% shareholding) in Germany, as well as Naturkraft's power plant at Kårstø in Norway (50% shareholding). The power plant in Knapsack just outside Cologne was Statkraft's first outside the Nordic region, and is the largest of the three, with an installed capacity of 800 MW. Statkraft's total share of the output from these plants amounts to just over 1,200 MW.

EXPANSION IN NORWAY
In Norway Statkraft aims to develop its business and position throughout the value chain, from heat and power generation to the sale and distribution of power and heat to private consumers and businesses. The Pålsbu hydropower plant was opened in October, and a new hydropower plant at Leirfossene in Nidelven is currently under construction. During the year it was decided to construct a further eight small-scale hydropower plants.

EXPANSION IN EUROPE
In Europe Statkraft's strategy is to focus on power generation and trading in power and related products. Statkraft and E.ON AG signed a letter of intent to swap Statkraft's shareholding in E.ON Sverige AB for production assets and shares in E.ON AG. The total value of this swap is EUR 4.4 billion. When completed the transaction will make Statkraft Europe's largest producer of renewable energy.

EXPANSION OUTSIDE EUROPE
Statkraft is focusing on developing new hydropower generating capacity in emerging markets outside Europe through its joint venture SN Power. SN Power is currently active in Peru, Chile, the Philippines, Nepal, India and Sri Lanka. SN Power is undergoing rapid and substantial expansion, and in 2007 invested in acquisitions and the construction of new facilities in the Philippines, Chile and Peru.

Statkraft's business

Statkraft is a European leader in environment-friendly energy. The company generates hydropower, wind power, gas power and district heating and through its focus on innovation has a clear ambition to deliver the energy solutions of the future. Statkraft is a major player on Europe's power exchanges and has special expertise within physical and financial power trading. In Norway the Group supplies electricity and heat to around 600,000 customers. Statkraft employs around 2,300 staff in ten countries. In 2007 Statkraft's total sales amounted to more than NOK 17 billion, while the company's balance sheet total was NOK 110 billion. Statkraft is owned by the Norwegian state through the Ministry of Trade and Industry.

Production and development

The bulk of Statkraft's output is **HYDROPOWER**. The company has 141 hydropower plants in Norway, 19 in Sweden and four in Finland. Statkraft is involved in hydropower projects in the Nordic region and Southeast Europe. Production capacity outside Europe is developed through SN Power. **WIND POWER** is one of the most environment-friendly sources of energy for large-scale energy generation. Statkraft has constructed and operates three wind farms in Norway, and is currently involved in a series of wind farm projects in the Nordic region and the United Kingdom. In 2007 the Group also acquired production capacity in **GAS POWER**. The Group now operates one gas-fired power plant in Germany and has shareholdings in two other gas-fired power plants, one in Germany and one in Norway. Statkraft focuses on **DISTRICT HEATING**, primarily through the Group's activities in Trondheim and Porsgrunn in Norway, and is also involved in several district heating projects in the Nordic region. The Group is also a key player within development projects for **OFFSHORE WIND POWER, OCEAN ENERGY** and **OSMOTIC POWER**.

Statkraft expects to experience a significant increase in production capacity in 2008 as a result of the letter of intent signed with E.ON AG, under the terms of which the latter company will acquire Statkraft's shareholding in E.ON Sverige AB (44.6%) in exchange for flexible power production assets and shares in E.ON AG. A final agreement is expected to be signed during the first half of 2008.

Trading and distribution

A significant percentage of Statkraft's electricity output is traded on the European energy exchanges, primarily on the Nordic power exchange Nord Pool. Over a number of years, Statkraft has developed a unique business model, based on effective analysis, efficient operations, 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.

In Norway, Statkraft is also engaged in distribution grid operations and retail sales through its subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft. These companies have a total of approximately 271,000 grid customers and more than 400,000 electricity customers. Statkraft has an extensive portfolio of electricity supply contracts with both Norwegian and international industrial companies. The company has been contracted to supply around 160 TWh of electricity under this type of agreement until 2020.

Vision:

A European leader in environment-friendly energy.

Core values:

COMPETENCE: Use knowledge and experience to achieve ambitious goals and be recognised as leading.

RESPONSIBILITY: Create value, with respect for employees, customers, environment and society.

INNOVATION: Think creatively, develop opportunities and create solutions.

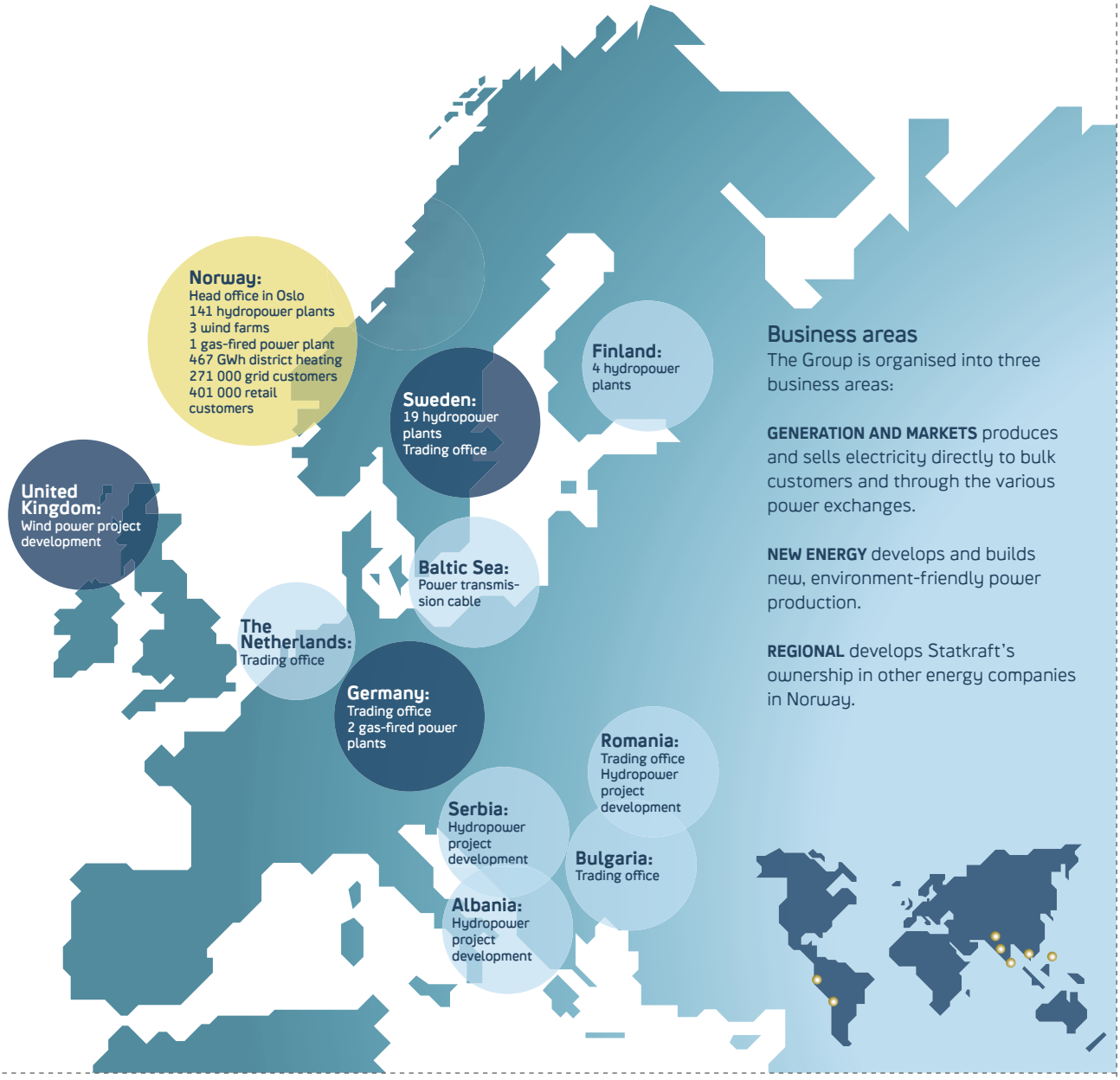
History

The Norwegian state purchased its first waterfall for electricity production as long ago as 1895. The acquisition of Paulenfossen waterfall in Vennesla effectively marks the start of the company's history. Until 1930, the main pursuit of the Norwegian state had been the electrification of Norway and the acquisition of waterfalls for subsequent development.

The major expansion period took place from 1945 to 1980. Statskraftverkene, which was established in 1960, was regarded as a world leader within the design and construction of high-pressure hydropower plants.

The Norwegian Energy Act entered into force in 1991, and the industry was divided into a monopolistic section for distribution and a competitive section for production and sales. Statskraftverkene was split into two companies in 1992, with Statkraft SF assuming responsibility for production and sales, and Statnett SF being allocated responsibility for the distribution grid.

In the last 15 years Statkraft has experienced a rapid development, making major acquisitions of regional power plants in Norway and adopting an international focus. The company has, for example, constructed power plants in Nepal and Laos using the expertise gained from construction projects in Norway, and has established trading activities across the whole of Europe based on the company's expertise gained from the deregulated Nordic electricity market. In 2004 Statkraft SF was reorganised into a limited company.



Business areas

The Group is organised into three business areas:

GENERATION AND MARKETS produces and sells electricity directly to bulk customers and through the various power exchanges.

NEW ENERGY develops and builds new, environment-friendly power production.

REGIONAL develops Statkraft's ownership in other energy companies in Norway.

DEVELOPMENT:
- → hydropower
- → wind power
- → gas power
- → new energy sources

PRODUCTION:
- → hydropower (Norway, Sweden, Finland)
- → wind power (Norway)
- → gas power (Norway, Germany)
- → district heating (Norway)

TRADING:
- → direct bulk customer sales in the Nordic region and Europe
- → trading via energy exchanges in the Nordic region and the rest of Europe

DISTRIBUTION AND RETAIL SALES:
- → distribution grid operations, district heating and power sales to private consumers and commercial enterprises through the subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft

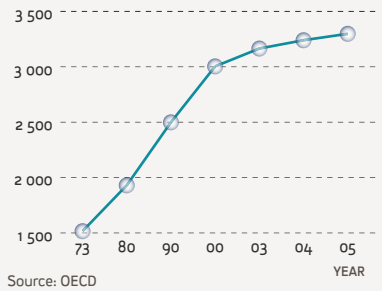
Market arena

Demand for electricity is continuing to grow, and ties between the European energy markets are becoming increasingly stronger. Transmission capacity is increasing and cross-border trading systems are constantly improving.

Increasing demand

After steadily increasing over the last 50 years, consumption of electricity in Norway has evened out. Electricity consumption for general supply has grown by around 0.3% a year since 2000. In 2007 total consumption in Norway amounted to 126 TWh. Electricity consumption in the EU increased by just under 1% a year in the same period. In 2006 total electricity consumption in the EU 27 was around 2,800 TWh.

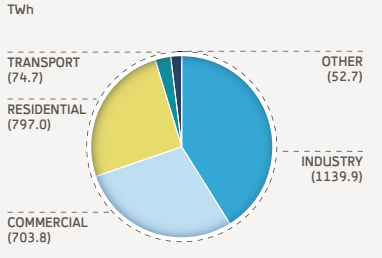
ELECTRICITY CONSUMPTION IN EUROPE OVER TIME



Source: OECD

While electricity for general consumption has been the main source of growth since 2000, industry continues to account for the majority of electricity consumption in Europe.

ELECTRICITY CONSUMPTION IN EU-27 IN 2006



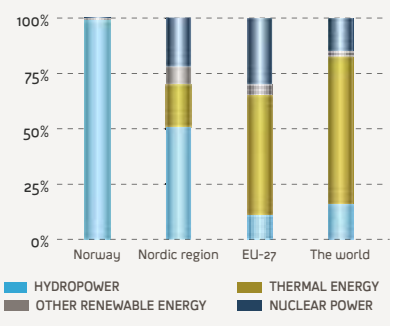
Source: CERA

The power trading markets are continuing to grow. Spot sales on Nord Pool in 2007 amounted to 291 TWh, which corresponds to around 75% of Nordic consumption. Financial trading covered 1,060 TWh, which represents an increase of more than 35% compared with 2006. Spot sales on the German power exchange (EEX) increased by nearly 40% to 129 TWh in 2007. Financial trading grew moderately, rising from 1,044 TWh to 1,150 TWh. Liquidity on the Dutch (APX) market and the Austrian power exchange (EXAA) also increased.

Different methods of electricity generation

There are major regional differences in the relationship between technologies used in electricity generation. While production in Norway nearly exclusively relates to renewable and flexible hydropower, production on the continent is to a much greater extent non-renewable and less flexible. In addition to various environmental consequences, different price drivers exist for the various technologies. Increased transmission capacity between the various countries is also contributing to a situation in which electricity demand can increasingly be covered by different technologies. This in turn is reducing price fluctuations in the market.

GENERATION OF ELECTRICITY IN NORWAY, THE NORDIC REGION, THE EU-27 AND THE WORLD IN 2006



Source: Eurelectric

Power trading and the power markets

POWER GENERATORS generate electricity and sell this directly to business customers, power suppliers or via a power exchange.

POWER SUPPLIERS purchase electricity on power exchanges or from generators in order to resell this to companies and private customers.

GRID OPERATORS have a monopoly on local transport and the supply of electricity to companies and consumers.

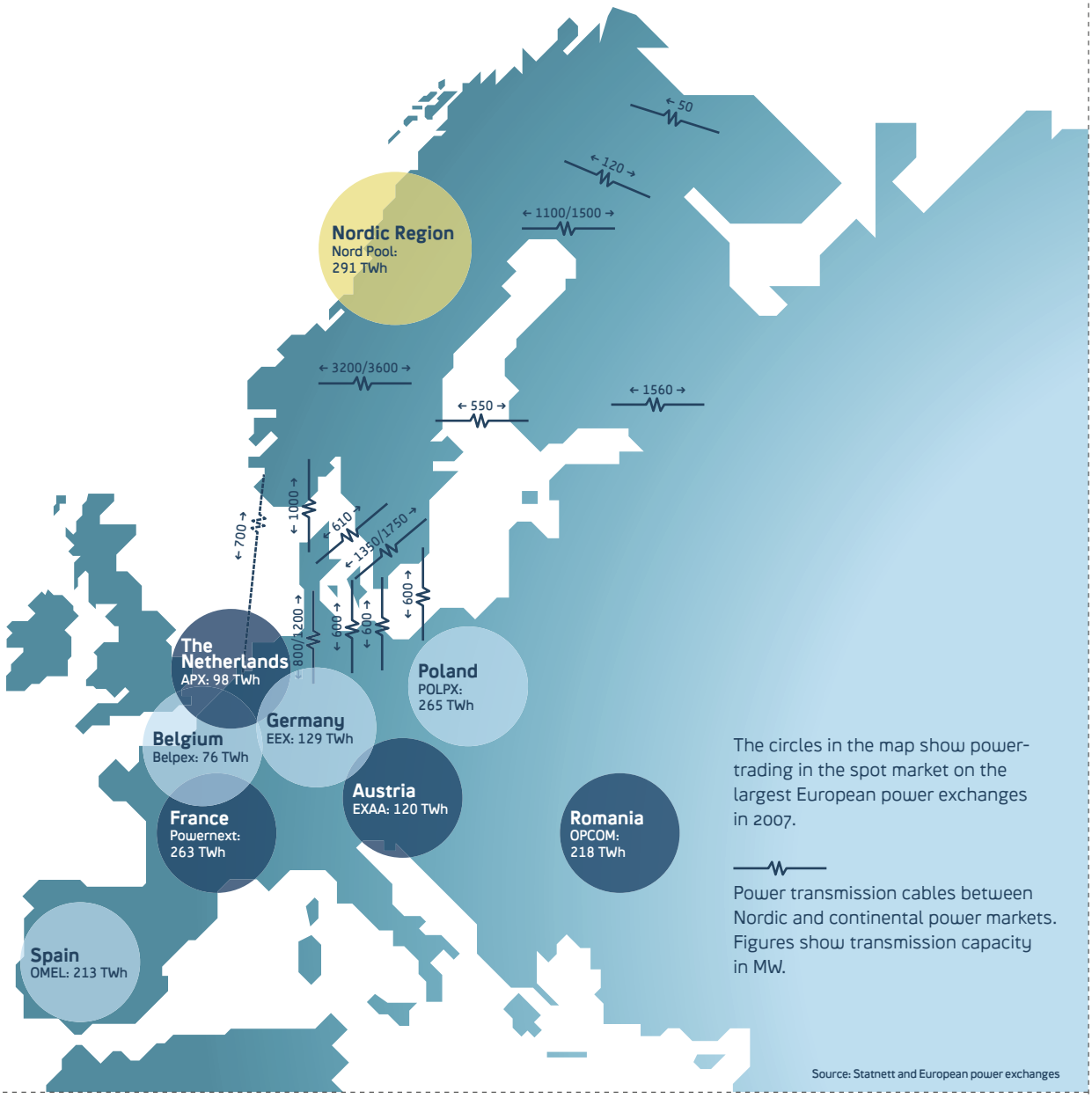
REGULATORS regulate the power market by means of licences and regulations.

POWER EXCHANGES facilitate the physical and financial trading of power.

Power transmission

A number of power transmission cables, on land and at sea, facilitate transmission of and trading in electricity between the European countries. Thus, power is exchanged across the borders as a result of supply, demand and pricing signals within, and the transmission capacity between different countries. The transmission capacity contributes to security of supply and efficient utilisation of power resources.

Expanding transmission capacity between the Nordic countries and the continent means that Nordic prices are increasingly being influenced by continental electricity prices.



Price formation

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

- → Coal prices
- → Oil and gas prices
- → CO_2 prices
- → Precipitation levels
- → Temperatures
- → Exchange rates
- → The amount of power being generated
- → Construction of new generating capacity
- → Power exchange between countries
- → General levels of economic activity
- → Trends in power consumption over time

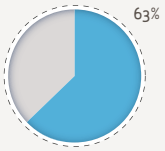
Statkraft's business areas

Generation and Markets

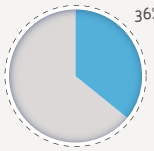
KEY FIGURES [1]

		2007	2006	2005
Gross operating revenues	NOK mill.	11 062	11 307	11 786
Profit before financial items and tax	NOK mill.	6 059	9 425	6 853
Total assets	NOK mill.	47 490	44 554	39 803
Investments	NOK mill.	1 473	2 937	5 332
Full-time job equivalents	No.	829	760	697

SHARE OF GROSS OPERATING REVENUES



SHARE OF FULL-TIME JOB EQUIVALENTS



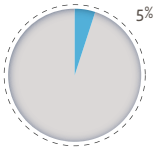
BUSINESS

The Generation and Markets business area's activities range from operation and maintenance of power plants to physical and financial power trading. Power is now generated at 107 wholly and partly owned hydropower plants and three gas-fired power plants. The installed capacity for hydropower and gas power totals 9,668 MW. Production assets are generally flexible. Under the terms of the letter of intent the Group signed with E.ON AG in autumn 2007, the business area will acquire hydropower facilities in Sweden, Germany and the United Kingdom, along with gas-fired power facilities in Germany. Preparations for integration are already underway.

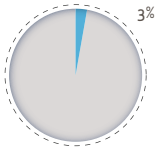
New Energy

		2007		
Gross operating revenues	NOK mill.	837	286	1 241
Profit before financial items and tax	NOK mill.	602	9	194
Total assets	NOK mill.	3 973	2 686	3 377
Investments	NOK mill.	1 352	623	619
Full-time job equivalents	No.	68	52	29

SHARE OF GROSS OPERATING REVENUES



SHARE OF FULL-TIME JOB EQUIVALENTS

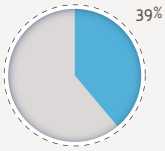


The New Energy business area develops and constructs new, profitable environment-friendly production capacity in Norway and Europe. New Energy is responsible for the Group's focus on technology and business development, which contributes to the energy solutions of the future. Small-scale hydro-power in Norway is developed through ownership in Småkraft AS, while large-scale hydropower outside Europe is developed through the company's shareholding in Statkraft Norfund Power Invest AS (SN Power).

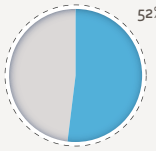
Regional

		2007	2006	2005
Gross operating revenues	NOK mill.	6 879	4 711	3 477
Profit before financial items and tax	NOK mill.	2 357	3 287	1 812
Total assets	NOK mill.	36 586	35 962	37 310
Investments	NOK mill.	914	853	697
Full-time job equivalents	No.	1 197	1 095	1 085

SHARE OF GROSS OPERATING REVENUES



SHARE OF FULL-TIME JOB EQUIVALENTS



The Regional business area manages Statkraft's shareholdings in other energy companies in Norway. The subsidiaries Trondheim Energi and Skagerak Energi promote the Group's initiatives within distribution grid and district heating operations. Power sales to private customers and companies are made through Fjordkraft and Trondheim Energi. The business area also manages the company's shareholdings in Agder Energi and BKK.

[1] The figures for 2007 and 2006 are stated in accordance with IFRSs, while the figures for 2005 have been prepared in accordance with Norwegian GAAP.

FACTS

→ The business area manages Statkraft's ownership interests in 81 hydropower plants in the Nordic region. It also has a share in output from 26 power plants operated by others.
→ In autumn 2007 production capacity increased with the start of operation of the three gas-fired power plants at Herdecke and Knapsack in Germany and Kårstø in Norway, the Pålsbu and Nord-Svorka hydropower plants and the acquisition of Neverdalsåga in Norway.
→ The business area has 33.2 TWh of hydropower generating capacity and 1,210 MW of installed gas power capacity. The asset portfolio also contains a 2/3 stake in Baltic Cable (600 MW).
→ Physical and financial trading takes place on ten energy exchanges in Europe. Financial trading is around five times as extensive as the business area's own power production.
→ The business area has operations in seven European countries and employs 829 full-time job equivalents.

STRATEGY

The business area's main strategic goals are to achieve cost-efficient power plant operations and solid trading and hedging operations. The Group has posted solid results over time – based on extensive data collection, efficient analysis, and the exploitation of the power plants' inherent flexibility, a dynamic hedging strategy and specialist expertise in physical and financial power trading. Efficient operations in all areas and the further development of the business area's expertise will secure long-term value creation. An important goal for the business area is preventing work-related injuries and health problems. To achieve this, the development of the safety culture in the business is afforded high priority.

The business area is preparing to acquire new hydropower and gas-fired power plants in Europe. Ongoing efforts are also being made to improve operations connected with the gas-fired power plants that entered operation in the fourth quarter, as well as to create synergies through closer cooperation with Trondheim Energi's and Skagerak Energi's generation and trading activities. Together with other Group units, the business area will help to identify new business opportunities for environment-friendly energy in Europe.

→ New Energy is responsible for business development and project implementation of hydro, wind and gas power projects.
→ Several constructions were completed during 2007, including three gas-fired power plants, and one hydropower plant.
→ New Energy operates three wind farms with an installed capacity of 245 MW. The wind farms at Smøla, Hitra and Kjøllefjord generated 679 GWh in 2007.
→ Statkraft was granted its first licence for wind power in the United Kingdom in March 2007. Statkraft has entered into an agreement with the Swedish company SCA to develop around 2.8 TWh of wind power and 0.6 TWh of hydropower at SCA's sites in Sweden.
→ In 2007 Statkraft established its own representation and hydropower project offices in Belgrade, Bucharest and Tirana.
→ Statkraft collaborates with the Norwegian University of Science and Technology, Uppsala University in Sweden and the Technical University of Denmark on an extensive R&D programme within ocean energy.
→ In 2007 Statkraft decided to construct the world's first prototype osmotic power plant, which is expected to be completed during 2008.

Statkraft's strategy for wind power involves an increased focus on offshore wind power, and the company aims to become a leading player in this field. Initiatives will concentrate on the areas round the North Sea. The portfolio of onshore projects will be further developed, with an emphasis on the Nordic region and the United Kingdom.

Statkraft will step up its focus on hydropower development in Southeast Europe. Increased local presence shall strengthen the company's ability to further develop a profitable project portfolio.

Hydropower production in Norway will be expanded through Småkraft, smaller projects in own watercourses and the modernisation and expansion of existing plants.

New production capacity outside Europe is developed through SN Power.

An increased focus on technology development, innovation and business development shall support the Group's increased focus on environment-friendly renewable energy, including within technology areas that are currently not commercially viable.

→ The business area is Norway's second largest distribution grid, district heating and power sales operator for private and business customers through the subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft:
– 271,000 distribution grid customers
– 401,000 electricity customers
– 467 GWh district heating
→ The production capacity is 8.4 TWh. In 2007 the Heimdal district heating centre and the associated district heating pipeline started operation. The construction of the new Leirfossene power plant in Trondheim is progressing according to plan.
→ The business area manages the company's shareholdings in further important power generation, distribution and sales through the associated companies Agder Energi and BKK.

Statkraft aims to be the most efficient distribution grid operator in Norway, and to play an active role in the industry's further consolidation. In 2007, Trondheim Energi initiated merger proceedings for the distribution companies in Trøndelag.

Power optimisation and hedging at Trondheim Energi and Statkraft have been fully coordinated since 2007. In connection with this development, Group responsibility for important parts of this area has now been localised in Trondheim.

Statkraft has ambitious plans for the further development of power sales to commercial and private customers, and will therefore work to bundle the Group's power sales activities in one company. Such a merger will strengthen competitiveness and profitability.

Both Trondheim Energi Fjernvarme and Skagerak Varme are adopting an aggressive approach with regards to the development of new district heating projects. A number of licences have been applied for, including in Telemark and Vestfold, and collaboration between the two companies will be further extended. Under the terms of the letter of intent signed with E.ON AG, Statkraft will also acquire district heating plants in Sweden. These plants will be integrated with the other district heating initiatives in the Group.

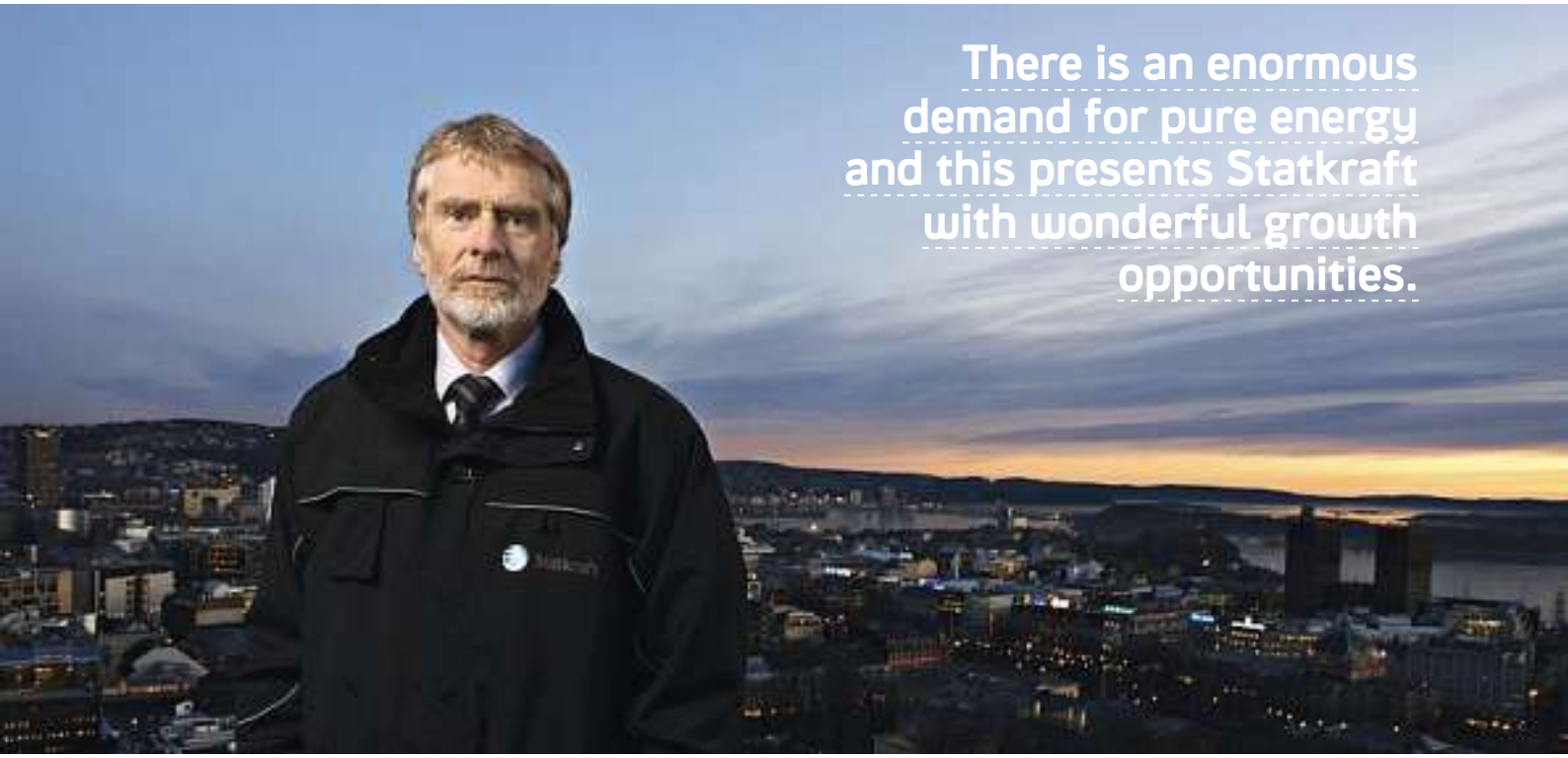
Leading – in a Europe showing the way forward

The EU's extremely ambitious energy and climate targets are inspiring, and, at the same time, establish a firm strategic framework for Statkraft's activities. The target of reducing greenhouse gas emissions by at least 20% by 2020 suggests that the European emissions trading scheme will be of critical importance to the development of the power industry in the future. The EU has taken on an important role as the driving force to solve the energy and climate challenges facing the world, and it is actively working to promote binding international collaboration on greenhouse gas reductions after 2012. This will have a direct influence on the development of technologies for renewable energy production, lower emissions of CO_2 and the development of emission trading.

The EU's target of 20% renewable energy by 2020 means that power production from renewable sources could double in the period leading up to 2020. This presents Statkraft with a wonderful opportunity for growth. We have the expertise and experience to develop new production capacity, we are represented in many European countries and possess the market understanding that is crucial to success. Our activities also take place within a framework of clear environmental and social responsibility, which is required to be able to grow within pure energy.

Statkraft has become actively involved as to which form Europe's future systems for supporting renewable energy should take. A harmonised European market for green certificates would result in the most new environment-friendly electricity per euro, minimise environmental impact from the construction of new facilities, and support the internal energy market. It is therefore very satisfying to note that a Norwegian-Swedish market for green certificates is once again on the agenda, and we hope that this will also point the way forward in Europe. Improved framework conditions for renewable energy will also provide new opportunities for growth in Norway, where we are actively working to establish new energy production based on hydropower, wind power, district heating and bioenergy. This is consistent with what our hundreds of thousands of customers expect of us.

There is an enormous demand for pure energy, and Statkraft is adopting a long-term perspective to developing new technology that will provide effective solutions. The Group will be increasing its research and development initiatives in areas such as ocean energy, osmotic power and other new renewable energy



sources, as well as stepping up its commitment to energy efficiency and carbon capture and storage.

Statkraft has signed a letter of intent with the German energy company E.ON AG, which will see Statkraft acquire power plants in Sweden, Germany and the United Kingdom, and thus become the largest generator of renewable energy in Europe. Taking over a third of E.ON Sweden's hydropower capacity will not only reinforce our position in Sweden, but also establish a good platform for future growth. The agreement with the Swedish industrial company SCA to establish a broad working relationship within renewable energy highlights Statkraft's commitment to establishing long-term working relationships with industry, and the company's new role as one of the largest power companies in Sweden.

Statkraft has been trading power on the continent for a number of years, and is now taking the next step, namely to become an important generator of environment-friendly and flexible power. Local presence and the Group's resources have put us in a position to develop two new gas-fired power plants in Germany. The Kårstø gas-fired power plant in Norway was also completed and commissioned in 2007. This means that Statkraft now has just over 1,200 MW of environment-friendly gas power at its disposal. The agreement with E.ON will provide us with the opportunity to expand our gas- and gas power portfolios even further. The combination of increasingly deregulated gas markets and a growing need for flexible production capacity constitutes a major driving force behind the continued development of this business.

The demand for pure energy and Statkraft's expertise is also increasing outside Europe. Through the company SN Power, we have recently taken important steps in Peru, Chile and the Philippines, and have laid the foundations for continued strong growth in environment-friendly hydropower in Asia and Latin America in the years to come.

Improved framework conditions for flexible and renewable energy and an increasingly deregulated European energy market will result in increasing competition, a faster pace of innovation, and even stronger demands being made on leading players. Statkraft's high levels of expertise, capital and focus on sustainable value creation mean the Group is well positioned to realise its vision towards becoming a European leader in environment-friendly energy.

Bård Mikkelsen
President and CEO

OSMOTIC POWER BOOST

For a decade Statkraft has been researching the potential to generate electricity where saltwater meets freshwater. We are now planning to intensify this effort with the construction of the world's first prototype osmotic power plant. Osmotic power is a clean source of energy, and calculations show that the technology could produce around 1,600 TWh of electricity worldwide – 13 times the amount of hydropower produced in Norway annually.

→ The world needs energy and a sustainable environment. That was why Ingeborg Dårflot chose Energy and Environmental Studies at the Norwegian University of Science and Technology (NTNU). A trainee position with Statkraft was the natural next step. This gave her the chance to work on the development of osmotic power. Now her traineeship has come to an end, and Ingeborg has already made a lot of progress towards a future with pure energy.

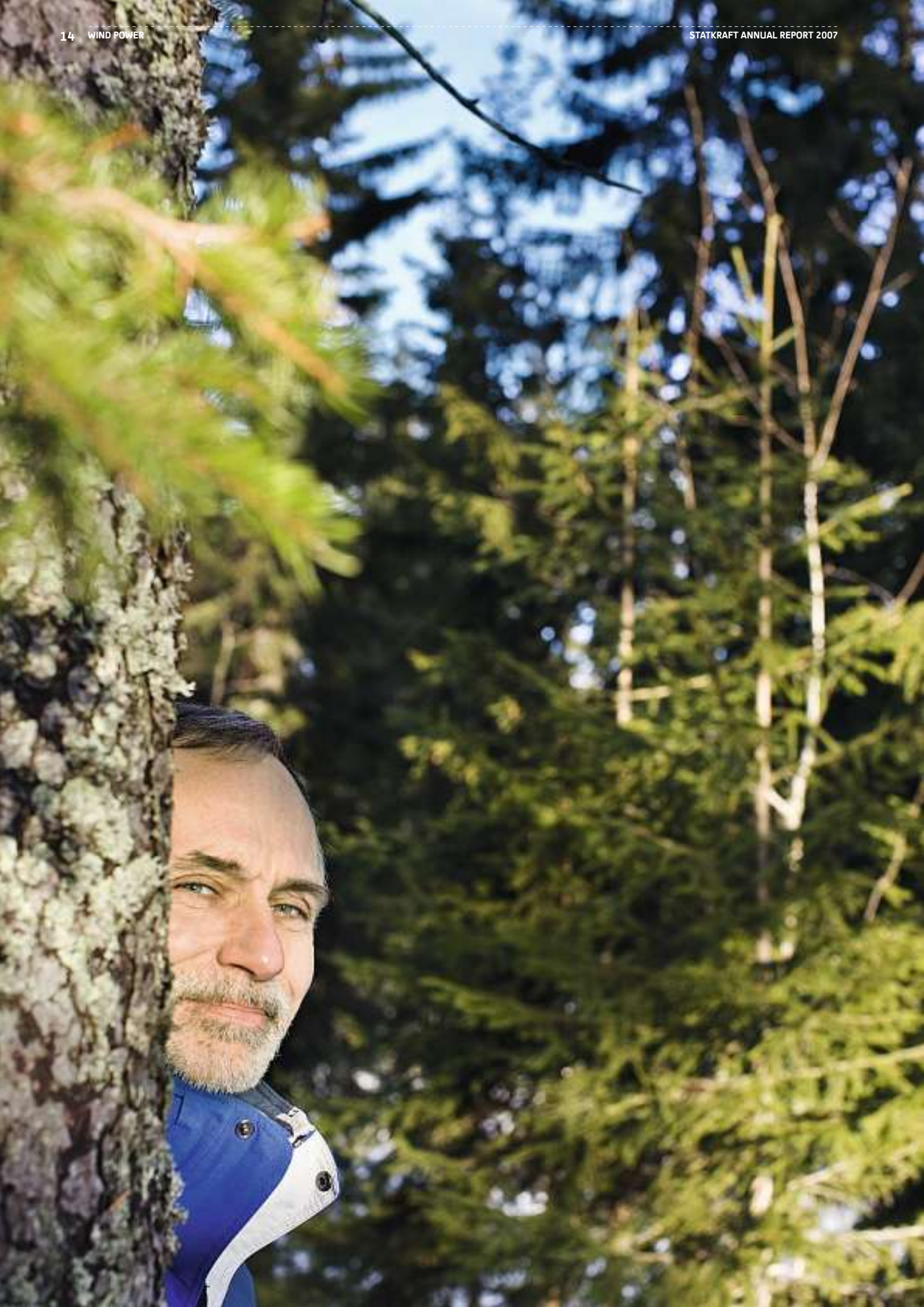

Hurum,
Norway

A BURNING PASSION FOR DISTRICT HEATING

With the opening of Trondheim Energi's new incineration plant at Heimdal district heating centre, an additional 120,000 tonnes of waste from the Trondheim area will find its way to Trondheim to be turned into environment-friendly district heating. With Trondheim Energi's competence as a foundation, the Statkraft Group is focusing strongly on district heating, and aims to take the bulk of the growth in this sector in Norway.

→ Bente Storeng is a qualified ventilation and sanitation engineer. Not a bad background to have as head of marketing for Trondheim Energi's district heating business. The district heating network in Trondheim comprises more than 150 km of pipes and a large number of pumps and valves. But first and foremost, district heating is an exciting and environment-friendly product, which is rewarding to work with. Quite simply, Bente has a burning passion for district heating. She is one of the people who ensure that what is thrown away is not lost, but is used again and converted into heating for residential and commercial customers.


Trondheim,
Norway



FAIR WIND FOR THE ENVIRONMENT

Statkraft is a wind power expert – and the Swedish company SCA needs electricity and has extensive forest resources. Together the two companies plan to build around 2.8 TWh of wind power on SCA's land in northern Sweden. While a fresh wind blows in the forests of northern Sweden, an environmental wind is sweeping over the whole of Sweden bringing favourable framework conditions for the construction of wind power. Wind power is a clean, renewable source of energy, which will play an important role in establishing sustainable energy supplies in the future.

→ Bengt Vernmark has travelled far with pure energy, as head of SN Power's construction projects in Latin America. Now he is back home in Sweden, working for Statkraft and heading up the development of Statkraft and SCA's wind power projects. You don't necessarily have to go further than into the forest to find pure energy.

With its own gas-fired power plants in Germany, Statkraft has become an even more important player in the power markets of Europe. Gas power is an environment-friendly alternative to coal-based electricity production, and forms a bridge to a more sustainable energy supply in the future. An important step has been taken towards realising our vision of being a European leader in environment-friendly energy.

→ In 2007 life took a new and exciting turn for Ingo Silbermann. First and foremost because he became a father for the first time. Secondly because he got a new job as an operator at the Knapsack gas-fired power plant. Here everything is new; the job is demanding and feels important. Europe needs environment-friendly energy. Ingo looks forward with gas power and Statkraft.

READY FOR A NEW ERA

TWICE AS FAR WITH PURE ENERGY

The water driving the Magat power plant in the Philippines goes twice as far. It is used both for irrigating the rice paddies and for generating electricity. The power plant is owned and operated by SN Aboitiz Power – a joint venture between the Aboitiz Group of the Philippines and SN Power, in which Statkraft has a 50 per cent stake. The power plant is one example of SN Power's investments in cost-effective power plants outside Europe, which provide lasting economic, social and environmental benefits to the communities in which they are built.

→ Nestor Aliman has worked in the energy industry in the Philippines for a long time. He took part in the effort to draw up the Philippines' new energy legislation which resulted in a deregulated wholesale power market in 2001. Today he is head of SN Aboitiz Power's trading department, which works around the clock to maximise the value of the pure energy produced by the Magat power plant.


Manila,
Philippines

Report from the Board of Directors

2007 was a warm and wet year, and heavy precipitation resulted in low electricity prices. Despite the fall in electricity prices, Statkraft posted strong profits before tax as a result of efficient energy optimisation and hedging, strong underlying operations, and increased contributions from associates. During the year, the Group completed the construction of two gas-fired power plants in Germany and one in Norway. Statkraft also signed an agreement with the Swedish company SCA to supply industrial power for ten years and jointly develop hydropower and wind power in Sweden. In the fourth quarter, Statkraft signed a letter of intent with E.ON AG to swap Statkraft's shares in E.ON Sweden AB for shares and assets in E.ON AG. Statkraft will through this agreement become the largest producer of renewable energy in Europe and a large shareholder of E.ON AG.

Important events

In October, Statkraft and E.ON AG signed a letter of intent under the terms of which E.ON AG will acquire Statkraft's 44.6% stake in E.ON Sweden AB in return for flexible power production assets and shares in E.ON AG. The total value of this swap agreement amounts to approximately NOK 35 billion (EUR 4.4 billion). It is expected that a final agreement will be signed during the first half of 2008.

During 2007 the construction of three gas-fired power plants was completed. Two of these are located in Germany – in Knapsack (100% ownership) and in Herdecke (50%) – while one is on Kårstø in Norway (50%). The three plants have a total installed capacity in excess of 1,600 MW, of which Statkraft's share is more than 1,200 MW.

In September, Statkraft signed a ten-year industrial power agreement with the Swedish company SCA. The agreement will involve the annual supply of 500 GWh of power to SCA's Swedish forestry operations. At the same time, the two companies established a joint venture to pursue initiatives in the field of renewable energy in Sweden. The plan covers the construction of seven wind farms in Västernorrland and Jämtland with a potential annual production of approximately 2.8 TWh. The companies will also investigate the conditions for establishing 630 GWh of hydropower in four watercourses where SCA owns the waterfall rights.

Pålsbu hydropower plant was opened in October. The plant's annual production will be 22 GWh. The Statkraft subsidiary Trondheim Energi is constructing a new hydropower plant at the Leirfossene site on the Nidelven river. The new facility will replace two old power plants and will generate an additional 43 GWh of power each year. In May Statkraft finally received a licence for Kjensvatn hydropower plant in Nordland. The expected annual production of this plant is 75 GWh. During the year, Statkraft's subsidiary Småkraft decided to construct an additional eight new small-scale hydropower plants. Total production from these plants is expected to amount to 115 GWh. The company also has licences for a further 11 power plants.

In 2007, Statkraft was granted its first wind power licence in the United Kingdom. Blaengwen Wind Farm will have a total capacity of 20–30 MW.

A new incineration plant at the Heimdal district heating centre and a new district heating pipeline to the centre of Trondheim were opened in September. The new plant will increase the incineration capacity by 120,000 tonnes of waste, and have an installed capacity of 40 MW.

SN Power (Statkraft's shareholding: 50%) purchased the Peruvian company Electroandes SA in 2007. The acquisition makes SN Power one of the five largest power producers in Peru with total installed capacity of 300 MW. In the Philippines, the company joined forces with a local partner to take over a 360 MW hydropower plant, and is currently in final negotiations for the acquisition of two further plants, also in collaboration with a local partner. In Chile, the company decided to build a 156 MW capacity hydropower plant, and a wind farm with a capacity of around 50 MW.

During the year, Statkraft opened three new offices, in Serbia, Romania and Albania, respectively.

In 2007 Statkraft expanded the frameworks of its focus within technology development, innovation and research and development. In September, Statkraft decided to start construction of the world's first prototype osmotic power plant at Hurum. The plant will have a capacity of 2–4 kW and represents an important step towards future commercial facilities. During the autumn, Statkraft also took steps to prepare for the construction of solar power facilities in Italy and Spain. In December the Group entered into a collaboration agreement with the Norwegian

ARVID GRUNDEKJØN
CHAIR
BORN: 1955
POSITION: Self-employed, real estate development and private equity consultant
EDUCATION: Lawyer and MSc in Economics and Business Administration
BOARD MEMBER SINCE: 2004, Chair of Statkraft's Compensation Committee
OTHER DIRECTORSHIPS: Chair of Anders Wilhelmsen & CO AS, Creati AS and Pluss Bank; Director of Royal Caribbean Cruises Ltd. and Romania Invest

University of Science and Technology, Uppsala University in Sweden and the Technical University of Denmark on research into ocean energy. In July eastern Norway was hit by serious floods. Emergency response initiatives were implemented around Numedalslågen, and advance tapping was carried out to reduce the effects of the flooding. Few problems were encountered at Statkraft's own facilities and the emergency response plans functioned satisfactorily. By using forecasts and information on the development of the water situation, Statkraft was able to help limit the damage caused by the flood.

Financial results [1]

ANNUAL PROFIT

The profit before tax totalled NOK 8,765 million in 2007 (NOK 11,582 million), while profit after tax amounted to NOK 6,632 million (NOK 7,735 million).

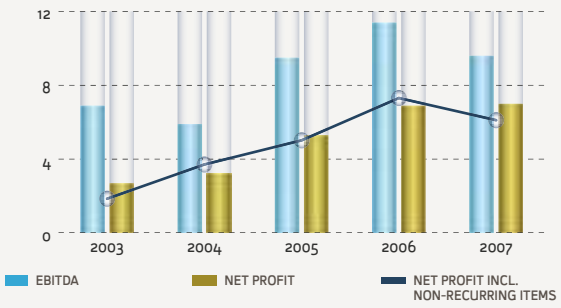
Non-recurring items and unrealised changes in value in the Group and associates totalled NOK -542 million before tax (NOK 1,004 million) and NOK -399 million after tax (NOK 790 million). Profit from ordinary activities before non-recurring items and unrealised changes in value therefore totalled NOK 9,307 million before tax (NOK 10,578 million) and NOK 7,031 million after tax (NOK 6,945 million).

RETURN ON INVESTMENT

Return on investment from operating activities in 2007, measured in ROACE (operating profit as a percentage of average capital employed), totalled 17.7% before tax (22.9%). The decrease of 5.2 percentage points is primarily attributable to the decline in operating profit caused by lower electricity prices. The figures used for the calculation have been adjusted for unrealised changes in value and material non-recurring items. Statkraft's target for ROACE is 16%. The return on equity on ordinary operations was 14.7% (15.0%), while the return on total equity on ordinary operations after tax amounted to 8.3% (8.4%).

[1] Figures in brackets show comparative figures for 2006.

EBITDA AND NET PROFIT, ORDINARY OPERATIONS
NOK MILLION



Unrealised changes in value and material non-recurring items are not included. The figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group. The figures for 2003–2005 were prepared in accordance with NGAAP, while the figures for 2006 have been restated in accordance with IFRSs. The figures for 2007 have been prepared in accordance with IFRSs.

OPERATING REVENUES

The average system price of electricity fell by NOK 167/MWh to NOK 224/MWh in 2007. This is largely attributable to a strong hydrological balance and higher output. Compared with the record prices achieved in 2006, prices remained low during most of 2007. However, prices rose towards the end of the year due to lower inflows, higher coal prices and expectations of higher prices resulting from new carbon quotas. In December 2007, the system price was higher than in 2006.

The Group generated gross revenues of NOK 17,619 million in 2007 (NOK 16,200 million). The increase of NOK 1,419 million is attributable to the fact that Fjordkraft, which generated sales of NOK 2,758 million, has been consolidated as a subsidiary since 1 January 2007, instead of being recognised as an associated company as in 2006. Output fell from 45.7 TWh in 2006 to 44.9 TWh in 2007, though still remained higher than in a normal year. The net effect of lower system prices and reduced volume was that revenues from spot sales fell by NOK 3,091 million in relation to 2006.

However, low system prices in 2007 also resulted in a marked increase in the value of forward contracts compared with the previous year. Revenues from dynamic hedging were therefore significantly higher, showing an increase of NOK 1,565 million compared with 2006.

Statutory-priced power sales to industry totalled 10.3 TWh, which resulted in revenues that were NOK 587 million less than they would have been had the same volume of electricity been sold at spot prices.

Other operating revenues totalled NOK 1,075 million in 2007 (NOK 879 million). The increase compared with 2006 is primarily attributable to the recognition of revenues relating to penalties associated with the delayed completion of the three gas power plants.

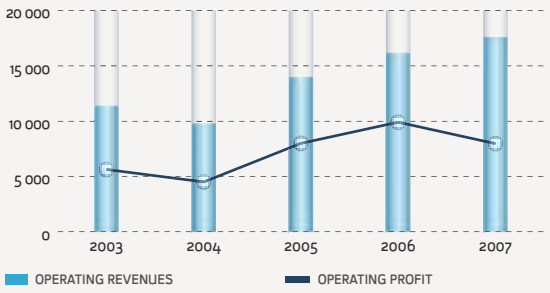
Costs linked to energy purchases totalled NOK 2,680 million in 2007 (NOK 190 million). The significant increase is primarily attributable to the consolidation of Fjordkraft, whose energy purchases totalled NOK 2,484 million.

Power transmission costs fell by NOK 101 million to NOK 939 million as a result of the variable portion of the transmission tariff decreasing significantly due to reduced transmission volumes and lower prices.

Unrealised changes in value of energy contracts totalled NOK -739 million in 2007, compared with NOK 1,975 million in 2006. The Group's net operating revenues in 2007 therefore amounted to NOK 13,261, compared with NOK 16,945 in 2006. Adjusted for unrealised changes in value, net operating revenues totalled NOK 14,000 million (NOK 14,970 million), which represents a decrease of 6%.

OPERATING REVENUES AND OPERATING PROFIT, ORDINARY OPERATIONS

NOK MILLION



Unrealised changes in value and material non-recurring items are not included. The figures for 2003 and 2004 are pro forma figures and apply to the Statkraft AS Group. The figures for 2003–2005 were prepared in accordance with NGAAP, while the figures for 2006 have been restated in accordance with IFRSs. The figures for 2007 have been prepared in accordance with IFRSs.

OPERATING EXPENSES

Operating expenses totalled NOK 6,019 million in 2007, an increase of NOK 921 million on 2006.

Payroll and salary costs increased by NOK 284 million to NOK 1,604 million. The increase is associated with the consolidation of Fjordkraft, new business, increased staffing levels for current activities, ordinary salary increases and increased provisions for pension obligations.

Property tax and licence fee payments rose by NOK 129 million to NOK 983 million due to the ongoing adjustment of the calculation basis, while depreciation and amortisation increased by NOK 151 million to NOK 1,639 million. The increase in depreciation and amortisation is largely attributable to the consolidation of Fjordkraft, the Knapsack gas-fired power plant, Kjøllefjord Wind Farm and additional depreciation on the Svartisen stator.

Other operating expenses totalled NOK 1,793 million in 2007. The increase of NOK 357 million is primarily attributable to the consolidation of Fjordkraft, new business, project development and increases in supplier costs.

OPERATING PROFIT

Statkraft posted an operating profit of NOK 7,242 million in 2007 (NOK 11,847 million). Adjusted for unrealised changes in value of energy contracts and material non-recurring items, operating profit was NOK 7,981 million (NOK 9,918 million), down 20% from 2006. The Generation and Hedging segment contributed 98% of the Group's operating profit.

SHARE OF PROFIT FROM ASSOCIATES

Statkraft's share of the profit from associates totalled NOK 2,613 million in the reporting period (NOK 2,009 million). Adjusted for unrealised changes in value and material non-recurring items, the total share of profits from associates was NOK 2,643 million, which represents an increase of NOK 840 million. The underlying improvement is attributable to increased activity levels in SN Power, which contributed NOK 153 million, improved profits from E.ON Sverige of NOK 388 million as a result of increased production, and the start-up of the Herdecke gas-fired power plant, which contributed an additional NOK 69 million. The remainder of the underlying improvement is linked to the regional companies in Norway, primarily BKK and Agder Energi.

NET FINANCIAL EXPENSES

Net financial expenses for the year totalled NOK 1,090 million (NOK 2,274 million). The decrease is principally due to the positive development in unrealised changes in value in the Group's interest rate and currency agreements totalling NOK 1,358 million. Of the total improvement, unrealised currency gains on long-term items linked to loans denominated in SEK and EUR accounted for NOK 696 million. This is due to the fact that the Norwegian krone appreciated against the Swedish krona and the euro, whereas it weakened against the same currencies in 2006. The hedging of future cash flows in euro also generated an unrealised profit due to exchange rate fluctuations, while these fluctuations produced a net unrealised loss in 2006.

Interest payable on loans rose by a total of NOK 373 million in 2007 compared with the previous year. The increase is attributable to both higher market interest rates and an increase in the loan volume. Higher market interest rates also resulted in interest income rising by NOK 116 million to NOK 335 million.

Guarantee payments to the Norwegian state fell as a result of the repayment of state-guaranteed loans. At the end of the year, the overall portfolio of state-guaranteed loans totalled NOK 11.4 billion, compared with NOK 15.3 billion at the end of 2006.

The Group has three active loan portfolios in NOK, SEK and EUR respectively. The total net debt portfolio has 80.3% floating rates. The average current interest rate on loans in NOK in 2007 was 5.1%, the corresponding rate on SEK loans was 3.7%, while on EUR loans it was 4.7%.

ELLEN STENSRUD
DEPUTY CHAIR
BORN: 1953
POSITION: First Confederal Secretary in The Norwegian Confederation of Trade Unions (LO)
EDUCATION: Lower secondary school
BOARD MEMBER SINCE: 2007
OTHER DIRECTORSHIPS: Chair of Internasjonal Faglig Solidaritet (IFS); Director of The Norwegian Consumers Council

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

TAXES

A total of NOK 2,133 million was charged as taxes in 2007 (NOK 3,847 million). The effective tax rate was 24.3%, compared with 33.2% in 2006. The decrease in taxes is attributable to a lower taxable profit and a change in the regulatory framework for resource rent taxation. In general these changes will result in an increase in taxation rates and increased tax charges in the financial statements. However, in 2007 the changes will have a positive net effect in the form of a reduced recognised tax charge of NOK 525 million, primarily due to the fact that more power plants are becoming liable to tax than was previously the case. Combined with an increased tax rate, this will result in a higher negative resource rent carryforward and thus an increase in the value of deferred tax assets recognised in the financial statements. In 2007 resource rent tax totalled NOK 758 million, which corresponds to 36% of the Group's total tax expense. The corresponding amount in 2006 was NOK 1,148 million (30% of the total tax expense).

CASH FLOW AND EQUITY

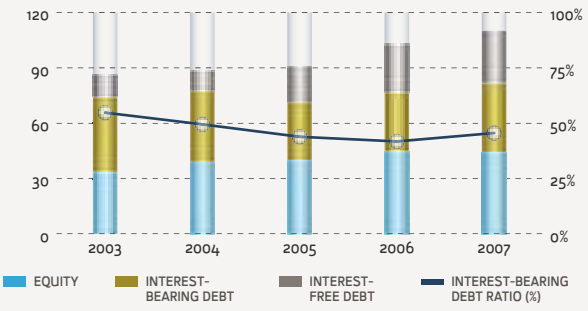
Operating activities generated a positive cash flow of NOK 4,969 million in 2007. This represents a decrease of NOK 3,073 million on the figure for 2006. Short and long-term tied capital increased by NOK 1,332 million, while dividends of NOK 1,419 million were received from associates. The net cash flow from operating activities thus totalled NOK 7,720 million in 2007, compared with NOK 6,544 million in 2006.

Investments in 2007 amounted to NOK 4,002 million. The largest items were NOK 650 million relating to the gas power projects in Germany and Norway, NOK 1,200 million relating to capital injections into SN Power, and NOK 94 million relating to capital injections into Telenor Cinclus. NOK 2,058 million was used for other investments in property, plant and equipment.

Statkraft raised new loans totalling NOK 11,786 million in 2007 and repaid NOK 6,236 million in debt. NOK 7,895 million was paid in dividends and Group contributions for 2006. At the end of the year, Statkraft's cash and cash equivalents totalled NOK 3,150 million (NOK 1,758 million).

At the end of the year, interest-bearing debt totalled NOK 37,284 million (NOK 32,021 million), while the interest-bearing debt ratio was 45.6% (41.8%). Current assets, excluding cash and cash equivalents, totalled NOK 14,070 million, and short-term non-interest-bearing debt amounted to NOK 17,579 million. There were no changes in Standard & Poor's or Moody's credit ratings.

EQUITY AND LIABILITIES
NOK BILLION



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

At the end of 2007, Statkraft's equity amounted to NOK 44,418 million before provisions for dividends. This corresponds to 40.3% of total equity (43.2%). The decrease in total equity of 2.9 percentage points is attributable to an increase in debt. Adjusted for the proposed dividend, the equity ratio is 34.3%.

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 the second-largest producer of renewable energy

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

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

in Europe. Through its offices in the Nordic region and on the continent, the Group is a major player on Europe's energy exchanges and has specialist expertise in the fields of physical and financial power trading. In Norway Statkraft is engaged in power grid operations and retail sales through its shareholdings in regional power utilities. Outside Europe, the Group's power generation activities are carried out through the company SN Power.

VISION AND STRATEGY

In 2006 Statkraft prepared a Strategic platform for 2007–2009, which defines the Group's objectives and direction for this period. The business will be developed in line with Statkraft's vision of becoming a European leader in environment-friendly energy. The strategy is based on the fact that Statkraft shall make an active contribution to the sustainable development of the European energy market. The Norwegian state's Report no. 13 (2006–2007) to the Storting on company ownership, which states that "Statkraft shall be a European leader in environment-friendly energy and should continue to participate in industrial developments in Norway and the rest of Europe. This will help strengthen Norway's position as an energy nation", further supports this strategy.

Statkraft will 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 customers' requirements
- Be among the best international energy companies with regard to HSE and business ethics.

The Group will prioritise increasing value creation in the fields of power generation and energy trading, along with investment in profitable power generating capacity. New investments will primarily focus on environment-friendly generating capacity. Statkraft will increase its efforts in the areas of innovation, research and development. The Group will also develop values in the fields of distribution grid, retail and district heating.

CORPORATE GOVERNANCE

Statkraft's corporate governance policy clarifies the role allocation between the company's owner, board of directors and general management. To the extent that it is applicable to Statkraft's organisation and ownership, the company complies with the "Norwegian Code of Practice for 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.

Statkraft has an Audit Committee to facilitate the board's deliberations and decisions regarding the company's financial reporting, internal control and auditing. It also has a Compensation Committee, which prepares the board's deliberations and decisions concerning the salary and other benefits paid to the President and CEO, as well as matters of principle related to salary levels, incentive schemes and pension terms for the company's employees.

THE WORK OF THE BOARD OF DIRECTORS

Three changes were made to the composition of the board in 2007. Board members Marit Büch-Holm, Gunn Wærsted and Olav Fjell were replaced by Ellen Stensrud, Berit Rødseth and Egil Nordvik. The board thanks the departing board members for their efforts. The chair and board members of Statkraft AS are identical to the chair and board members of Statkraft SF. The board met 15 times during the year.

In addition to monitoring ongoing operations, the board devoted a significant amount of time in 2007 to following up major international projects – the swap agreement with E.ON AG, the SCA agreement and the construction of the gas-fired power plants.

ETHICAL BUSINESS OPERATION

The Group's policies and procedures for ethics were updated in 2007 and clarify the attitudes and the behaviour that Statkraft expects of each employee with regard to respect, integrity and loyalty. Significant matters covered include non-discrimination, anti-corruption, anti-prostitution and the right and obligation to disclose and to seek advice.

The Group places great emphasis on the importance of good business ethics to secure the necessary conditions for growth and the development of the Group. In 2007 a number of dilemma training meetings were held. Group management has an internal consulting reference group for ethics, led by the Head of the Internal Audit Department. This is an independent notification channel with the right and obligation to report to the board. The internal audit department can be notified anonymously. Employees who make use of their statutory right to notify are protected against reprisals from their employer.

RISK AND INTERNAL CONTROL

The key risk factors for Statkraft are linked to market operations, financial administration, operating activities and framework conditions. Considerable volume and price risks are linked to power generation and trading. In the Nordic power market precipitation levels and winter temperatures are of great significance and result in considerable fluctuations in both prices and output volumes. Electricity prices are also indirectly impacted by gas, coal and oil prices, as well as carbon quota prices, while gas power production is directly exposed to gas, oil and CO_2 prices. Statkraft manages this market risk by trading in physical and financial instruments in several markets, and places great emphasis on viewing the different markets in context. Internal mandates and exposure limits have been established for all trading activities.

The central finance function coordinates and manages the financial risk linked to currency, interest rates and liquidity. The most important management instruments are forward currency agreements, interest rate swap agreements and forward interest rate agreements. Mandates are used to regulate interest rate and foreign exchange risks, and frameworks have been established for liquidity and counterparty risks. Market risk and other financial risk, along with exposure relating to mandates, is followed up by independent middle office functions and is regularly reported to Group management and the board.

Operational risk is largely dealt with by means of detailed procedures, contingency plans and insurance. An extensive system for recording and reporting hazardous conditions, undesired incidents, and injuries has also been established, and instances of the above are analysed on an ongoing basis.
Other risk primarily relates to general framework conditions and political decisions. Climate changes may result in both threats and opportunities and are therefore of importance to all the risks mentioned above. Statkraft is very concerned with the consequences climate changes may have for its own and others' activities, and therefore monitors developments closely.

The handling of risk is important to value creation and represents an integrated part of all business activities. This is followed up within the separate units through procedures for risk monitoring and initiatives for risk reduction. In addition, there are independent units both within the separate business areas and at Group level that monitor and follow up risk.

Statkraft is adopting a targeted approach to further strengthening internal controls in the Group. In 2007 the Group introduced a new management system based on the COSO model, intended to help improve the efficiency of financial reporting, as well as secure efficient management, continuous improvement in all areas and compliance with internal and external requirements. Before the end of 2009, all the Group's processes will be reviewed and documented, and consistency and an appropriate scope of processes will be secured. The status of compliance with the management system is included as part of Group management's reviews in accordance with ISO 9000 and ISO 14000 certification.

BUSINESS PRINCIPLES

In 2007 the board revised the business principles for the company. These principles describe sustainable value creation, ethical business practice, a safe and healthy business culture, and continuous improvement. When various considerations have to be weighed against each other, the following priorities apply:

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

These business principles are guiding for the Statkraft Group's commercial activities and shall apply to the Group's employees at all levels, as well as to consultants, suppliers and others who act on behalf of Statkraft or are business partners of the Group.

Sustainable value creation

The Statkraft Group creates long-term value for its owner and society through efficient commercial business activities based on the principle of sustainable development. Statkraft wishes to make a constructive contribution to society and the sustainable utilisation of natural resources and good environmental performance.

ENVIRONMENTAL MANAGEMENT

Statkraft applies an environment management system that facilitates systematic environmental work within the organisation, and describes the Group's focus areas, targets and initiative plans in the field of the environment. The environment management system currently covers the subsidiaries Statkraft Energi AS and Statkraft Development AS, which are certified according to the ISO 14001:2004 standard. In 2007 a major project was launched with the purpose of expanding the environment management system to apply to the entire Group.

The Group's most significant environmental aspects comprise intervention in the landscape and watercourses, energy and resource consumption, waste management, local pollution and greenhouse gas emissions. Targets have been set for all significant environmental aspects, and the environmental management system is examined by Group management on an annual basis in accordance with the requirements of ISO 14001.

Statkraft's most significant contribution to the environment is the generation of environment-friendly energy. 96% of the energy

generated by the Statkraft Group is derived from renewable sources. Statkraft has the lowest CO_2-emission per produced unit among the larger European energy companies. At the end of 2007, three gas-fired power plants in which Statkraft holds a stake entered into operation, which means that the company has added a non-renewable source of energy to its portfolio, i.e. a source that causes emissions of CO_2. Nevertheless, these power plants will have a positive impact on the environment, since they will help to limit Europe's overall greenhouse gas emission levels compared with comparable energy production from alternative sources such as coal and oil.

Statkraft is actively engaged in the trading of carbon quotas and green certificates. The company believes that the best way to increase focus on renewable energy is to introduce a common market for electricity certificates in Europe.

IMPACT ON THE ENVIRONMENT

One serious environmental non-compliance was registered at Statkraft in 2007, when leakage from a generator at the Kolsi power plant in Finland resulted in the discharge of 2,000 litres of hydraulic oil into the Kokemäenjoki river. The oil spillage did not cause any registered harm to fish, birds or animals.

A total of 32 less serious environmental non-compliances were registered. Most of these concerned short-term violations of minimum water flow requirements, although emissions of oil, halon and SF_6 were also recorded. All undesirable incidents with environmental consequences are assessed and continuously followed up.

In 2007 Statkraft's operations generated just under 26,400 tonnes of hazardous waste from waste incineration, slightly less than 400 tonnes of hazardous waste from other operations, and just under 1,300 tonnes of other waste. The Group's recycling rate was 86%, compared with 74% in 2006. A framework agreement was also entered into with a contractor to secure uniform processing and reporting of waste. All the units in the Generation and Markets business area will be linked to this framework agreement in 2008.

The Group's emissions of greenhouse gases corresponded to 292,000 tonnes of CO_2. All the electricity consumed for the operation of facilities and offices (843 GWh) is certified renewable in accordance with RECS (Renewable Energy Certificate System). From 2008 Statkraft will be purchasing quotas to compensate for greenhouse gas emissions resulting from transport and environmental non-compliances. This is being achieved by participating in the Kyoto Protocol's mechanisms for emission-reducing projects in developing countries.

Contributor to society

As a contributor to society, Statkraft focuses on renewable energy and climate challenges, and works to develop new production capacity that can contribute to long-term, reliable energy supplies also into the future. The Group is an important generator and distributor of electricity and heat, and places great emphasis on operational safety and on being prepared to deal with serious unforeseen events.

The Group creates significant economic values, both directly and indirectly. In 2007 after the deduction of purchased goods and services, Statkraft generated value for distribution in the amount of NOK 12.9 billion. Of this, interest expenses accounted for NOK 1.7 billion, while NOK 10.1 billion was paid to the owner, central and local government authorities in dividends and Group contributions (NOK 6.8 billion) and in taxes (NOK 3.3 billion). A further NOK 1.4 billion was paid in salaries and social security contributions.

International growth will demand further development of the role as a contributor to society in markets with which Statkraft is not fully familiar and which are to some extent subject to other statutory regulations or other society-related framework conditions. Effective dialogue with stakeholders and transfer of experience from the home market will be emphasised in implementing socially responsible growth. The Statkraft Group shall act in accordance with the human rights conventions to which Norway is party, and the Group adopts a zero tolerance policy with regard to corruption and money-laundering.

STAKEHOLDER DIALOGUE

It is important for Statkraft to maintain a constructive dialogue with all stakeholders, particularly those in the local communities in which the Group is active, and in projects for the development of new environment-friendly energy. As the Group expands internationally, particular emphasis is placed on continuing good business practice and establishing the same stakeholder dialogue that exist in the Group's Norwegian business. In 2007, a range of plan processes, open meetings and hearings were conducted with affected stakeholders in connection with planned wind and hydropower plants.

The Group ran two brand-building campaigns in Norway during 2007. Statkraft's reputation among the Norwegian population improved by 15% during the year, and the most recent survey revealed that 45% of the population has a good impression of the company. Among professional target groups such as policy-makers and the financial services sector, the survey results indicate that 84% have a good overall impression of the company, up from 74% in 2006. Brand-building has contributed to stronger harmonisation between the companies in the Group, partly through shared visual profiling. The Group companies that run retail operations have achieved satisfactory levels of customer satisfaction.

A safe and healthy corporate culture

SAFETY

All activities at Statkraft shall be characterised by safety. Statkraft's stated goal is to experience no accidents, injuries or health problems in connection with the Group's activities. Behaviour and safety culture shall be further developed through efficient planning, the continuous improvement of processes and systems, the will to learn from accidents and near-misses, and sanctions to combat breaches of and weaknesses in regulations. The lost-time indicator (H1) for 2007 was 5.9, down from 6.5 in 2006, although the target for H1 is zero. This is not satisfactory, and the right attitude to safety and good work planning in all activities will continue to have high priority. In 2007, work was launched to improve follow-up of the Group's suppliers in the context of safety. In non-consolidated SN Power companies there were five fatalities in 2007 and three in January 2008. This is an unacceptable situation and the Group places emphasis on achieving greater understanding of Statkraft's safety requirements for personnel working in business cultures outside Norway, where Statkraft is active, and the situation will be monitored directly and through company ownership.

WORKING ENVIRONMENT

The working environment shall be characterised by the Group's core values of competence, responsibility and innovation. At the end of 2007 the Group employed a total 2,287 full-time job equivalents, an increase of 200 compared with the end of 2006. The number of

EGIL NORDVIK
BORN: 1944
POSITION: Consultant
EDUCATION: Master of Science in Geotechnology
BOARD MEMBER SINCE: 2007
OTHER DIRECTORSHIPS: Several directorships, including Chair of A/S Bleikvassli Gruber Entreprenør; Director of Norvag AS (the Euroskilt Group), SMA-Nordland (Svenska Mineral) and The Association of Norwegian Mines

AUD MORK
BORN: 1945
POSITION: Mayor of Aukra in Møre og Romsdal county 1999–2007, Educational consultant since 1 feb 2008
EDUCATION: BEd and Diploma in Special Education
BOARD MEMBER SINCE: 2004, member of Statkraft's Compensation Committee
OTHER DIRECTORSHIPS: Deputy Chair of Møreaksen AS; Director of Romsdalsmuseet AS, Molde flyplassutvikling; member of KLP's Control Committee

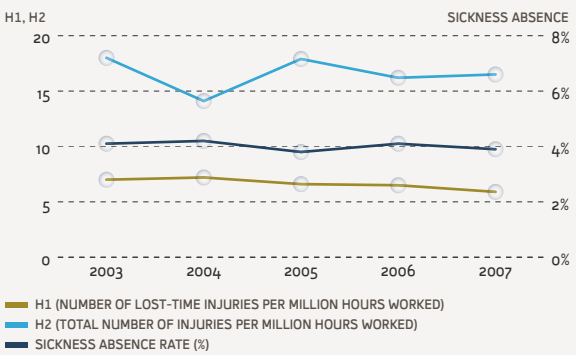
full-time job equivalents is expected to increase again in 2008. If realised, the letter of intent with E.ON will result in a further increase in staff numbers. The average age of employees of the Statkraft Group is 46, and the average length of service is 15 years. Excluding retirement, Statkraft had an employee turnover rate of 5.0% in 2007.

Statkraft performs an annual organisational and management survey, whose results for 2007 were good, as in 2006. Statkraft is among Scandinavia's top companies in this area. Participation rates are high, and the survey covers topics such as strategy, expertise, organisational conditions and the working environment.

Competence development in 2007 included among others management development programmes and project management training. Statkraft has a stated goal of being regarded as an attractive employer.

Statkraft's sickness absence rate for 2007 was 3.9%, which is down 0.2 percentage points on 2006. 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 scheme, which involves the active follow-up of those on sick leave and close collaboration with the company's occupational health service. Statkraft wishes to secure a good balance between working and private lives, and has established life-phase principles for employees aged over 62. In 2007, the Group ran a joint health project entitled "Energy for life", with the aim of encouraging physical activity and health-promoting initiatives in all units.

INJURIES AND SICKNESS ABSENCE



EQUALITY

Statkraft is striving to achieve an even gender balance within the Group and a higher proportion of women in management positions. In 2007, 24% of the Group's employees were women, which represents an increase from 22% for 2006. The proportion of women in management positions in 2007 was 22%, up from 17% in 2006. Women also constitute 44% of the board of directors and 29% of Group management. The board of directors continuously follows up on the work relating to achieving an even gender balance, including compliance with legally binding requirements regarding gender distribution on the boards of subsidiaries and in companies where Statkraft has major ownership interests.

Statkraft embraces workplace diversity and pursues a policy of non-discrimination with regard to recruitment and personnel policies. The Statkraft Group employs staff from 20 different countries.

Continuous improvement

Sustainability topics such as the climate, the environment, corporate social responsibility, ethics and the working environment provide important conditions for the growth and development of the Group. In 2007, an improvement project was launched with the goal of acquiring a tool for efficient Group-wide reporting in accordance with the Global Reporting Initiative.

Statkraft wants all employees to contribute to the safety and improvement work. In 2008, the collective variable incentive scheme will be linked to individual employees' contributions to the reporting of undesirable events, and suggestions for continuous improvements.

FRAMEWORK CONDITIONS

Insufficient licences, distribution grid restrictions and inadequate support schemes for renewable energy in Norway have contributed

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

BERIT RØDSETH
BORN: 1951
POSITION: Project Director at Moelven Industrier ASA
EDUCATION: Economist, Agronomist
BOARD MEMBER SINCE: 2007
OTHER DIRECTORSHIPS: Chair of Moelven Bioenergi AS, Vänerbränsle AB; Director of Moelven Utvikling AS, Trefokus and Norsk Bioenergiforening

to Statkraft directing its wind power initiatives towards other European countries with better support schemes. In January the Norwegian government presented its new wind power policy, but it is as yet unclear whether this will result in increased subsidy levels or new licences with the same level of subsidy.

The EU's proposals for renewable energy directives will prove very important to Statkraft in the years to come. It is expected that these directives will be adopted during 2009, and the directives for both renewable energy and quota trading will be of relevance to Norway. Statkraft has taken the initiative for harmonising the subsidy systems for renewable energy through a European system involving green certificates.

Allocation of profit for the year

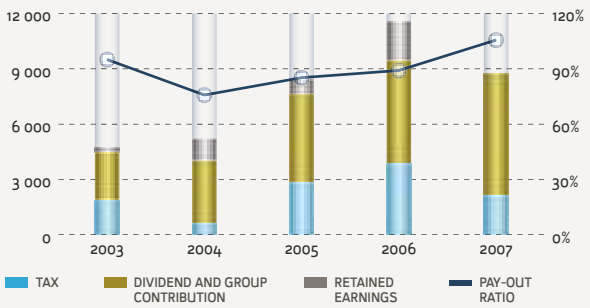
In its proposed national budget for 2008, the Norwegian government requires Statkraft to pay the Norwegian state a dividend corresponding to 98% of its consolidated profit after tax and minority interests, adjusted for unrealised gains and losses. This translates into a dividend of NOK 6,560 million for 2007. The dividend will be paid by Statkraft SF. To enable Statkraft SF to pay the dividend, the board proposes that Statkraft AS apply the following allocation of the net profit for the year:

Net profit as per Statkraft AS's income statement	5 568
ALLOCATION OF NET PROFIT FOR THE YEAR:	
Dividend from Statkraft AS to Statkraft SF	3 332
Group contribution from Statkraft AS to Statkraft SF	3 505
Transferred from other equity	1 270

The total allocation of dividend and Group contribution corresponds to 104% of the Statkraft AS Group's profit after tax and minority interests, adjusted for unrealised gains and losses.

The parent company had distributable reserves of approximately NOK 300 million at the end of the year.

ALLOCATION OF PROFIT BEFORE TAX
NOK MILLION



The figures for 2003 and 2004 are pro forma figures and apply to Statkraft SF. The figures for 2003–2005 were prepared in accordance with NGAAP, while the figures for 2006 have been restated in accordance with IFRSs. The figures for 2007 have been prepared in accordance with IFRSs.

Outlook

Statkraft has grown substantially during 2007. The company recently completed the development of three gas-fired power plants, and has also commissioned several hydropower plants and a district heating plant. Together, this produces an annual increase in production capacity of around 7 TWh. The letter of intent signed with E.ON AG will provide the Group with a further 7 TWh of production capacity. This will see Statkraft's production increase by 33%. In addition to this, an agreement was also entered into with SCA during 2007 concerning a joint initiative to examine the potential for developing hydro and wind power in Sweden, while SN Power invested in power plants in the Philippines, Chile and Peru. Statkraft's strategy means the Group is well positioned to participate in continued growth and development in Norway and internationally.

High inflow levels during 2007 and relatively full snow reservoirs mean that the current resource situation is robust. Forward prices indicate price levels will be higher in 2008 than they were in 2007. This, coupled with the increased production capacity available,

provides the basis for relatively high power production during 2008 and an increase in revenues from power sales. However, significant uncertainty attaches to price and result trends.

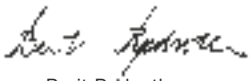
The current regime for contracts determined by the Norwegian parliament is gradually being phased out in the period leading up to 2011. Statkraft believes that today's electricity market functions efficiently, including in relation to industry. The company attaches importance to offering commercially based long-term power agreements to all players. By guaranteeing Norwegian industry power agreements on the same terms and conditions as other players, the company wishes to contribute to the development of a forward-looking Norwegian industry that is able to survive the challenges of the future.

Statkraft has a very good starting point from which to play an active role in achieving the climate targets established in Norway and the rest of Europe. This will demand significant investments within renewable energy in the years to come. Through the swap deal with E.ON AG, Statkraft will realise a significant accounting profit that provides a sound financial platform to implement the Group's extensive investment plans. If the investment plans are to be realised, it is necessary for the accounting profit to be excluded from funds available for distribution as dividends in 2008.

The Group has a strong focus on innovation and the development of new technologies for power production. Statkraft has decided on an aggressive approach to offshore wind power, with the aim of becoming a leading player in the area around the North Sea. During 2007, Statkraft entered into an extensive collaboration agreement with the Norwegian University of Science and Technology, Uppsala University in Sweden and the Technical University of Denmark, focusing on research in the field of ocean energy, with aim of becoming Europe's leading skills and educational network in this area. The collaboration agreement on ocean energy encompass offshore wind power, wave power and tidal power. In addition, Statkraft has also taken the decision to build the world's first prototype osmotic power plant. The facility at Hurum in Norway constitutes an important step on the road to the development of a commercially viable plant. The Group has also entered into several other agreements, which may see possible developments of solar power in Italy and Spain.

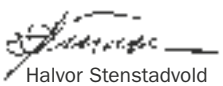
EU energy and climate policy for the period leading up to 2020 is expected to form the basis for Statkraft's growth in respect of renewable energy and flexible power production. This includes stricter greenhouse gas emissions standards, higher targets in terms of the expansion of renewable energy and a more integrated European energy market. There is broad political agreement on future climate targets in Norway, including the re-opening of negotiations in respect of a Norwegian-Swedish certificate market. This is expected to strengthen the case for expanding renewable energy in Norway when viewed in conjunction with the effects of EU directives. By investing in hydro, wind, gas power generation and new renewable technologies, Statkraft is well equipped to participate in this development.

The Board of Directors of Statkraft AS
Oslo, 12 March 2008

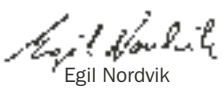

Berit Rødseth

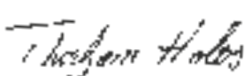

Arvid Grundekjøn
Chair

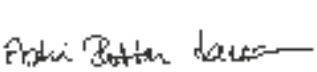

Ellen Stensrud
Deputy chair

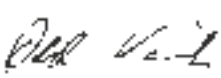

Halvor Stenstadvold

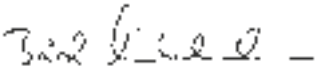

Aud Mork


Egil Nordvik


Thorbjørn Holøs


Astri Botten Larsen


Odd Vanvik


Bård Mikkelsen
President and CEO

Market and business conditions

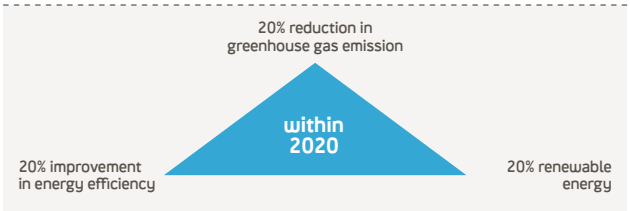
Developments in the European energy markets are being influenced by an increasingly ambitious European climate and energy policy. This is coinciding with record-high oil, gas and coal prices. The shift from national to larger regional electricity and gas markets is continuing and also contributing to increased consolidation between the energy companies.

In recent years the EU has developed a uniform energy and climate policy that must now be regarded as guiding, including in respect of global development. The key elements are:

- → Further development of the internal energy market
- → The European emission trading system
- → Support schemes for renewable energy
- → A policy for increased energy efficiency
- → The development of a policy for carbon capture and storage.

Sharing the burden of committing to targets for renewable energy and reductions in greenhouse gas emissions between the individual European countries represents a further key issue.

The most prominent symbol of the EU's ambitions is the "20-20-20 in 2020" target. This includes a resolution to unilaterally reduce greenhouse gas emissions by at least 20% by 2020 compared with 1990. A further target of generating 20% renewable energy as a percentage of total energy consumption by 2020 has also been set. The last of the three targets is to reduce energy consumption by 20% as compared with what it would have been without the implementation of energy-saving measures by 2020.



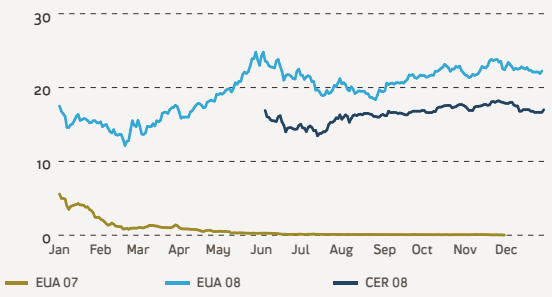
An ambitious climate policy

The European market for carbon emission allowances will be the most important tool for achieving the ambitious targets associated with a 20% reduction in greenhouse gas emissions compared with 1990. During the period 2005–2007 the emission allowance market covered around half of total greenhouse gas emissions, 60% of which related to emissions from the electricity sector. The second period of the European emission trading scheme (2008–2012) coincides with the Kyoto Protocol. This period will see the imposition of more stringent reduction requirements, and a reduced allocation of free allowances for the electricity industry.

The resolution to reduce greenhouse gas emissions by 20% is based on the EU countries' Kyoto-related obligations to cut these emissions by around 8% by 2012. In light of the ambitious and mandatory target for 2020 and strong political ambitions within the EU to continue to use carbon cap-and-trade as a tool in the climate policy, there appears to be little doubt that European emission allowance trading will continue towards 2020. This will provide predictability for new investments in the electricity sector, despite the fact that there is still uncertainty as to the detailed contents of the third phase in the emission trading scheme (2013-2020). Free allocations of allowances in the power sector are expected to be phased out.

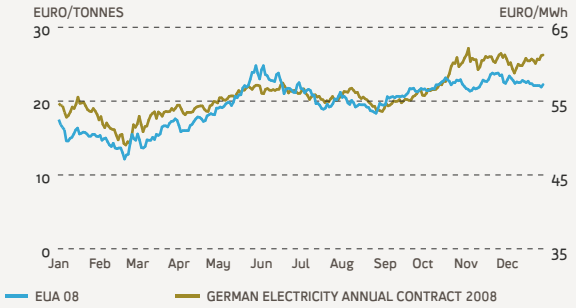
The establishment of the emission trading scheme is intended to establish a market price for marginal carbon dioxide emissions, a development that will directly impact European electricity prices. Price developments during 2007 show the strong interdependency of future price expectations for electricity and CO_2. The total volume traded on the EU emission trading scheme increased by around 75% from 2006 to 2007. The percentage traded via exchanges was around 30%, where the ECX in Amsterdam represents the dominant European marketplace. As can be seen from the graph below, CO_2 prices were very low in 2007 due to the surplus of available emission allowances and a pronounced price increase as a result of the new phase and the stricter rules that will enter into force from 2008. In isolation this will result in higher electricity prices from the start of 2008.

CO_2 PRICES ON NORD POOL, 2007
EURO/TONNES



The emission cap for the period 2008–2012 is expected to account for 85–90% of total emissions in 2005. Allowances for auction will account for 3–4% of the total volume, while the new entrant reserve will make up around 6%. Resolutions that will result in a more stringent climate policy after 2012 are also impacting the current market, due to expectations that it will be possible to transfer allowances from phase two to a new phase three from 2013 onwards. The Norwegian emission trading scheme is linked to the European system, and therefore generally complies with EU directives and guidelines.

2008 CARBON QUOTA PRICE AND GERMAN ELECTRICITY PRICES



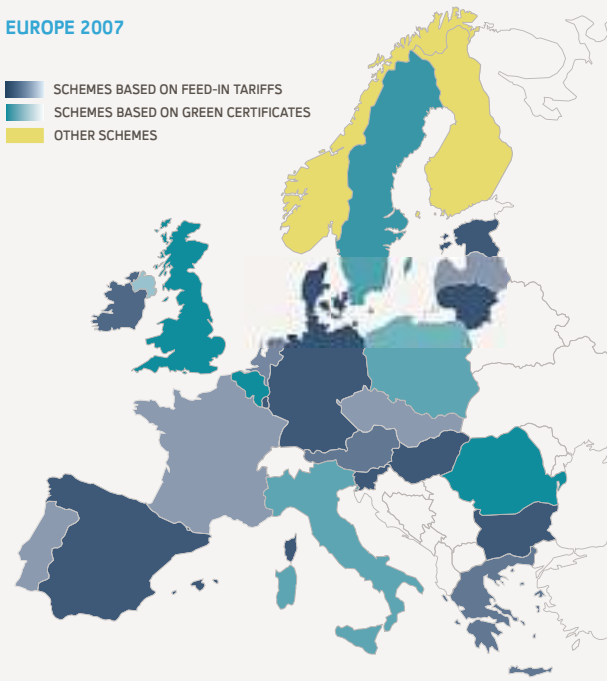
The establishment of the European emission trading scheme has been the most important economic driving force behind the development of UN-approved projects to reduce greenhouse gases globally. The stimulation of demand for credits from the clean development mechanism has resulted in the implementation of measures including the development of sustainable hydropower projects in India and energy efficiency improvement projects in China. At the same time access to significant volumes of credits from countries outside the EU is reducing allowance prices in Europe. There are currently a number of restrictions on the use of such certified environmental reduction credits (CER), which means that these are being priced lower than European emission allowances (EUA). The EU is proposing a range of further restrictions on the use of imported emission allowances after 2012 pending the results of international climate negotiations.

Carbon capture and storage could result in significant potential for reducing electricity sector greenhouse gas emissions, primarily in respect of coal power. It is this potential that is driving the extensive work to clarify the technological, commercial and legal requirements surrounding the large-scale development and use of carbon capture and storage in the European electricity market. If this type of technology is to be commercially deployed, the extra costs associated with capture and storage will have to be offset by the emission allowance price. Estimates of when this could happen vary from 2020 to 2030. In the intervening period, it is expected that various support schemes will have to be set up to ensure that such facilities are developed and established. In Norway the issue of carbon capture and storage has primarily been centred around gas-fired power plants.

Strong growth in renewable energy

The EU's target of renewable energy accounting for 20% of total energy consumption by 2020 will necessitate strong growth in the years to come, and require several hundred billions of euro in new investments. Renewable energy accounted for around 8% of total energy within the electricity sector, heating and cooling market and the transport sector in 2005.

EUROPE 2007



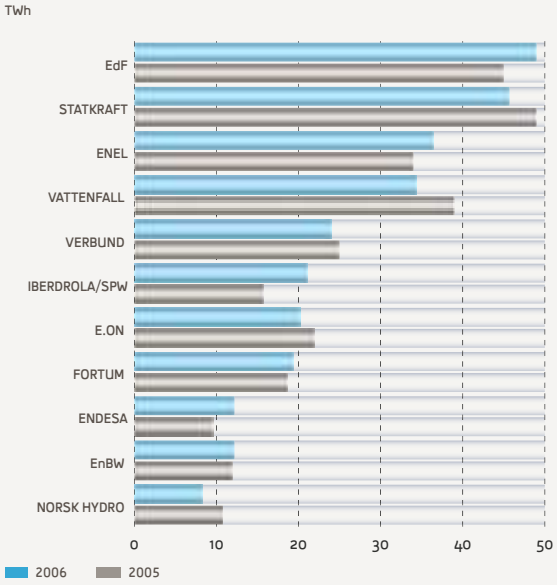
There are currently around 30 different support schemes for renewable energy in Europe. The United Kingdom, Sweden, Belgium, Italy, Poland and Romania have systems based on green certificates, while most other countries employ a type of feed-in tariff scheme. Germany and Spain have set ambitious targets for new renewable energy, and have achieved significant growth by establishing generous support schemes. Together, the two countries currently account for around 70% of all installed wind power output in Europe (EPIA, 2006), while Germany can lay claim to more than 90% of all installed solar power in Europe (EWEA, 2006). The EU's first Renewable Energy Directive established a separate target for the electricity market of generating 21% of all electricity consumption from renewable energy by 2010. The evidence currently available suggests that renewable energy will in fact account for 19% of total electricity generation by 2010.

To achieve the target that has been set for 2020, production of renewable energy will have to double. This could trigger total support scheme requirements of between NOK 200 billion and NOK 300 billion per year. Wind power could account for half of this growth, split relatively evenly between offshore and onshore wind power. Bioenergy (mass, gas, fuel), hydropower and ocean energy are the other three key technology areas expected to drive growth. At the same time significant uncertainty surrounds a range of factors connected to the development of renewable energy on this scale, including further technology development, licence processes, grid connection, competition with other electricity investments and cost development amongst suppliers.

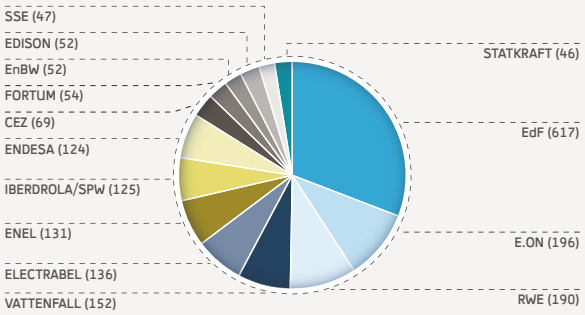
Developments in 2007, when around 8,000 MW of new wind power was installed in Europe, confirm the growth in wind power. In terms of growth, technology for wind power is now second only to gas power technology. If the EU is to achieve its targets, this could result in the development of more than 100,000 MW of wind power in the period leading up to 2020. The major energy companies are now positioning themselves to participate in this growth. The development of offshore

wind power is also dominated by the major energy companies, partly due to the size and scope of the projects and partly due to the associated technological demands. A number of major energy companies have also announced extensive investment plans for renewable energy.

GENERATION OF RENEWABLE ENERGY IN EUROPE



THE LARGEST EUROPEAN POWER PRODUCERS



An internal European market

The trend towards a deregulated and more extensively integrated European electricity market will continue. As of October 2006, 10 of the 27 EU countries were regarded as having fully deregulated electricity markets, while many of the other countries only had open wholesale markets. However, at a national level, the consolidation of players appears to be proceeding relatively slowly. Germany and Denmark stand out in particular due to the very high number of smaller production companies in these countries. In terms of market size, the number of Norwegian production companies is also high compared with other European countries.

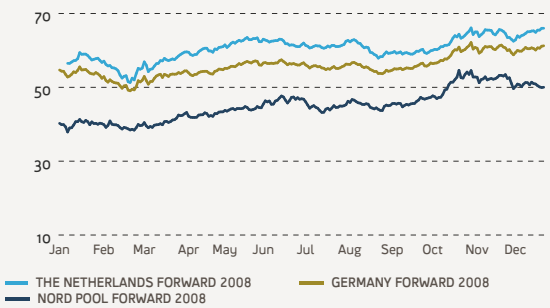
THIRD PACKAGE

In September 2007 the EU Commission announced a series of measures aimed at improving the internal energy market. These measures are generally referred to as the third energy deregulation package because they build on the two previous rounds of legislation for a European internal energy market, which were issued in 1996 and 2003 respectively. The most important measures that were proposed in autumn 2007 were:

- → A clearer unbundling between the transmission system operators 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 the utilisation of infrastructure

These are all measures that will help the internal energy market function more efficiently, even if the strength of the various measures is yet to be clarified. Particular interest surrounds the question of establishing ownership unbundling the transmission system operators and power generators. A series of measures to establish regional power markets, which are similar to those in the Nordic market, have also been taken. These have resulted in developments such as the establishment of a common wholesale market for electricity covering France, Belgium, Luxembourg and The Netherlands. It is expected that Germany will also join this market during 2008. Work to establish a common energy market covering the EU and Balkan countries (Albania, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia and Kosovo) is continuing.

DEVELOPMENT OF EUROPEAN ELECTRICITY PRICES



THE GAS MARKET

The continental European gas market is characterised by major players who have long-term gas contracts with their customers. Although the EU has pursued a goal of deregulating the gas market for a number of years, strong counter-forces have made it difficult for new players to enter the market. However, despite this, the trend over the last year has been positive, particularly in Germany. Two new trading hubs have been opened, and trading systems have been simplified as a result of fewer market areas and simpler transport arrangements. Transmission companies have also been active in establishing larger units that will result in easier market access and increased activity between markets.

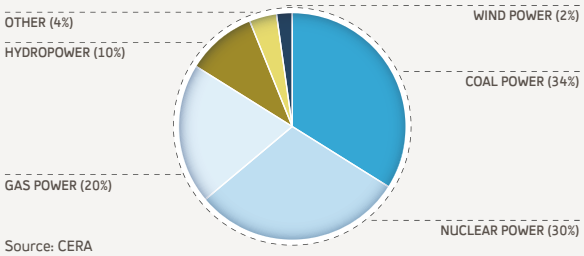
The potential for increased use of gas in Europe mainly centres on growth in gas power. The electricity sector will have to make major investments in the years to come as old power plants are gradually phased out. High gas prices in recent years resulting from oil-indexed

contracts have nonetheless dampened the propensity to invest in new gas-fired power facilities. Gas prices are expected to change to more broadly reflect supply and demand of gas and make investments in gas power more attractive. Oil and coal currently have a significant bearing on price levels and competition between the various technologies on the European electricity market.

MODERATE INCREASE IN CONSUMPTION

Consumption of electricity has levelled out in Norway. Since 2000, general electricity consumption has been relatively stable. In 2007 total consumption in Norway was 126 TWh. Power consumption in the EU has increased by just under 1% per annum during the same period. Electricity used for general consumption, rather than electricity used by industry, has been the main source of growth, even if figures vary significantly between individual countries. In 2006 total electricity consumption in the EU-27 totalled around 2,800 TWh.

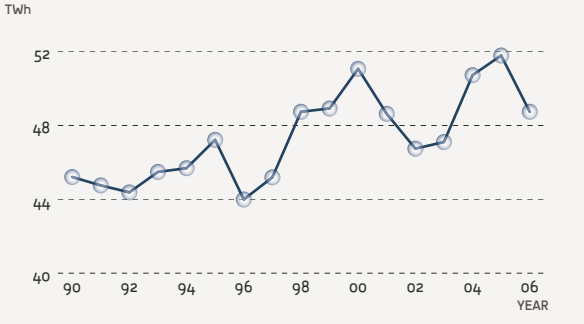
ELECTRICITY PRODUCTION, EU-27, 2006



Source: CERA

Energy costs make up a significant proportion of total costs for large sections of European industry. Electricity prices in the European market have risen, in part due to the establishment of a European market for carbon emission allowances. This has increased attention on the global competitiveness of European industry. At the same time many businesses are experiencing record-high prices in their product markets. Industrial electricity consumption in Norway has increased over the last 15 years, and amounted to around 49 TWh in 2006, which is 3 TWh less than in 2005.

INDUSTRIAL ELECTRICITY CONSUMPTION IN NORWAY



The number of marketplaces for electricity is continuing to grow. In 2007 spot sales on Nord Pool totalled 291 TWh, which accounts for around 75% of Nordic consumption. Financial trading totalled 1,060 TWh, which represents an increase of more than 35% compared with 2006. Settlement services associated with bilateral contracts accounted for a further 1,309 TWh in 2007. Spot market trading on the German power exchange (EEX) increased by nearly 40% in 2007, and totalled 129 TWh. Financial trading experienced moderate growth, rising from 1,044 TWh to 1,150 TWh. Liquidity on the Dutch (APX) and the Austrian (EXAA) power exchange also improved.

REVERSION TO STATE OWNERSHIP IN NORWAY

In June the EFTA Court ruled that the Norwegian model for reversion to state ownership does not comply with the EEA regulatory framework. In August 2007 the Norwegian government issued a provisional instruction that will further restrict the opportunities for private ownership of hydropower facilities, including prohibiting the awarding of hydropower licences to private owners in the future. The extension of existing private licences via reversions to state ownership involving sell-back or lease-back arrangements to the original licensee will also be prohibited. Permission to grant new licences to private players will cease, and it will no longer be possible to re-establish private ownership rights for waterfalls that have reverted to public ownership. When licensed power plants are sold, this will apply to the remaining licence period prior to reversion to state ownership regardless of whether the purchaser is a public or private player. This provisional instruction will be in force for a limited duration and the government is expected to present a proposal concerning this issue to the Storting in spring 2008.

Group strategy

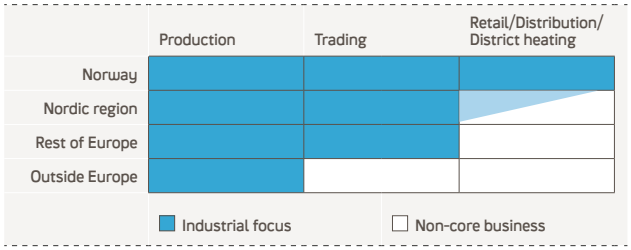
Statkraft has posted good financial results in recent years. This is attributable to a number of factors – including high electricity production, high electricity prices, successful investments, efficient operations, profitable trading operations and competent and motivated staff. The Group has followed a clear strategy, and built up knowledge and organisation in line with this. This has provided Statkraft with a solid platform from which to become a European leader in environment-friendly energy. The Group's advantage in the field of flexible and environment-friendly power generation has become increasingly relevant in the light of global climate challenges.

Strategic priorities

Statkraft will work to:

- → **Increase value creation** within power generation and energy trading by further developing existing expertise and competitive advantages
- → **Invest in profitable power generation** with a focus on environment-friendly production capacity and reinforcing its initiatives within innovation, research and development
- → **Develop the Group's positions** in Norway within retail, distribution and district heating

The figure below provides a simple illustration of Statkraft's strategy based on geography and desired position in the value chain. In Norway Statkraft is active across the whole value chain from development of power and heat production to the sale and distribution of power and heat to retail customers and businesses. Outside Norway the Group adopts a more focused strategy on power production and trading in energy and related products.



Developing environment-friendly power generation in Norway and the rest of Europe

Statkraft wishes to actively contribute to sustainable development in the Norwegian and European energy markets by developing new, profitable and environment-friendly power generation and through trading in energy and emission rights for greenhouse gases.

Statkraft differentiates between what can be called flexible power generation, such as large-scale hydropower and gas power, and new renewable technologies that only provide a limited degree of flexibility. The reason for the differentiation is that there are different value drivers for these groups. Therefore, different business models can be required to drive ambitious growth.

NEW RENEWABLE POWER PRODUCTION

If the EU is to reach its target of a 20% renewable energy share by 2020, the required annual growth in renewable power generation has been estimated at around 50 TWh in the period 2010 to 2020. It is expected that wind power and bioenergy will be responsible for a significant share of this growth. Southeast Europe also offers considerable potential for the construction and modernisation of hydropower plants.

Statkraft has set ambitious targets for the development of wind power and hydropower in selected European countries:

- → In Norway, the Group has a large project portfolio within wind power and the modernisation and expansion of existing hydro-power plants. Profitable development of wind power requires satisfactory framework conditions.
- → Through its subsidiary Småkraft, Statkraft focuses on the development of new small-scale hydropower in Norway.
- → Outside Norway, Statkraft has rights connected to wind power in Sweden and the United Kingdom, and aims to expand the project portfolio. Statkraft entered into an agreement with the Swedish company SCA to supply electricity and develop new power production capacity in Sweden. This agreement will play an important role in the development of the Swedish wind and hydropower project portfolio.
- → In Southeast Europe Statkraft is working to establish a robust portfolio of hydropower projects, either through development and construction or acquisitions.

FLEXIBLE AND ENVIRONMENT-FRIENDLY POWER PRODUCTION

The trend is towards a more integrated European electricity and gas market with well-functioning markets and increased transmission capacity between the various countries. Nordic prices are increasingly being influenced by continental electricity prices, including carbon prices and fuel prices, such as gas and coal. Increased renewable power production from, for example, wind power, will result in a growing need for highly flexible power production capacity.

Statkraft has unique generating assets, which are characterised by high flexibility, high reservoir capacity, low variable costs and long lifetimes. Statkraft's business model has been developed over many years. It aims at realising added value within generation and trading, and reducing risk on the basis of effective analysis, efficient information bases, utilisation of the power plants' inherent flexibility and dynamic hedging. The Group is also active in European energy trading and is one of the largest players on the European power exchanges.

The new gas-fired power plants that entered into operation in Germany in 2007, and the realisation of the letter of intent with E.ON AG concerning the swap and acquisition of assets, will strengthen Statkraft's industrial role and position, particularly in Sweden and Germany. Directly owned and controlled production assets will generate increased value and strengthen the platform for further growth. Statkraft will invest in flexible power in Northwest Europe and position the Group for an increasingly integrated European energy market. Statkraft's expertise in trading will be developed to allow the company to participate in a growing European market for energy and emission rights for greenhouse gases.

Developing the Group's Norwegian positions

In Norway, together with the subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft, Statkraft is well positioned to develop new power production and develop values within district heating, retail and distribution. Statkraft has clear ambitions of making a significant contribution to Norway's targets for district heating expansion. In 2007 Trondheim Energi started operation of the new waste incineration plant at the Heimdal district heating centre in Trondheim. Bioenergy could play an important role in the context of district heating.

The Norwegian electricity market is characterised by a large number of companies that operate within the fields of district heating, retail and distribution, many of which are relatively small. Over time restructuring in the market is expected to result in the establishment of competitive companies with growth potential. The Statkraft Group is well positioned to participate in the further restructuring.

Through the establishment of strong regional environments combined with a more active strategy within district heating, retail and distribution, Statkraft intends to:

- → Improve profitability in existing business by realising competitive advantages and economies of scale within the Group
- → Actively participate in new growth areas in Norway such as district heating
- → Actively participate in the further restructuring within distribution and retail in Norway

Statkraft is also striving to develop its industrial and ownership-related interests in jointly owned Norwegian companies.

Intensifying initiatives within innovation and research and development

Statkraft will step up its initiatives within innovation and new energy technologies in order to strengthen the Group's long-term position as a leader in environment-friendly energy. Statkraft will in particular prioritise research and commercialisation of new technologies within:

- → **Hydropower:** Increased focus in this area shall contribute to increased efficiency and a reduction in the environmental burden of existing facilities, and strengthen Statkraft's international position as a leader in the field of sustainable and efficient hydropower construction.
- → **Other renewable energy:** This includes technology development for offshore wind power, tidal power, wave power and osmotic power. In 2007 Statkraft decided to construct the world's first prototype osmotic power plant. Statkraft will reinforce Norwegian expertise through long-term collaboration with universities and research institutions.

Statkraft also wishes to take up a commercial position within energy recycling and energy efficiency improvements. The Group is currently looking into the energy saving potentials that could be offered by collaborations between Statkraft as energy supplier and our customers. Statkraft has participated in research projects looking at ways of reducing CO_2 and other greenhouse gas emissions and has been a driving force behind the "CO_2-free Svalbard" project. The Group is further developing its strategy and positioning within the CO_2 technology area.

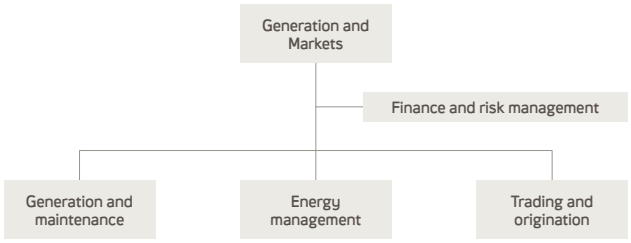
Developing hydropower outside Europe

Production capacity outside Europe is developed through its affiliate SN Power. SN Power has a unique point of departure resulting from the overlap between growing energy requirements and a stronger environmental focus. Both the construction and acquisition of hydropower offer significant international growth potential. The most profitable investments are expected to be realised in countries with stable economic growth and favourable framework conditions, typically in Asia and Latin America. SN Power is experiencing significant growth and invested in acquisitions and constructions in the Philippines, Chile and Peru in 2007. SN Power is also active in Nepal, India and Sri Lanka, while Statkraft has further direct investments in Laos.

The role of global niche player in the areas of hydropower and other renewable energy represents an important growth area for Statkraft. Statkraft wishes to build further on SN Power as a part of its reinforced efforts in selected countries to ensure that these operations play a wider and more prominent role in the Group's future development.

BUSINESS AREA

Generation and Markets



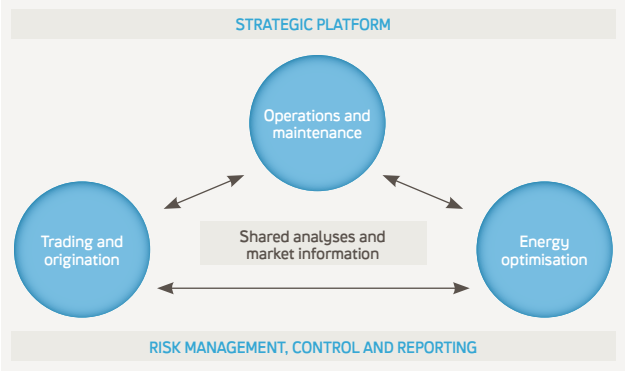
The Generation and Markets business area engages in extensive power production and trading operations in Europe. The physical power portfolio comprises 107 wholly and partly owned hydropower plants in the Nordic region and three gas-fired power plants – one in Norway and two in Germany. The business area has operational responsibility for 81 hydropower plants and the wholly owned gas-fired power plant at Knapsack in Germany. In addition to its own physical power production, the Group engages in extensive trade in standardised and structured power contracts, gas, coal, oil and CO2, and also provides customised energy solutions for the industrial sector and commerce. These operations are run from offices in Oslo, Trondheim, Stockholm, Düsseldorf, Amsterdam and Sofia. Statkraft also controls 2/3 of the undersea cable between Sweden and Germany, with a capacity of 600 MW, through the company Baltic Cable AB.

The business area's Norwegian power plants are operated and maintained from four regional centres and eleven power plant groups. Swedish and Finnish operations are run locally but controlled from Narvik in Norway. The German power plant is run locally. The business area is managed from the company head office in Oslo, while power optimisation is performed through a close working relationship between the departments in Oslo and Trondheim and the regional Norwegian centres in Narvik, Gaupne, Sauda and Dalen. The primary activities for continental market operations are centred in Düsseldorf.

Strategy and business concept

The business area primarily focuses on making the right market decisions and achieving cost-efficient operations, realising economies of scale through the integration of new hydropower plants, and the introduction of gas power as a new production technology for Statkraft in the Nordic region and Germany.

Long-term value creation is secured by means of a proven business concept based on three main focus areas: operations and maintenance, energy optimisation and trading in structured energy products. The business concept leverages the flexibility offered by the Group's production assets. Dynamic trading in power derivatives based on own analyses and production capacity open up numerous business opportunities in a volatile market, and thus present opportunities to generate revenues over and above pure production and spot trading. Energy optimisation and maintenance are closely integrated so as to protect mutual dependencies, accommodate changing market conditions and exploit the flexibility of the production system. The business concept secures consistent risk management through clear authority levels, reporting lines and allocation of responsibility.



The production apparatus is maintained and updated on an ongoing basis. Facilities are further developed by means of modernisation and expansion where this is financially, environmentally and technically feasible. The business area works constantly to develop its critical business systems and expertise, and to secure a good, safe working environment.

Important events

As of 1 January 2007, the business area took over Trondheim Energi's activities in the fields of energy optimisation, hedging, trading, and the associated support functions. Trondheim Energi owns and maintains the power plants. The transfer of business is in line with the Group's strategy of bundling responsibility for all energy optimisation and hedging.

Svartisen Power Plant came online again on 9 March 2007 following repairs to stator damage. The 350 MW generator unit will be run with a 300 MW technical restriction until the new stator enters test production in July 2008. As a result of this restriction, water loss is expected until the end of 2008. The decision has been taken to invest in an extra generator unit for Svartisen Power Plant, which is expected to be ready for operation before the end of 2010.

During the third quarter, Statkraft entered into a number of agreements with the Swedish company SCA. The main elements of these agreements

relate to long-term power supplies, joint expansion of wind power and studies of the potential for hydropower plants on SCA's sites in Sweden. For the Generation and Markets business area, this will mean supplying 500 GWh of power a year to Ortvikens Pappersbruk under a 10-year agreement starting in 2009, along with a long-term process intended to secure the development of new hydropower in accordance with applicable environmental requirements. The potential for hydropower is estimated at 630 GWh per annum.

Statkraft's three gas-fired power plants were officially opened in the fourth quarter of 2007, although the Knapsack plant was not officially taken over until 16 January 2008. During the past year, the business area built up expertise and established systems for the optimal operation of the gas-fired power plants and the associated trading activities involving electricity, gas, coal, oil and CO_2. The first physical transactions linked to the purchase of gas and the sale of power were recorded in the financial statements in the third and fourth quarters.

In the fourth quarter, Statkraft signed a letter of intent with E.ON AG to swap shares in E.ON Sverige AB for shares and assets in E.ON AG. When implemented, the business area will take over a number of hydropower plants in Sweden, hydropower and gas-fired power plants in Germany and three hydropower plants in the United Kingdom. This would result in a significant increase in production capacity, and also raise installed capacity by around 2,000 MW.

Operations in Southeast Europe are constantly expanding, and in 2007 the business unit was granted licences to trade in Serbia and Romania.

Operation of the power plants

Hydropower output in 2007 amounted to 33.4 TWh, which is 4 TWh less than in the previous year. Production was relatively low despite high inflow, partly on account of low levels in the reservoirs at the start of the year, and partly due to the need to save water for subsequent periods. Gas power production totalled 1.5 TWh.

The business area achieved a utility-adjusted downtime (halt in production expected to result in loss of revenue) of 2.9% in 2007. This is 0.1 percentage points better than the target for the year. The breakdown at Svartisen Power Plant and the resulting restrictions on operations this entailed resulted in high utility-adjusted downtime also in 2007.

HSE has high priority in the business area. The HSE goal of zero lost-time injuries was not achieved in 2007. A total of nine lost-time injuries were recorded among the company's own employees, which translates into an H1 figure of 5.6 for 2007.

Sustainability

With responsibility for power production and trading, Generation and Markets plays a key role in the Group's sustainable value creation. Systematic environmental management is integrated in operations, and includes features such as an efficient system for recording and following up environmental non-compliances and incidents. The most commonly occurring incidents are breaches of water flow regulations (water flow and water levels) and discharges of oil and gas. One serious environmental non-compliance was registered in 2007, along with 22 less serious incidents. The less serious non-compliances were breaches of internal or external requirements which did not cause any damage to the environment. In the case of the serious non-compliance, which involved the discharge of 2,000 litres of hydraulic oil in Finland, the local pollution authorities concluded that the discharge did not result in any recorded damage to fish, birds or animals. In 2007, Statkraft accepted a fine imposed by the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) for the environmental non-compliance at Trollheim power station in August 2005.

Some watercourse areas are particularly vulnerable in relation to sudden changes in water flow, polluting discharges or other undesirable incidents that may be caused by the generation of hydropower. For this reason, sensitivity assessments were performed in 2007 on all watercourses where Statkraft is the water flow regulator. Detailed risk assessments and risk-reduction initiatives are performed for the most sensitive areas.

The summer of 2007 was characterised by heavy precipitation in eastern Norway which resulted in floods and flood damage in some areas. The situation was worst along the Numedal and Telemark watercourses. Maximum use was made of the regulation reservoirs' flood-controlling effect, and Statkraft's expertise in hydrology and local production conditions was placed at the disposal of the emergency response authorities.

Future prospects

The business area is well positioned for 2008. Market prices are relatively high and reservoir levels are good. Some uncertainty attaches to the allocation of carbon quotas for the gas-fired power plant at Kårstø after 2008, with Naturkraft having been granted quotas for 85% of theoretical full uptime. When implemented, the letter of intent with E.ON will see significant growth in the number of plants operated, total production capacity, potential trading volumes and staffing levels. The successful take-over of new employees and new assets will demand significant attention and resources in both 2008 and 2009. From an overall perspective, the prospects for the coming year are good for all parts of the business area.

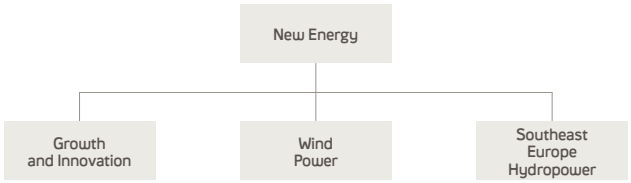
SUSTAINABILITY KEY FIGURES, GENERATION AND MARKETS

	UNIT OF MEASUREMENT	2007	2006	2005
Utility-adjusted non-availability *	%	**2.9**	3.9	1.2
Hydropower production, annual mean from generators	TWh	**33.2**	33.3	33.3
Hydro- and gas power production, volume sold	TWh	**34.9**	37.4	39.3
– Of which statutory-priced and concessionary sales	TWh	**12.9**	15	16
Installed capacity (hydro- and gas power)	MW	**9 668**	8 626	8 638
Hydro- and gas-fired power plants – wholly and partly owned	Number	**110**	104	104
– Of which operated by the business area	Number	**82**	78	78
PERSONNEL AND HSE				
Full-time job equivalents – Norway	Number	**695**	648	621
Full-time job equivalents – abroad	Number	**134**	112	76
Sickness absence rate	%	**3.1**	3.6	3.2
H1 (lost-time injuries)		**5.6**	8.3	6.4
Serious environmental non-compliances	Number	**1**	0	1

* Only applies to Statkraft Energi AS

BUSINESS AREA

New Energy



The New Energy business area develops and constructs new, profitable and environment-friendly production capacity in Norway and Europe. The business area also focuses on technological and business development that contributes to the energy solutions of the future.

Activity levels in the New Energy business area have increased considerably since its establishment in 2005. The area of responsibility comprises business development and project implementation of hydropower, wind power and gas power projects. Small-scale hydropower projects in Norway are developed through ownership of Småkraft, while large-scale hydropower projects outside Europe are developed through ownership of SN Power. New Energy also has responsibility for the Group's focus on technology development and innovation.

Strategy and business concept

With its advantages and many years of experience as a generator and market player in Norway, Statkraft has a good base from which to maintain and further develop its position as leading within renewable and environment-friendly energy in Europe. In recent years, Statkraft has stepped up its focus on business and project development in Norway and the rest of Europe in line with the Group's vision of being the leading player in environment-friendly energy in Europe. This has resulted in an increase in the total project portfolio, along with investment initiatives and development of several projects in the fields of hydro, wind and gas power.

In the field of wind power, insufficient licences, distribution grid restrictions and an inadequate support scheme in Norway have all contributed to a shift of focus towards project development outside Norway where framework conditions are more favourable. Project development in Sweden and the United Kingdom is principally performed in collaboration with local partners.

Increased hydropower generation in Norway will be achieved through Småkraft, as well as through other small new projects in the Group's own watercourses, and by upgrading and extending existing facilities.

Greater focus on technological development and innovation will support the Group's increased investment in environment-friendly and renewable energy, including within technology areas that are not currently commercially viable.

The establishment of the Group's own representation and project offices in Belgrade, Bucharest and Tirana will contribute to a significant increase in activities in Southeast Europe.

Statkraft's development of new production capacity outside Europe is run through SN Power. SN Power is owned jointly and equally by Statkraft and Norfund. The object of this company is to invest in, own and operate hydropower plants in new growth markets. SN Power currently operates hydropower plants in Peru, Nepal, India, the Philippines and Sri Lanka, and is constructing hydropower plants in Chile and India.

Important events

A number of construction projects were completed in 2007, including the Pålsbu hydropower plant. All three gas-fired power plants that had been under construction since 2005 were also completed. At the start of December, Naturkraft, in which Statkraft owns a 50% shareholding, took over Norway's first commercial gas-fired power plant at Kårstø. Statkraft's wholly owned gas-fired power plant in Knapsack, Germany, has been operating commercially since November 2007 and was officially taken over in January 2008. Herdecke gas-fired power plant, in which Statkraft owns a 50% shareholding, was handed over in October. All three of these plants were constructed by Siemens and the construction work was completed well within budget.

In August, the Swedish company SCA and Statkraft entered into an agreement to develop 2.8 TWh of wind power and 0.6 TWh of hydropower on SCA's sites in Sweden. Statkraft was granted its first wind power licence in the United Kingdom in March 2007. The project has a capacity of 20–30 MW, and is jointly owned with the American company Catamount.

In autumn 2007, Statkraft also positioned itself for the construction of solar power facilities in Italy and Spain.

In 2007, Statkraft expanded its framework for investments in technological development, R&D and innovation. The Group aims to become a European leader in renewable and environment-friendly energy, and thus attract both ideas and concepts within this professional field. In December, Statkraft entered into a collaboration agreement with the Norwegian University of Science and Technology, Uppsala University in Sweden and the Technical University of Denmark centred on an extensive R&D programme within ocean energy. Statkraft will invest a sum in the region of NOK 80 million over the next four years in connection with the programme.

In October, Statkraft decided to build the world's first prototype osmotic power plant. The principle behind a power plant of this kind is osmosis, and the input factors are sea water and fresh water,

which are separated by a membrane. This produces a difference in pressure, which is utilised to generate power. The global technical potential for osmotic power generation is estimated at approximately 1,600 TWh.

Together with its local partner, SN Power took over the 360 MW Magat hydropower plant in the Philippines in April. At the turn of the year, the company and the same partner entered into an agreement to take over the Binga and Ambuklao hydropower plants. In October SN Power purchased all the shares in the Peruvian company Electroandes, which has four hydropower plants with a total capacity of 180 MW.

Operations

The wind power plants at Smøla, Hitra and Kjøllefjord in Norway generated 679 GWh of power in 2007, which corresponds to the annual consumption of around 34,000 Norwegian households. This represents an increase of 180 GWh compared with 2006, primarily due to the fact that the Kjøllefjord plant was in operation for the whole of 2007, as opposed to just two months in 2006. In addition, wind conditions in the northwest part of Norway in 2007 were appreciably better than in the previous year.

In the field of wind power in Norway, Statkraft is working to develop a number of major wind farms, and several licence applications are currently awaiting decisions from the authorities. If all these applications are approved, the licences could result in around 1 TWh of new generation capacity for Statkraft.

At the turn of the year, the expansion of Trondheim Energi's Leirfossene Power Plant (43 GWh) was Statkraft's only major ongoing power plant construction project. The project is scheduled for completion in autumn 2008. In addition to this, Statkraft has decided to install a new aggregate at the Svartisen facility.

During 2007, decisions were taken to invest in eight new power plants within Småkraft. The combined estimated production of these plants is 115 GWh. Småkraft is currently operating seven power plants, and is constructing an additional 11. Moreover, licences for 81 power plants have been submitted to the Norwegian Water Resources and Energy Directorate (NVE) for approval, and the rate of expansion within the company is now defined by NVE's processing capacity. In total, Småkraft has entered into waterfall rights agreements for 1.9 TWh. Furthermore, a significant number of hydropower licence applications from Statkraft are currently being decided upon by the authorities.

Sustainability

As part of its work in the field of project development and implementation, the Statkraft Group attaches importance to making a constructive contribution to the local communities where the company is present, and always weighs different considerations against each other in order to ensure sustainability in decisions, processes and solutions.

HSE requirements are clearly established in supplier contracts for construction projects, and followed up during the actual construction phase. In non-consolidated SN Power companies there were five fatalities in 2007 and three in January 2008. This is an unacceptable situation. The business area will be following up the safety performance in activities and with partners through the board of directors of SN Power.

Statkraft's ambition is to support technological development with the potential to reduce the environmental impact of existing technologies, and to promote new, renewable and environment-friendly solutions. For example, Statkraft has participated in a number of projects centred on carbon capture and storage.

Work has been started on defining areas in which Statkraft can profitably contribute to improving the energy efficiency of its own activities, as well as at industrial customers and in the end-user market.

Future prospects

Statkraft's strategy for wind power involves an increased focus on offshore wind power, with the aim of becoming a leading player in this field. Geographically, the activities in this area will be focused on areas around the North Sea, with the intention of securing rights and participation in projects across the entire value chain and actively contributing to technological development and collaboration with other players. The portfolio of onshore projects will be further developed, and focus on the Nordic region and the United Kingdom, where Statkraft is already established.

Statkraft will increase the focus on hydropower development in Southeast Europe. Increased local presence through the establishment of several project and representation offices in the region in 2007, will strengthen the ability to further develop a profitable project portfolio.

A separate results unit will be established in 2008 for growth and technology, which will comprise R&D/technological development, as well as potential growth areas that are too small and undeveloped to be set up as separate results units. The Group's initiatives in the field of commercialisation and ventures will also be located here.

SN Power is expected to maintain high levels of activity in 2008, while clarification of the owner situation with Norfund is also expected.

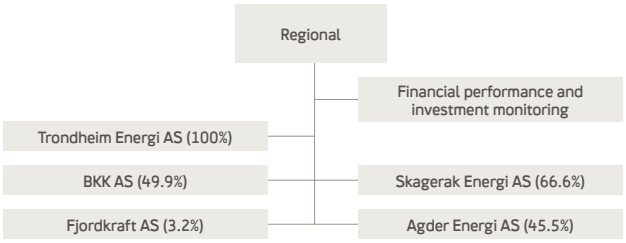
The Norwegian national budget for 2008 contained proposals for new protection tax rates, lower threshold values and an increased tax rate for resource rent taxation of hydropower plants. If these are approved, this is likely to result in the construction of less hydropower capacity in Norway, as a reduction in the investors' share of the project values will reduce their propensity to invest in this market. Resource rent tax will apply to new small power plants from 2008 onwards. However, parts of Småkraft's portfolio will be exempt from this tax due to the fact that licence applications for the projects were filed before 5 October 2007.

SUSTAINABILITY KEY FIGURES, NEW ENERGY

	UNIT OF MEASUREMENT	2007	2006	2005
Availability	%	**97.9**	98.4	98.0
Production	TWh	**0.7**	0.5	0.4
Installed capacity	MW	**245**	245	206
Wind turbines	Number	**109**	109	92
PERSONELL AND HSE				
Full-time job equivalents – Norway	Number	**61**	46	29
Full-time job equivalents – abroad	Number	**7**	6	-
Sickness absence rate	%	**1.1**	1.2	1.3
H1 (lost-time injuries)		**9.3**	0	0
Serious environmental non-compliances	Number	**0**	0	0

BUSINESS AREA

Regional



The Regional business area works to develop the values and ownership in the subsidiaries Trondheim Energi, Skagerak Energi and Fjordkraft, as well as in the associated companies Agder Energi and BKK. Within the Statkraft Group, business models are now being developed to support the goal of profitable growth in the areas of distribution, power sales and district heating. Active work is being performed to increase project capture in the field of district heating, and to expand new hydropower generation.

Strategy and business concept

Companies in the Regional business area are involved in the generation and distribution of electricity, district heating and the sale of power to private customers and businesses.

Statkraft has a long-term perspective to developing ownership in the regional companies, and evaluates different structures and processes that can support the establishment of the most appropriate Group structure based on the expertise and advantages of the individual regional companies.

Statkraft aims at developing more power production. The wholly owned subsidiary Trondheim Energi is constructing a new power plant at the Leirfossene site on the Nidelven river. The new plant will replace the old Øvre and Nedre Leirfoss facilities, and will have a mean production of 193 GWh, of which 43 GWh will be new power. Commissioning is scheduled for the third quarter of 2008. Skagerak Energi has applied for a licence to construct a gas-fired power plant with CO_2 cleaning facilities in the Grenland region.

Statkraft focuses on making the best possible use of the Group's overall expertise, and is actively developing its activities and tasks connected with its subsidiaries. The analysis group in Trondheim has been reinforced and given a key role in relation to the Group's energy optimisation. The research and innovation environment in Trondheim has also been accorded key assignments, including tasks associated with following up a major R&D programme for ocean energy. With regards to Skagerak Energi, actions have been made to coordinate the operations of jointly owned power plants.

Organisation of the business area

The business area exercises industrial ownership, where the objective is to develop and improve the efficiency of all stages of the value chain in order to meet customers' needs in the best possible manner. In 2007, the organisation of the business areas was analysed with a view to identifying the most competitive business models possible.

Within the existing legal structure, the Group's distribution grid operations shall be organised in accordance with a business model that incorporates clear and reinforced coordination between Skagerak Nett and Trondheim Energi Nett. With these companies, the Group will then participate in the expected consolidation of the sector.

Major emphasis is placed on continuing work relating to the professionalisation of all parts of the business. Support functions in the fields of measurement, settlement, invoicing and collection will be organised in accordance with a national business model through the merger of the Skagerak Energi company Nota and the Trondheim Energi company Enita.

In the field of district heating, the goal of the Group is to realise a significant share of the growth potential in Norway, including outside the regional companies' geographical core markets. Both Trondheim Energi and Skagerak Energi have established significant project portfolios. Statkraft will establish a district heating company, and thereby pool expertise and capital, in order to improve the opportunities for identifying and realising profitable projects. This will also result in better opportunities to optimise production, operation and maintenance. At the same time, the company will appear a more attractive choice for potential customers and partners.

Joint initiatives in the area of district heating within the Statkraft Group will be based on the organisation of Trondheim Energi Fjernvarme. The business model will be national and be able to accommodate shared ownership with regional players and ownership of district heating abroad. The Group will endeavour to achieve these growth ambitions through working relationships with local players who already have, or may be granted, licences for district heating operations.

The power sale business benefits from significant economies of scale and should therefore be organised according to a national business model. Statkraft has therefore taken initiatives to merge the subsidiaries Fjordkraft and Trondheim Energi Kraftsalg. A merger of this kind would significantly strengthen competitiveness and profitability.

Important events

The new incineration plant at Heimdal district heating centre and a new district heating pipeline from Heimdal to Midtbyen were officially opened on 27 September 2007. The new facility has an installed capacity of 40 MW and will increase waste-incineration by up to 120,000 tonnes per year. Total district heating generation today is in excess of 500 GWh and covers around 1/3 of the heating requirements in Trondheim. In 2008, with the new facility operating, Heimdal district heating centre will incinerate around 175,000 tonnes of waste, bringing the proportion of waste-generated energy

up to around 70%. In order to increase the transmission capacity of district heating, 12 km of pipes have been laid to the centre of Trondheim. In total, Trondheim Energi has 155 km of district heating pipes.

In the first half of 2007 Trondheim Energi Nett took initiatives to merge grid companies in central Norway by submitting an offer for the distribution activities of TrønderEnergi, Malvik Everk and Orkdal Energi. Based on Trondheim Energi Nett's leading expertise in efficient operation and management, a merger of this kind would lay the foundations for significant improvements in efficiency and, as a result, lower grid fees. The process has taken longer than expected, and it is currently unclear whether there is a basis for continuing negotiations.

Realisation of the letter of intent with E.ON AG regarding the swap and acquisition of assets will result in Statkraft taking over district heating facilities in Sweden. These facilities will be coordinated with the Group's other district heating activities. Plans to expand district heating in several towns and cities in Vestfold and Telemark counties were also operationalised in 2007, as illustrated by a number of measures including the establishment of the subsidiary Skien Fjernvarme by Skagerak Energi in collaboration with local players.

Operations

In overall terms, all the companies in this business area achieved stable operations and production in 2007.

Having completed a comprehensive restructuring project, Skagerak Nett made significant progress in 2007. The project resulted in workforce reductions, the preparation of a new reinvestment strategy, and improvements in the efficiency of work processes. The company is well positioned to reap additional benefits from this work in the years to come. Trondheim Energi Nett has maintained efficient distribution operations for a long time. As a result, the residents of Trondheim enjoy some of the lowest grid fees in Norway. Significant synergy effects have been leveraged through the coordination of power production between Statkraft and Trondheim Energi Produksjon.

Sustainability

The new incineration plant at Heimdal district heating centre in Trondheim is a good example of sustainable industrial development. The plant will more than double the capacity for waste incineration and ensure responsible and environment-friendly utilisation of waste from households and businesses between Dovre in the south and Saltfjellet in the north. Significant emphasis is attached to minimising environmental impact and ensuring good energy utilisation in choosing the plant's technical solutions.

Fjordkraft and Trondheim Energi Kraftsalg have introduced a number of products for businesses and private companies that wish to contribute to sustainable development with reduced climatic impact. These companies offer power that is guaranteed to be 100% produced from hydropower. Another product offering involves fixed prices with a right of return. Under this scheme, customers are given good financial incentives to save energy during peak price periods by making any surplus power available to the market. This reduces the need to import power produced from more polluting sources. The companies also offer UN-approved climate quotas to companies, events and private customers who wish to make their activities climate neutral in relation to emissions of CO_2.

Future prospects

The business area is working to implement the described changes in the Group structure in the first half of 2008, and is well positioned for future growth.

KEY FIGURES, REGIONAL *

		UNIT OF MEASUREMENT	TRONDHEIM ENERGI	SKAGERAK ENERGI	FJORDKRAFT	BKK	AGDER ENERGI
FROM THE INCOME STATEMENT	Gross operating revenues	NOK mill.	2 304	2 209	2 758	3 818	5 145
	EBITDA	NOK mill.	983	1 260	154	2 067	1 684
	Operating profit/EBIT	NOK mill.	745	852	140	1 556	1 299
FROM THE BALANCE SHEET	Property, plant & equipment & intangible assets	NOK mill.	5 844	9 061	75	10 088	11 099
	Investments in associates	NOK mill.	300	236	2	3 705	108
	Other assets	NOK mill.	798	986	1 178	1 912	1 846
	Assets	NOK mill.	6 942	10 283	1 255	15 704	13 053
UPSTREAM BUSINESS	Production cost/MWh [14]	NOK/MWh	76	84	-	65	71
	Production, annual mean	TWh	3.2	5.2	-	6.7	7.2
	Production, actual	TWh	3.5	5.7	-	8.4	7.8
	Installed capacity	MW	776	1 310	-	1 682	1 749
	Reservoir capacity	TWh	1.9	3.9	-	3.2	5.1
DOWNSTREAM BUSINESS	Number of distribution grid customers	1000	94	177	-	175	163
	Energy supplied	MW	2 681	6 421	-	7 911	3 679
	Distribution grid capital (NVE-capital) [15]	NOK mill.	857	2 800	-	2 849	2 427
	Return on NVE-capital	%	14.7	10.4	-	6.4	7.0
	Number of end-user customers	1000	81	-	320	-	185
	Total volume supplied	TWh	2.2	-	9.6	-	5.5
	Volume of district heating energy sold	GWh	444	23	-	147	64
	Installed capacity district heating	MW	297	30	-	-	105
PERSONNEL AND HSE	Full-time job equivalents	Number	340	746	107	1 005	1 131
	Sickness absence rate	%	5.3	4.2	3.8	5.4	5.0
	H1 (lost-time injuries)		10.9	5.9	0	9.3	4.8
	Serious environmental non-compliances	Number	0	0	0	0	1

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

The Group's management system

In autumn 2007 the Statkraft Group introduced a new management system that describes the way in which the Group manages its activities and the internal frameworks within which employees shall act in their daily work. The management system brings together all the governing documents, from the Articles of Association to the various descriptions of processes, procedures and projects. The management system provides an important basis for risk management, internal control procedures and improvement work.

Purpose of the management system

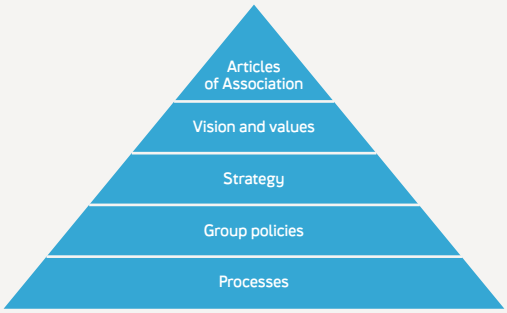
The management system shall help:

1. Simplify and standardise Group-internal frameworks at Statkraft, and make these easily accessible for the Group's employees
2. Create results through efficient management and continuous improvement at all levels
3. Ensure compliance with internal and external requirements

By establishing an appropriate structure of governing documents, the Group has provided a basis for a culture that secures quality and efficiency in daily operations, as well as in reporting to the company's management, the board of directors and capital markets. The management system incorporates the old quality system, and ensures a complete and uniform overview of frameworks, processes and governing documents.

Document and decision-making hierarchy

The management system is a decision-making hierarchy split into five levels in accordance with the figure below.



ARTICLES OF ASSOCIATION

Statkraft's activities are laid down in the Articles of Association, and all the Group's activities shall be pursued within the framework of these regulations. The Articles of Association are adopted by the owner.

VISION AND VALUES

Statkraft's vision is "to be a European leader in environment-friendly energy", and communicates the direction in which the Group is moving. Statkraft's core values, "competence, responsibility and innovation", govern the company's actions as a business and provide guidelines for employees' behaviour and attitudes. The business principles serve as a guide for the company's overarching decision-making processes, and are guiding for the execution of activities. The principles cover sustainable value creation, ethical business operation, a safe and healthy business culture and continuous improvement. The Group policy for corporate governance clarifies the relationships between the owner, board and general management. All documents at this level are adopted by the board.

STRATEGY

The Statkraft Group's strategy is communicated to employees through the Strategic platform. The document conveys the main features of the strategy and serves as a reference document containing guidelines for commercial decisions in the strategy period. The strategy is adopted by the board.

GROUP POLICIES

The Group policies state the intention and direction for all underlying activities and provide a guide that employees shall follow in their daily work. The Group policies shall be consistent with Statkraft's Articles of Association, vision and values and strategy. The Group policies are adopted by the President and CEO.

The four highest levels of the management system apply to all employees in the Group. All employees are responsible for familiarising themselves with the documents at these levels, and shall comply with the relevant requirements in their daily work.

PROCESSES

The governing documents for all management, core and support processes are contained in the process models. Process-level documents shall be prepared in accordance with the Group policies. Employees shall comply with the relevant governing documents in implementing their work processes. Statkraft will map the processes in the management system until the end of 2009.

Corporate governance

Statkraft's policy for corporate governance outlines the framework of the governing policies and procedures that clarify the relationship between the company's 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 Code of Practice for Corporate Governance. Non-compliances are attributable to the fact that Statkraft is not a publicly listed company and that the state is the sole owner of the company, and restrictions contained in the Articles of Association. Non-compliances relate to non-discrimination of shareholders, tradability of shares, payment of dividend, the annual general meeting and nomination committee.

All shares in Statkraft AS are owned by the state-owned enterprise Statkraft SF which is in turn owned by the Norwegian Ministry of Trade and Industry. When Statkraft SF meets at the general meeting of Statkraft AS, all issues must have previously been presented to Statkraft SF's corporate meeting. The current Norwegian 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 State Ownership, the government expounds the principles for the management of state shareholdings.

THE BOARD OF DIRECTORS AND BOARD COMMITTEES

The board of Statkraft AS is identical to that of Statkraft SF and has nine members. The owner 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 concerning the President and CEO's terms and conditions, as well as on matters of principle relating to senior management salary levels, incentive schemes, 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 external auditor in connection with the publication of each quarterly report and otherwise as required.

GROUP MANAGEMENT

The board appoints the President and CEO, who is the chief executive of both Statkraft SF and Statkraft AS, and has established instructions for the CEO's work tasks and obligations. 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

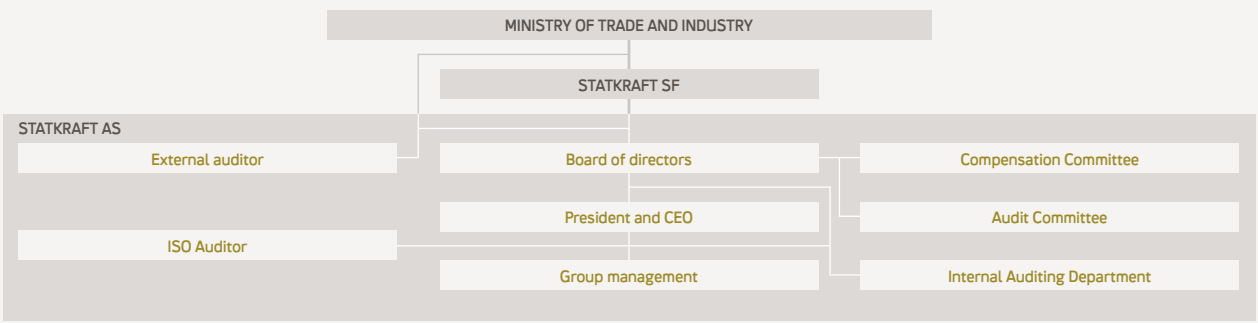
Internal auditing assists the board and management by providing an independent and impartial assessment of the Group's risk management and control mechanisms. It also contributes to the continuous improvement of internal management and control systems. The board approves the Group guidelines for the company's internal auditing 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.

The annual general meeting appoints an external auditor to be responsible for auditing the financial statements of the parent company and the Group. Where practical and where Statkraft is able to so determine, the same auditing company is used for all subsidiaries. In the case of associated companies, the auditor is appointed in agreement with the other shareholders. The board meets with the auditor when the annual financial statements are reviewed and where 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.

REPORTING OF UNETHICAL OR ILLEGAL MATTERS

The head of the internal auditing department performs the function of adviser on ethical issues and notification body for unethical or illegal matters. All communication is treated in confidence unless such communication involves matters of criminal liability, and no sanctions shall be taken against the reporting of undesired events.

CORPORATE GOVERNANCE



Risk management and internal control

Managing risk is important for value creation and is an integral part of the company's overall management model. Statkraft is exposed to risk in a number of areas and across its entire value chain. The key risk factors are connected to market operations, financial management, operating activities and framework conditions. Internal control is a key factor in risk management that helps secure quality and control.

Risk management

Risk management is an integral part of all business activities for Statkraft, 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 incorporated in reporting to Group management and the board of directors. A risk committee has been established to ensure a risk-related overview and improve coordination across the Group. Risk mapping was performed with the participation of all business units and Group staff functions in connection with the updating of the Strategic platform in 2006, and risk maps are subject to regular updates and follow-up.

MARKET RISK IN THE ENERGY MARKETS

Statkraft is exposed to significant market risk in connection with generation and trading of power. Both electricity prices and production volume are impacted by weather and precipitation volumes, while electricity prices depend on production, consumption and transmission conditions in the electricity market. Electricity prices are further indirectly influenced by gas, coal and oil prices and carbon quota prices. Gas power production is also directly exposed to gas, oil and carbon. Statkraft manages market risk in the energy markets by trading physical and financial instruments in several markets. However, significant emphasis is placed on the interrelationship between the various markets. Hedging strategies are regulated by limits on the positions' volume and value, and by specific criteria for evaluating the respective new 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 holds trading and origination portfolios where the taking of risks is regulated by mandates. The trading portfolio comprises limited, short-term positions within financial power derivatives. The origination portfolio comprises customised, bilateral contracts for customers with special requirements, where the agreements are hedged as far as possible using standard financial contracts.

End-user activities are exposed to uncertainty with regards to sales prices to retail customers and purchase prices on the wholesale market. However, net exposure is limited as far as possible by securing a balance between exposure to customers and purchases on the wholesale market, and via financial instruments. District heating operations are also exposed to market risk through uncertain fuel prices (including waste, oil, gas, electricity prices and others) and prices to customers. However, the fact that prices to customers are linked to fuel prices means that net exposure to price changes is limited.

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 and distribution grid revenues. The Group is also exposed to foreign exchange risk resulting from the integration between the Nordic and continental power markets, the Group's power trading in euro, financing and other cash flows associated with foreign subsidiaries and associated companies. Foreign exchange and interest rate risk are regulated through mandates. Forward currency contracts, interest rate swaps and forward interest rate agreements are the most important instruments used. 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 primarily 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 relating to the issued mandates, are followed up by independent middle office functions, and are reported regularly to Group management and the board.

OPERATIONAL RISK

All processes in the value chain are exposed to operational risk. The most important risks relate to damage and 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 cover has been arranged for all material types of damage or injury, partly through the Group's own insurance company Statkraft Forsikring AS.

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

The threats to the company's security are also regularly mapped at group level as a basis for preparing contingency plans and risk-reducing contingency measures. The possible financial consequences of the operational risk are assessed and included in reporting of the total risk at Group level.

OTHER RISK

Changes in the regulatory framework and political decisions affect the Group's room to manoeuvre 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.

Climate changes represent both threats and opportunities, and are of significance for all the risks described above. The establishment of new markets for carbon quotas has already impacted the energy markets, while significant changes in temperatures and precipitation levels will have consequences for both electricity prices and production. Climate changes can also have a bearing on operational risk, for example in that more flooding and bad weather could result in increased damage and wear to plant, as well as have consequences for employees and third parties. Climate risk is also an important driver of changes in framework conditions and political decisions. Statkraft devotes significant time to identify the threats and opportunities that climate changes could involve for its own and others' activities, and is therefore following developments closely. Potential consequences are managed as part of integrated risk management procedures within each of the areas described above.

Internal control

Statkraft employs a series of targeted initiatives intended to strengthen internal controls within the Group. Autumn 2006 saw the start of a two-part project intended to realise the improvement potential connected with the quality and efficiency of financial reporting. The project is based on the COSO model for risk management and internal control.

The first part of the project focused on establishing an efficient control environment in the Group. This resulted in a simplification, improved accessability, standardisation and improvement in the quality of Statkraft's governing documents, and the establishment of an appropriate structure and hierarchy for these in a new management system. The new management system was launched in autumn 2007.

The second part of the project started in autumn 2007. This part is intended to further develop an internal control system in the Statkraft Group that helps reduce the risk of material errors in financial reporting to an acceptable level. The project is due to be completed by the end of 2009.

ISO CERTIFICATION

Statkraft's quality control and environmental management systems are certified in accordance with the ISO 9001:2000 quality standard and the ISO 14001:2004 environmental standard. Internal audits are conducted according to an annual rolling plan, and external follow-up audits are conducted in accordance with the relevant standards. These audits are coordinated by Statkraft's internal auditing function. Group management performs an annual review in accordance with ISO standards, which also includes a risk assessment.

OVERARCHING RISK FACTORS		
	Regulatory framework and political decisions	
	→ Taxes and competition legislation	→ Regulations covering reversion to state ownership and framework for industrial power
	→ Support schemes	
	→ EU and EEA regulatory framework	→ Licences
	→ Instructions from the regulatory authorities	→ Establishment of the company's dividend
	Financial risk	
	→ Interest rate and currency risk	→ Counterparty risk through investment of surplus liquidity
	→ Liquidity risk	

RISK IN THE VALUE CHAIN	Development and construction	Production	Energy optimisation and trading	Distribution/ retail customers
Market risk			→ Hydrology → Power prices, fuel prices, carbon quota prices	→ Power prices and fuel prices → Volume risk associated with consumption
Financial risk			→ Counterparty risk in power trading	→ Interest rate risk for distribution grid revenues → Counterparty risk
Operational risk	→ Damage to property, health and the environment, delays/ budget overshoots and loss of reputation	→ Damage to property, health or the environment, human error and system failure, fines and loss of reputation	→ Fines, claims for compensation, human error, system failure and loss of reputation	→ Damage to property, health or the environment, fines, and loss of reputation

Financial performance

Ninety-five per cent of Statkraft's total production of 44.9 TWh stems from hydropower. This form of power production has low operating expenses, which means that the company generates high earnings even when electricity prices are low. The high capacity to regulate reservoirs means that water resources can be utilised over several years, and consequently production can be kept at relatively high levels even in periods of low inflow. The low operating expenses combined with the high regulating ability means that the Group has historically returned very solid EBITDA figures, both in financial years with very low production (2004) and in financial years with low prices such as 2007. Increased activity levels in gas power and the retail segment result in lower EBITDA margins due to higher energy purchase expenses.

2007

In 2007 Statkraft posted EBITDA, adjusted for material non-recurring items and unrealised changes in value, of NOK 9,620 million (NOK 11,460 million).

In 2007 Statkraft returned the second-best profit in the company's history. The profit before tax totalled NOK 8,765 million, while the profit after tax amounted to NOK 6,632 million. Adjusted for unrealised changes in value and material non-recurring items, the profits were NOK 9,307 million before tax and NOK 7,031 million after tax. Compared with 2006, in which Statkraft returned the best profits in the Group's history, this represents a decrease of 12% before tax and an improvement of 1% after tax. The good result is attributable to efficient power optimisation and hedging, increased contributions from associated companies, and solid operations.

POWER PRODUCTION AT STATKRAFT

The Group's power generation in 2007 totalled 44.9 TWh. Despite a fall of 1.8% compared with 2006, generation was somewhat higher than in a normal year. As a result of high inflow during the year, the reservoirs were fuller than usual at the end of the year.

THE NORDIC POWER MARKET

Nordic power generation was slightly lower in the first half of 2007 than during the same period in 2006 (-1.2%) but considerably higher during the second half of the year (+9.2%). Total generation in the Nordic region amounted to 392.7 TWh in 2007, up 3.6% on the previous year. This increase is attributable to a strong hydrological balance, and to reduced nuclear power production in Sweden in the second half of 2006.

Consumption in the Nordic region rose marginally from 2006 (+1.3%), while consumption in Norway rose by 4.0% to its highest level ever. The increase in the Norwegian market can largely be ascribed to an increase in power-intensive industry, electro-boilers, and pump power consumption, and to the fact that the year was slightly colder than 2006. General consumption in Norway amounted to 85.8 TWh in 2007. Adjusted for temperatures, this represents an increase of 2.3% on the previous year.

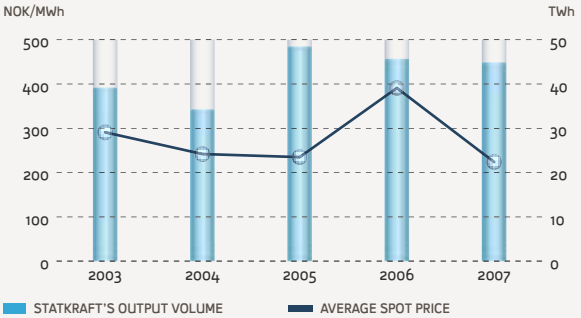
As a result of the strong hydrological balance and the associated high level of production, the average system price fell by 43% compared with 2006, and closed the year on NOK 224/MWh.

POWER CONSUMPTION AND OUTPUT IN THE NORDIC REGION

TWh	2007	2006	2 005	CHANGE 2006 —2007
Consumption in the Nordic region	**395.4**	390.5	390.0	1.3%
Output in the Nordic region	**392.7**	379.1	391.0	3.6%
Imports into (+) and exports from (-) the Nordic region	**2.7**	11.4	-1.0	-
Consumption in Norway	**126.0**	121.2	124.7	4.0%
Output in Norway	**136.1**	120.4	136.9	13.0%
Imports into (+) and exports from (-) Norway	**-10.1**	0.8	-12.2	-

Sources: "Nord Pool Nordic electricity market information" for week 52/2007, week 52/2006 and week 52/2005 and "Nord Pool Country Report Norway" for week 52/2007, week 52/2006 and week 5/2005.

ELECTRICITY PRICE AND OUTPUT VOLUME



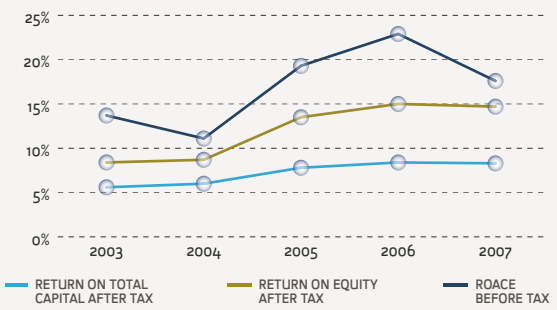
During the year, net exports from Norway amounted to 10.1 TWh, while net imports to the Nordic region totalled 2.7 TWh. For purposes of comparison, imports into Norway and the Nordic region in 2006 totalled 0.8 TWh and 11.4 TWh, respectively.

RETURN ON INVESTMENT

Return on invested capital decreased compared with 2006. After adjustments for unrealised changes in value and material non-recurring items, the return on average capital employed (ROACE) totalled 17.7% before tax, down 5.2 percentage points on 2006, but still above Statkraft's target of 16%.

The return on equity from ordinary operations totalled 14.7% after tax (15.0%), while ordinary operations generated a return on total capital after tax of 8.3% (8.4%).

RETURN ON CAPITAL, ORDINARY OPERATIONS



Unrealised changes in value and material non-recurring items are not included. The figures for 2003–2005 were prepared in accordance with NGAAP, while the figures for 2006 have been restated in accordance with IFRSs. The figures for 2007 have been prepared in accordance with IFRSs.

CHANGE IN ACCOUNTING PRINCIPLES FROM 1 JANUARY 2007

Since 1 January 2007, Statkraft has been reporting in accordance with International Financial Reporting Standards (IFRSs). The most significant change under the new accounting policies is that all financial instruments are generally recognised at fair value, with changes in value being recognised in the income statement. As these unrealised changes in value can be considerable in certain periods, this can result in more volatile profits. In order to highlight the effects of unrealised changes in value of financial instruments, these are reported on separate lines in the income statement. The format of the income statement has also been changed slightly in relation to previous reports in order to provide a better reflection of the Group's business activities. The figures for 2006 have been restated in accordance with IFRSs and the new presentation format.

Fjordkraft has been consolidated as a subsidiary since 1 January 2007. This has resulted in higher sales revenues but also a higher sum for energy purchases due to the fact that power purchases and sales to retail customers are now reported gross. Fjordkraft was previously reported in accordance with the equity method.

CHARACTERISTICS OF STATKRAFT'S EARNINGS

Temperature and precipitation levels 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 production capacity. Consequently, there is a reasonable degree of natural hedging between price and saleable volume. Since almost 100% of the electricity generated in Norway stems from hydropower, this effect is felt most strongly by the Norwegian power generators. The capacity to transmit power abroad means that the Norwegian electricity price is also impacted by electricity prices on the continent. Further expansion of the transmission capacity to the continent will increase this exposure.

Statkraft has very high EBITDA margins since the operating expenses associated with hydropower production are low. Adjusted for unrealised changes in value and material non-recurring items, the margin was 55% in 2007 (70%). The production cost per MWh in 2007 was slightly below NOK 60. The price of electricity can therefore be extremely low before the EBITDA margin for hydropower production is critically affected. The fall in the EBITDA margin from 2006 is, in addition to the lower prices, linked to the fact that a larger proportion of earnings stems from retail activities, a segment that has appreciably lower margins than hydropower production. This is a result of Fjordkraft having been consolidated as a subsidiary. Increased activity in the field of gas power has also contributed to a lower EBITDA margin for the Group.

Hydropower plants generally have a long technical lifetime. With appropriate maintenance investments and an absence of major technological changes, the Group's generating facilities are considered to have long residual lifetimes. Wind farms and gas-fired power plants have appreciably shorter technical lifetimes.

Statkraft's reservoirs have very high regulation capacities, and the Group has a large number of multiyear reservoirs. The Group is therefore able to optimise its water resources over several years. This enables the Group to maintain relatively high production in periods with low water inflow.

In Norway energy taxation is linked to market prices. When market prices are high, the energy tax burden increases. As a result of lower average spot prices in 2007, resource rent tax fell in 2007 and resource rent tax accounted for 36% of the Group's total tax expense (30%). The effective tax rate was 24.3% (33.2%). The fall in the effective tax rate is attributable to a lower taxable profit and change in the regulatory framework for resource rent taxation. In general these changes imply increased tax charges. However, in 2007 the changes will have a positive net effect in the form of a reduced recognised tax expense of NOK 525 million, which is primarily attributable to the fact that more power plants are becoming liable to tax than was previously the case. Combined with an increased tax rate, this will result in a higher resource rent carryforward and thus an increase in recognised deferred tax assets.

THE IMPACT OF STATUTORY-PRICED CONTRACTS ON EARNINGS

Statkraft is a major supplier of electricity to power-intensive industry. In 2007 the Group sold 10.3 TWh of electricity to industry on statutory terms. With an average price of NOK 166/MWh, these statutory-priced contracts produced cash flows and profits that were substantially lower than they would have been had the same volume of electricity been sold on the open market. Compared with an average system price of NOK 224/MWh, the estimated revenue shortfall from these contracts totalled NOK 587 million in 2007 (NOK 3357 million). Current statutory-priced contracts expire successively in the period leading up to 2011. As these contracts expire, Statkraft's portfolio of commercial contracts with power-intensive industry is gradually

THE STATKRAFT GROUP'S POWER PLANTS

	NUMBER OF POWER PLANTS		INSTALLED CAPACITY IN MW		PRODUCTION, ANNUAL MEAN IN GWh	
		OF WHICH				
COMPANIES (INCL. SUBSIDIARIES)	TOTAL	WHOLLY OWNED	TOTAL	STAKRAFT'S SHARE	TOTAL	STAKRAFT'S SHARE
Statkraft Energi AS	83	40	12 902	8 101	47 401	31 659
Statkraft Development AS	3	3	245	245	738	738
Småkraft AS	7	7	20	20	73	73
Trondheim Energi AS	19	14	934	770	3 797	3 158
Skagerak Energi AS	45	20	5 820	1 325	18 516	5 232
Naturkraft AS (gas power)	1	-	420	210	3 500	1 750
Correction for co-owned power plants	-13	-	-4 107	-	-11 557	-
Total Norway	**145**	**84**	**16 234**	**10 671**	**62 469**	**42 611**
Statkraft Sverige AB	19	9	547	292	2 487	1 286
Statkraft Suomi Oy	4	3	132	66	636	297
Total Nordic Region	**168**	**96**	**16 913**	**11 028**	**65 591**	**44 193**
Statkraft Markets GmbH (gas power)	2	1	1 200	1 000	6 400	5 200
Total Europe	**170**	**97**	**18 113**	**12 028**	**71 991**	**49 393**

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

being expanded. The state subsidy provisions of the EEC agreement place strict limitations on new agreements with power-intensive industry, and on special Norwegian arrangements that provide this industry with significant advantages.

In 2007, Statkraft signed a long-term industrial power agreement with the Swedish company SCA. The agreement entails an annual supply of 500 GWh of power to SCA's operations. The agreement has a term of ten years.

INTRINSIC VALUES

The Norwegian hydropower assets in the Generation and Markets business unit have a mean annual output of 33.2 TWh and a combined book value of NOK 23.3 billion.

The Group owns 44.6% of E.ON Sverige AB. This shareholding is recognised in the Group's balance sheet at a value of NOK 17.9 billion. In October 2007 Statkraft and E.ON AG signed a letter of intent under the terms of which E.ON AG will take over Statkraft's shareholding in return for flexible power production assets and shares in E.ON AG. The total value of this swap agreement amounts to EUR 4.4 billion. It is expected that a final agreement will be signed during the first half of 2008.

In the period 1999 to 2001 Statkraft acquired substantial shareholdings in the regional companies Trondheim Energi, Skagerak Energi, BKK and Agder Energi, for which the Group paid a total of NOK 21.8 billion. These companies have a total mean annual output of 22.3 TWh, of which 8.4 TWh derives from consolidated companies. These companies also have an extensive base of electricity and distribution grid customers.

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

In the period 2001 to 2006 Statkraft built three wind farms in Norway. The 109 wind turbines have an installed capacity of 245 MW. These facilities are recognised at a total value of NOK 1.2 billion.

During 2007 three gas-fired power plants started operation – two in Germany and one in Norway. Statkraft owns 100% of one of the German power plants, while it shares ownership of the other two 50/50 with other companies. The gas-fired power plants have a total installed capacity of 1,620 MW, and the development cost for Statkraft's share of 1,210 MW is NOK 5.2 billion.

The conditions mentioned above would appear to indicate that the Group's balance sheet contains significant values in excess of the recognised values.

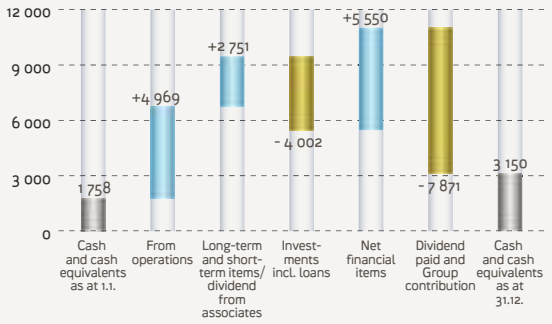
CASH FLOW AND INVESTMENTS

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 generated within the Group or through the infusion of new capital. The Norwegian government's report to the Norwegian Storting (parliament), detailing its policy on state ownership, of December 2006, stipulates that the dividend payable by the company shall normally lie in the upper quartile. For 2007 the dividend payable from Statkraft has been set at 98% of the consolidated profit after tax and minority interests, and adjusted for unrealised gains and losses. As a result of the high dividend level, continued business development, growth and investment in new environment-friendly production capacity could therefore depend on the addition of new capital.

With total investments of NOK 4.0 billion in 2007, Statkraft has an interest-bearing debt ratio (interest-bearing debt/interest-bearing debt and equity) of 45.6%, compared with 41.8% in 2006.

CASH FLOW 2007

NOK MILLION

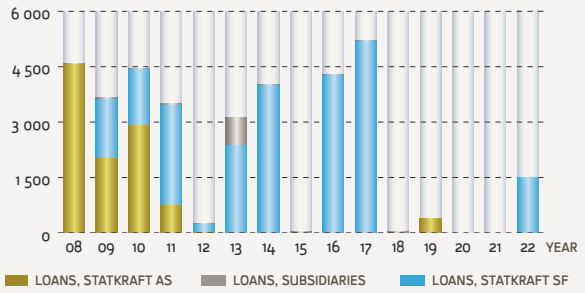


Statkraft as a borrower

Electricity production is a capital-intensive enterprise. In order to develop the Group, Statkraft is dependent on access to effective credit markets, both nationally and internationally. At the end of 2007 the Group had interest-bearing debt of NOK 37.3 billion (NOK 32.0 billion),

of which NOK 30.4 billion was long-term debt (NOK 25.6 billion). Around 56% 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. In 2007 Statkraft completed the issuance of four loans under the EMTN (Euro Medium Term Note) scheme, which was set up in 2006. Net new debt in 2007 totalled NOK 5.6 billion, and unrealised currency exchange gains on the debt amounted to NOK 0.8 billion at the end of the year. The Group's current liabilities associated with the margin calls (cash collateral) were reduced by NOK 0.1 billion during 2007. Borrowing at subsidiary level is limited through contractual restrictions.

LONG TERM LIABILITIES, DEBT REDEMPTION PROFILE



At the end of 2007 the state-guaranteed debt, for which Statkraft SF stands as the debtor, totalled NOK 11.4 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 totalled NOK 25.9 billion at the end of the year.

The Group has three active loan portfolios in NOK, SEK and EUR respectively. The overall net debt portfolio has 80.3% floating rates, where interest rates are hedged in NOK. The average current interest rate on loans in NOK was 5.1%, while the corresponding rate on SEK loans was 3.7%, and on EUR loans it was 4.7%.

RATING

The two international credit rating companies Standard & Poor's (S&P) and Moody's rate Statkraft's creditworthiness. In the short and medium terms, Statkraft is targeting a minimum rating of BBB+/Baa1. The credit rating for Statkraft AS remained unchanged in 2007. S&P also rates the creditworthiness of Statkraft Energi AS. The credit 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	

S&P points to Statkraft's multi-year reservoirs, its cost-effective hydropower production, its strategic position in downstream activities, and its state-ownership as factors important to its rating. S&P rates the company's risk profile as weaker than average, on account of a high level of dividend payments, large minority interests in the regional companies, and low profitability on industrial power supplied at statutory prices. 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 share of profits 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 COMMUNICATION

Statkraft focuses on maintaining open and effective communications with all stakeholders. The Group's financial reporting shall be characterised by transparency and provide users with a relevant, complete and reliable overview of the Group's strategies, objectives and performance, as well as its economic development and financial 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. In order to ensure predictability, the owner and financial markets shall be treated equally, and information is to 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 reported to the stock exchanges on which the company's bonds are listed, and all significant information is also published on the company website.

Business areas

Statkraft's business is divided into three operative business areas, in addition to Group functions and financial investments. The structure is based on Statkraft's strategic priorities.

BUSINESS AREAS – KEY FIGURES

NOK MILLION	STATKRAFT AS GROUP	GENERATION AND MARKETS	NEW ENERGY	REGIONAL	OTHER*
INCOME STATEMENT 2007					
Gross operating revenues	17 619	11 062	837	6 879	-1 159
Energy purchases and transmission costs	-3 619	-1 218	-13	-2 966	579
Unrealised changes in value of energy contracts	-739	-656	-	11	-95
Net operating revenues	13 261	9 188	824	3 924	-674
Operating profit	7 242	5 608	444	1 625	-435
Share of profit from associated companies	2 613	451	158	733	1 271
Profit before financial items and tax	**9 855**	**6 059**	**602**	**2 357**	**836**
BALANCE SHEET AS AT 31 DECEMBER 2007					
Property, plant, equipment and intangible assets	57 817	33 484	1 617	23 477	-761
Investments in associated companies	32 131	1 318	2 173	10 716	17 924
Other assets	20 164	12 688	183	2 393	4 900
Total assets	**110 112**	**47 490**	**3 973**	**36 586**	**22 063**
Capital employed	42 628	24 727	1 494	18 111	-1 704
Maintenance investments	571	304	-	267	-
Increased capacity investments	1 413	707	151	510	45
Investments in shareholdings	1 800	462	1 201	137	-

* Includes investments in E.ON Sverige.

Sustainable value creation

The Statkraft Group shall create long-term values for its owner and society through efficient commercial activities based on the principle of sustainable development. The Group's social responsibility initiatives cover areas such as balancing the environmental consequences of energy production with society's other needs and work to ensure high standards within business ethics, social development and health and safety. Continuous skills development, dialogue with stakeholders and improvement work shall contribute to creating the trust that is required for the Group to be able to increase value creation and continue growth within pure energy.

Environmental policy

Statkraft's policy for the environment is incorporated in the Group's management system. The policy establishes that consideration of the environment shall characterise all activities within the Group. The Statkraft Group shall seek to achieve outstanding environmental performance, which involves both utilising natural resources in a sustainable manner and working to avoid undesirable events with environmental consequences. The policies are reproduced in full on the Group's website.

Environmental management

The subsidiaries Statkraft Energi AS and Statkraft Development AS operate an environment management system certified in accordance with ISO 14001:2004. Serious environmental non-compliances are included in the business areas' and Group's scorecards as one of the management parameters that are regularly reported to the board of directors.

In 2007, Statkraft was one of the world's first power generators to introduce the International Hydropower Association's Sustainability Guidelines and Assessment Protocol as mandatory tools in all Hydropower projects when it introduced these guidelines in the New Energy business area. This involves the use of a standardised measurement system to record the projects' sustainability performance. The Group also intends to introduce similar assessment schemes for power production from other energy sources.

Environment-friendly energy

The generation of environment-friendly energy represents Statkraft's most important contribution to the environment. 96.4% of Statkraft's power production in 2007 derived from renewable energy sources, with no greenhouse gas emissions. Neither hydropower nor wind power generation produce any emissions of hazardous substances, carbon dioxide or other greenhouse gases, other than minor emissions as a result of operation. Although the gas-fired power plants emit greenhouse gases, the power plants represent an environment-friendly alternative to other carbon-based energy sources. Kårstø power plant in Norway was the first of its kind to be constructed with its own NO_X cleaning facilities. The Group's district heating is generated using various energy sources. From 2008 the percentage of heat generation based on waste is expected to be between 70% and 80%.

FURTHER EXPANSION OF THE POTENTIAL OF EXISTING ENERGY SOURCES

Successful implementation of efficiency improvement projects resulted in a 59 GWh increase in production capacity in Statkraft's hydropower plants in 2007. Statkraft's target is to develop a further 7.3 TWh of hydropower and 4.75 TWh of wind power by 2015, as well as 600 MW of gas power and 350 MW of district heating by 2010.

TARGETS FOR NEW, ENVIRONMENT-FRIENDLY ENERGY

ENERGY TECHNOLOGY	UNIT	TOTAL	NORWAY	INTERNATIONAL
Hydropower *	TWh	**7.3**	3.8	3.5
Wind power *	TWh	**4.75**	2.25	2.5
Gas power **	MW	**600**	-	600
District heating ***	GWh	**350**	350	-

* For the period 2007–2015
** For the period 2008–2010
*** For the period 2007–2010

TRADE IN ENVIRONMENTAL PRODUCTS

Statkraft trades in European climate quotas (EU Allowances) and participates in projects for the reduction of greenhouse gas emissions (Clean Development Mechanism/Joint Implementation). The Group also sells voluntary carbon quotas to the business market in Norway, and has extended this product offering to the private market in 2008.

A number of schemes and mechanisms connected with customers' willingness to pay for renewable energy have been established in recent years. Certificates issued by independent certification bodies via RECS (Renewable Energy Certificate System) are one example of this type of scheme.

In 2007, the Group presented a proposal on a European green certificate market to the EU commission. Statkraft believes the best way to achieve a large-scale focus on renewable energy is

to introduce a common market for green electricity certificates for the whole of Europe. This type of common market would limit the burden on the environment and ensure that the most cost-effective projects are realised first, regardless of geographical location and the type of technology that is used.

Environmental non-compliances and incidents

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 or the company's reputation. One serious environmental non-compliance was recorded in 2007. A leak at Kolsi power plant in Finland in July resulted in two cubic metres of hydraulic oil being discharged into the Kokemäenjoki river. The incident caused no recorded harm to fish, birds or animals living in or in the vicinity of the watercourse.

Serious environmental incidents are defined as incidents with serious or potentially serious consequences for the environment and/or the company's reputation, which are not covered by the definition of an environmental non-compliance. No serious environmental incidents were recorded in 2007.

Less serious environmental non-compliances comprise 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. 32 less serious environmental non-compliances were recorded in 2007. The majority of these related to brief violations of minimum water flow requirements.

ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS

	UNIT	TARGET	**2007**	2006	2005
Serious environmental non-compliances	Number	0	**1**	0	1
Serious environmental incidents	Number	0	**0**	1	2
Less serious environmental non-compliances	Number	-	**32**	18	23

Key environmental aspects

The environmental impact of the Statkraft Group's activities are followed up through the management system's categorisation system for key environmental aspects; landscape and watercourse intervention, energy and resource consumption, waste management, local pollution and greenhouse gas emissions.

Landscape and watercourse intervention

Construction of facilities for the production and distribution of power involve interventions in landscape and watercourses. Statkraft's objective is to reduce the negative environmental impact of its activities through compensatory measures and the development of environment-friendly solutions. Hydropower plants are now constructed with limited biological impacts. The modernisation and extension of older plants provides both environmental improvements and increased energy production. The effects of wind farms on nature are largely reversible. Although wind farms generally have a lifetime of 20–25 years, modernisation measures can allow the infrastructure to be used longer. Most traces of wind farms can be removed once the farms have ceased operation.

WATER FLOW REGULATION

The authorities prescribe the terms of regulations of reservoirs and rivers. Statkraft has also elected to introduce a number of voluntary environmental measures.

Environmentally-adapted river management of water levels and rate of water flow are a key feature of watercourse management, which also involves measures such as moderate river adjustments, the stocking of suitable spawning and growth substrates, restocking, the construction of fishways and improvement of thresholds and migration barriers. Statkraft operates seven fish hatcheries, and is a large producer and buyer of fish for restocking in Norway. The Group releases a number of salmon, sea trout, char and inland trout each year, and released 593,000 fish in 2007. Statkraft also operates two of Norway's three gene banks to safeguard the unique genetic material of the Norwegian salmon population. Extensive monitoring of the fish population is also performed, with biological surveys often continuing over several years. Statkraft wishes to use the Riverbank project, which was implemented in 2007, to further reinforce this initiative and over the course of the next five years intends to use NOK 15 million to produce better conditions for fish and outdoor interests in several of the Norwegian watercourses where Statkraft is the regulator.

Limited levels of snow in the mountains and a dry summer resulted in low water levels in many reservoirs in Norway in the summer and autumn of 2006. Statkraft commissioned the University of Oslo to investigate the effects of such situations on fish and their food supply chain. The University concluded that extraordinarily low summer water levels will result in an acute concentration of the fish population and significantly lower production of the fish's food supply chain, which in turn will result in lower quality, fewer spawning fish and probably increased fatality levels the following winter. When water level fluctuations normalise the following year, as was the case in 2007, the quality of the fish population is also expected to normalise during the following summer. However, fish concentration and age distribution of the population will be discernable for many years, depending on fatality levels and whether the natural spawning levels are increasing or decreasing. Statkraft is following up the conclusions of the report by means of test fishing and measurements during the autumn and winter of 2007/2008.

Energy and resource consumption

All electricity consumption in connection with the operation of plants and offices has been environmentally certified in accordance with RECS. In 2007, electricity consumption, excluding energy losses at transformer stations and along power lines, totalled 843 GWh. Energy consumption in connection with pumps totalling 705 GWh is included.

The company's target is to reduce electricity consumption by 10% compared with the average consumption for 2005/2006 in the Generation and Markets business area by 2010. In 2007, the target of achieving lower consumption than the average for 2005/2006 was achieved.

CONSUMPTION

	UNIT	2007	2006	2005
Electricity *	GWh	**843**	213	98**
Of which pumped-storage power and electric boilers for district heating plants	GWh	**705**	-	-
Of which certified renewable (RECS) ***	%	**100**	100	-
Fossile fuels				
Natural gas, gas-fired power plants	Mill. Nm³	**116.1**	-	-
Natural gas and butane, district heating plants	Tonnes	**5 500**	-	-
Fuel oil	Tonnes	**2 200**	-	-
Engine fuel	m³	**1 000**	1 400	1 500
Other fuel				
Waste	Tonnes	**138 500**	-	-
Biofuel	Tonnes	**5 200**	-	-
Transformer and lubricating oils	Litres	**6 800**	10 400	2 500**

* Does not include energy losses at transformer stations and power lines. Electric boilers are included from 2007, and pumped-storage power from 2006.
** Does not include Trondheim Energi and Skagerak Energi.
*** Renewable Energy Certificate System.

Waste management

Statkraft generated nearly 26,800 tonnes of hazardous waste in 2007. The bulk of this was slag, filter dust and filter cake from the district heating plant in Trondheim. Statkraft's routines for handling all hazardous waste comply with public regulations and established systems for collection and recycling. The recycling rate (material and heat recycling) was 86%, compared with 74% in 2006. The Group has entered into framework agreements with external renovation companies that guarantee environment-friendly and uniform management of all waste. The Norwegian Pollution Control Authority (SFT) has approved Statkraft's plans to phase out PCB-containing condensors by 2009.

Waste management relating to major maintenance, modernisation and construction projects is followed up by means of separate environmental plans.

WASTE

TYPE OF WASTE	UNIT	2007	2006	2005
Hazardous waste	Tonnes	**372**	267	342
Hazardous waste from waste incineration *	Tonnes	**26 393**	-	-
Other waste	Tonnes	**1 268**	2 154	1 467
Percentage of waste recycled **	%	**86**	74	59

* Consists of slag, filter dust and filter cake.
** Includes material and heat recycling.

Local pollution

Hydropower and wind power generation do not produce any systematic emissions to ground, air or water. Nevertheless, the company's operations may result in some emissions of gases, e.g. halon and SF_6. Spillages of oil based products from vehicles, construction equipment or generating equipment could also occur. The Group has also started to use turbine and hydraulic oils that are biologically degradable at some plants. Noise can result locally from the transport and operation of facilities.

In addition to CO_2 emissions, gas-fired power plants will also produce some NO_X emissions. Discharges of other polluting substances, including emissions of SO_2 and particle pollution, are negligible.

Greenhouse gas emissions

Statkraft has the lowest carbon intensity, i.e. generates the lowest emissions of CO_2 in relation to its power generation, of all major European energy companies. In 2007 the company's greenhouse gas emissions came from gas-fired power plants, district heating plants, transport and environmental non-compliances (discharge of halon and SF_6). The Group's total emissions amounted to 292,000 tonnes of CO_2-equivalents.

CO_2-EQUIVALENTS

	UNIT	2007	2006	2005
CO_2-equivalents	Tonnes	**292 000**	150 900	134 100
Of which CO_2 from gas power	Tonnes	**229 900**	-	-
Of which CO_2 from district heating plants *	Tonnes	**55 700**	137 500	128 000
Of which CO_2-equiv. from SF_6 emissions	Tonnes	**1 500**	9 600	1 400
Of which CO_2-equiv. from halon emissions	Tonnes	**2 100**	-	700
Of which CO_2 from fuel consumption **	Tonnes	**2 800**	3 800	4 000

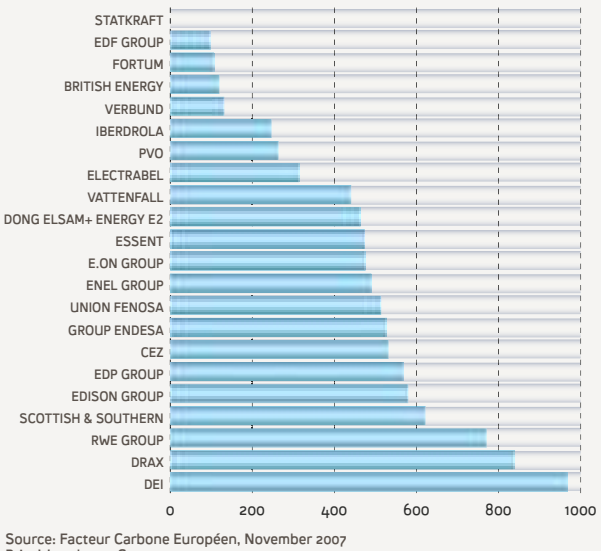
* For 2007 only CO_2-emissions from non-renewable fuel has been included, for 2005–2006 both renewable and non-renewable fuel has been included.
** CO_2 from fuel consumption from the Group's own equipment and machinery.

Gas-fired power plants constructed with the best technology currently available emit around 50% less CO_2 than coal power plants. Actual emissions of CO_2 in the running-in period of the Group's gas-fired power plants in autumn 2007 comprised 229,900 tonnes. In 2007 incineration in the district heating plants resulted in emissions of 55,700 tonnes of fossile CO_2. Emissions of greenhouse gases from transport from the Group's own vehicle fleet in 2007 are estimated at 2,800 tonnes, while the accidental discharge of halon and SF_6 generated 3,600 tonnes of CO_2-equivalents.

From 2008 the Group has purchased climate quotas in the voluntary carbon quota market for greenhouse gas emissions resulting from transport and environmental non-compliances. The costs will be

EUROPEAN ENERGY COMPANIES CARBON INTENSITY 2006

Kg CO_2/MWh



Source: Facteur Carbone Européen, November 2007
PriceWaterhouseCoopers

borne by the respective units under the "polluter pays" principle, which is also an incentive designed to help reduce emissions. The Group's policy for travel and the use of cars including requirements for environment and climate assessments will also be prepared in 2008.

Reservoirs can be a source of greenhouse gas emissions. Dammed areas can contain vegetation that undergoes anaerobic decomposition, resulting in the release of both carbon dioxide and methane. This is primarily a potential problem in certain reservoirs in tropical areas. 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 increase as a result of the regulation of reservoirs. After four years the results show a low to zero release of methane from Follsjøen. The project will run for another two years. A new project which will investigate two further Norwegian reservoirs was also established in 2007. The aim of the project, which is being implemented under the guidance of the Norwegian Electricity Industry Association and with the participation of Statkraft and other power companies, is to develop predictive models for calculating net greenhouse gas emissions from reservoirs. Statkraft participates in the international forum managed by The International Hydropower Association in order to be able to contribute to the UN Climate Panel's (IPCC) work in this area.

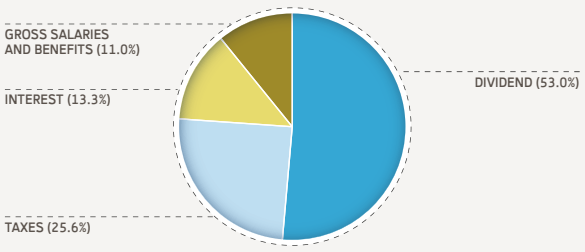
Social responsibility policy

The Statkraft Group wishes to make a positive contribution to the communities in which it is has a presence and shall display social responsibility that both promotes the Group's sustainable growth and benefits society as a whole. The Group shall act in accordance with the principles of good business practice and free competition, and show zero tolerance for corruption and money laundering. The policies are reproduced in full on the Group's website.

Value creation

Statkraft generated a total added value of NOK 12,903 million in 2007. NOK 6,873 million of this amount was returned to the company's owner as dividends and Group contributions. Central and local government taxes totalled NOK 3,301 million. NOK 1,361 million was paid to Norwegian local authorities, of which NOK 630.4 million, 46%, was paid to the ten largest local authorities. The local authority to which Statkraft paid the largest amount in local tax, Vinje, received NOK 91.8 million. The Group's around 2,300 employees received a total of NOK 1,419 million in salaries and pensions in 2007.

DISTRIBUTION OF VALUE ADDED



Statkraft's total investments in 2007 amounted to NOK 3,783 million. Around 37% of this amount related to the expansion of production capacity of NOK 1,173 million in Norway and NOK 240 million outside Norway. Generating more environment-friendly power and increasing the beneficial extended effects of the Group's investments are important for society's welfare.

Operational safety and contingency arrangements

Operational safety and contingency arrangements have a very high priority at Statkraft. The Group complies with the authorities' regulations and all operative levels have their own contingency plans and implement planned emergency response exercises. In 2007, a total of 7 different emergency response exercises were carried out. The emergency response plan for Numedal was implemented during the flood-hit summer of 2007.

Customer relations

Statkraft's customers include private consumers, companies, local authorities, other power plants and electricity generators and trading partners. The Group companies Trondheim Energi and Skagerak Energi are large and important regional players with a broad range of contacts and extensive experience in the consumer market, while Fjordkraft is a national electricity supplier.

CUSTOMER SATISFACTION

	UNIT	2007	2006	2005
Trondheim Energi Kraftsalg*	Index	64	58	61
Fjordkraft*	Index	62	63	58
Skagerak Energi**	Index	87	80	-

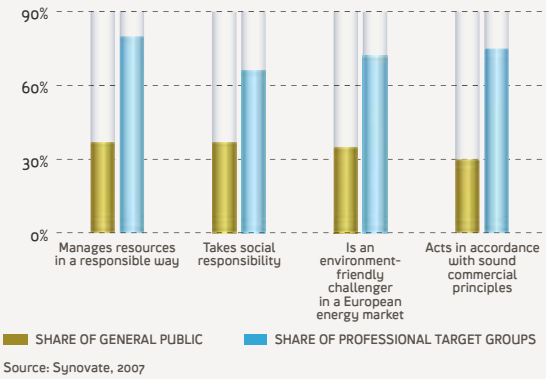
* Satisfaction score in the Norwegian Customer Barometer survey. Source: BI Norwegian School of Management

** Satisfaction with customer service centre.

Collaboration with stakeholders

Statkraft places particular emphasis on maintaining a constructive dialogue with all stakeholders, particularly in local communities and in connection with construction projects. Contact with international stakeholders is also constantly gaining in importance as the Group grows.

PERCEPTION OF STATKRAFT IN NORWAY AS SOCIALLY RESPONSIBLE



Source: Synovate, 2007

ENVIRONMENTAL COOPERATION IN THE PLANNING PROCESS

Statkraft places an emphasis on thorough and professionally well-founded processes that highlight all consequences relating to development projects, including taking account of and working in close collaboration with all stakeholders. This also applies to studies and licence applications abroad. Statkraft is a member of the International Association for Impact Assessment and the International

Hydropower Association. Both institutions provide Statkraft with important impulses in respect of environmental performance optimisation initiatives both in Norway and abroad.

COOPERATION WITH OTHER STAKEHOLDERS

Statkraft wishes to be a good neighbour, and supports local cultural and educational organisations. Statkraft currently has ongoing sponsorship agreements with the Nobel Peace Prize Concert, Det Norske Teatret, the Oslo Jazz Festival, the Hardanger Music Festival, the Norwegian Biathlon Association, MODO Hockey, Odd Grenland Football Club, Larvik Handball Club, Selbu Handball Club and ToppVolley Norway. Statkraft paid out a total of around NOK 24 million in sponsorship and support activities in 2007.

The Statkraft Fund 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. In 2007, the Statkraft Fund awarded respective amounts of NOK 2.0 million, NOK 1.5 million and NOK 0.5 million to the Ny-Ålesund Symposium, the Norwegian Rock Blasting Museum in Lillehammer and the Norwegian Association of Hunters and Anglers' fishing club for young people. From 2008 the criteria for fund allocation have been changed to focus on innovation. From now on the Statkraft Fund will be allocated to candidates, organisations and projects that have demonstrated an ability to think innovatively, develop opportunities and create solutions. The criteria cover both climate challenges and innovation within the energy sector regardless of the professional field.

World Business Council for Sustainable Development

TRANSPARENCY INTERNATIONAL

Statkraft is a member of the World Business Council for Sustainable Development (WBCSD), which is a coalition of more than 200 international companies that work to further the business community's contribution to sustainable development. Together with nine other energy companies, Statkraft presented a report during the UN Climate Conference in Bali outlining how the power sector can meet the energy requirements of the future and at the same time reducing its own greenhouse gas emissions. At the WBCSD's council meeting the President and CEO presented Statkraft's proposals for a European system for renewable certificates as a concrete measure to help achieve the EU's target of obtaining 20% of energy from renewable sources by 2020.

Statkraft is also a member of Transparency International, an organisation that works to combat corruption around the world.

INTERNATIONAL SOCIAL RESPONSIBILITY

Statkraft develops new power production outside Europe through SN Power, whose primary focus areas are Latin America and Asia. Statkraft also holds a 20% direct shareholding in Theun Hinboun Power Company in Laos, where Statkraft is also responsible for operations and maintenance, and manages an ongoing project for the expansion of one hydropower plant.

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 also a member of Transparency International and a participant in the UN Global Compact project. Key issues in connection with the construction of hydropower facilities in emerging markets 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 are incorporated in all projects. SN Power works closely with organisations including the United Nations Development Programme in this area.

During the course of the year, hearings in connection with the constructions in Laos and Chile have been held under the management of environmental protection organisations. These types of hearings provide constructive feedback, and, along with investigations into environmental and social consequences, are of importance for further planning. In Laos, shortcomings relating to previous extensions are included in the proposed compensatory measures. Environment-friendly hydropower and economic development will also provide the local population with social welfare benefits. In Chile SN Power plans to invest in the region of NOK 6 billion in hydropower and wind power facilities that will provide electricity to more than 800,000 households. The Trayenko project, which involves four power plants, is currently being planned. The project investments for three of these power plants have been postponed pending discussions with the indigenous population.

Innovation

National competence development in the form of innovation is an important part of Statkraft's contribution to society. The aims of the company's innovation initiatives are threefold:

- → To develop new business opportunities within the field of environment-friendly energy
- → To constantly improve core operations and support processes
- → To develop new services tailored to suit the customers' needs

Statkraft's activities cover the monitoring of technology, technological developments, watercourse research, and optimisation of environment-friendly power generating technologies and associated services, as well as the development of new energy sources. Increased emphasis is also placed on innovation relating to the sale and distribution of power. The total budget for Statkraft's innovation initiatives in the period 2007–2009 is NOK 230 million.

Statkraft's innovation efforts were reinforced in several areas in 2007. This can be seen most prominently in the company's focus on ocean energy in collaboration with the Norwegian University of Science and Technology and leading universities in the Nordic region. The aim is to establish Europe's leading expertise and training network in ocean energy. Energy efficiency represents a further new focus area for Statkraft.

Since 2003, Statkraft has contributed to research into the sea eagle population at Smøla and the impact of wind turbines on the birds and their environment. Statkraft decided to step up the research initiative after six sea eagles were found dead following collisions in 2006. In 2007, the Group therefore contributed almost NOK 11 million of a total NOK 21 million to an extended research project

into the effect of the wind farm on bird life in general, with the aim of finding measures to reduce any negative effects.

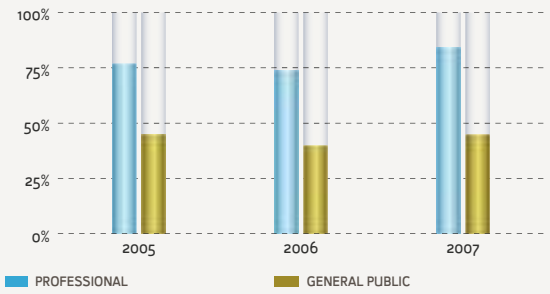
The Group's SVP Innovation headed the "Energi 21" committee which presented a unifying R&D strategy for the Norwegian energy sector to the Minister of Petroleum and Energy in February 2008.

Reputation and brand

In 2007, Statkraft and the subsidiaries Trondheim Energi and Skagerak Energi were given a common visual profile featuring new logos with a common symbol. A uniform brand initiative will strengthen the impact in the market and a common corporate culture. The Group performed two profile-raising advertising campaigns.

Reputation surveys are carried out each year in Norway. The surveys show that Statkraft continues to enjoy a good reputation among decision makers and the financial community and that the company's reputation further improved in 2007. Knowledge of Statkraft and its operations was also shown to be increasing among the Norwegian public, and the percentage of the Norwegian population with a good or very good impression of Statkraft grew by around 15% during 2007.

SHARE WITH A QUITE GOOD OR VERY GOOD IMPRESSION OF STATKRAFT IN NORWAY



Source: Synovate

Ethical business operation

The Statkraft Group's principles for ethical business operation require employees to maintain a high ethical standard and to follow detailed ethical guidelines that apply to the performance of all business activities within the Group. The Group's internal audit department is an independent notification channel with the right and obligation to report to the board. The internal audit department can be notified anonymously. Any breach of the guidelines results in clearly defined sanctions.

ETHICAL GUIDELINES

The Group procedures for ethics were updated and expanded in 2007. The procedures apply to all employees and to everyone who acts on behalf of the Group. In addition to defining the framework for ethical behaviour as clearly as possible, the procedures are intended to provide guidance in the context of difficult evaluations, and to contribute to promoting awareness of ethical problems. The ethical guidelines are reproduced in full on the Group's website.

ETHICAL MANAGEMENT

The ethical guidelines also describe how compliance is to be secured, and the sanctions resulting from any breach of the guidelines. Specific goals and initiatives for good business practice will be established for all units in 2008. The individual business areas and Group staff functions can choose to appoint one or more Compliance Officers, whose primary task is to contribute to ensuring that the unit is run in accordance with the appropriate legislation and authority directives. The business area Generation and Markets has appointed the Executive Vice President as Compliance Officer.

The Group has its own Corporate Responsibility Manager who is responsible for areas including the overarching follow-up and reporting of compliance with ethical guidelines, across standard work in line management.

Statkraft encourages employees to notify censurable conditions. Employees who become aware, or justifiably suspicious, of the existence of censurable situations at the company shall report such conditions to their immediate superior, to the Compliance Officer or to the Head of internal auditing. The internal auditing department has the right and obligation to report to the Group's board of directors. The manager of the Group's internal audit department can be notified anonymously. Employees who exercise their constitutional right to notify are protected against reprisals from their employer.

Statkraft's Group management has a reference group to consult regarding ethical dilemmas. The reference group meets on request from Group management, and consists of the Head of Internal Auditing, the SVP Legal, the Corporate Responsibility Manager and the SVP HR.

Breaches of the ethical guidelines will incur sanctions, including disciplinary action, termination and reporting to the relevant authority.

SENSITIVE MARKET INFORMATION

Statkraft is subject to legislation aimed at preventing inappropriate behaviour in the market. In addition, Statkraft applies its own work instructions and ethical guidelines with additional specifications. These include detailed regulations for proprietary trading and prohibition against benefiting from internal or confidential information.

BEHAVIOUR ON NEW MARKETS

A special set of instructions designed to assure particular vigilance in relation to ethical business operation has been prepared for the New Energy business area, which is responsible for the identification, development and construction of new power production, irrespective of technology and geographical location.

Specific risks are assessed for each country, and countries within the same region are compared. Partnership risks are evaluated at an early stage to confirm the necessary integrity and management structure. This evaluation is performed by a third party, without involving the potential relevant business partner. Statkraft's business principles and the Group guidelines for ethics are appended to all contracts. Project risks are assessed on the basis of the stakeholders affected, and according to conditions that might lead to conflicts, delays and increased costs. Various stakeholders are involved in project plans, and important partners are also subjected to integrity evaluations.

SUPPLIERS

In 2007, the Group, with the exception of Skagerak Energi, procured goods and services valued at approximately NOK 4 billion. Statkraft has detailed guidelines for procurement to ensure structured and traceable interaction and equal treatment of suppliers. Statkraft prefers to use suppliers that have been approved under Sellihca, the shared qualification scheme of the Nordic energy sector. Moreover,

Statkraft's suppliers are to be made aware of the company's guidelines for ethical purchasing, particularly the guidelines regarding gifts and other forms of customer care.

Statkraft makes requirements for social responsibility in addition to HSE requirements in the pre-qualification of critical suppliers. The company also makes requirements for orderly salary and working conditions in service agreements in Norway. Statkraft has applied its environmental and HSE requirements to all services performed at its own facilities for many years.

A safe and healthy corporate culture

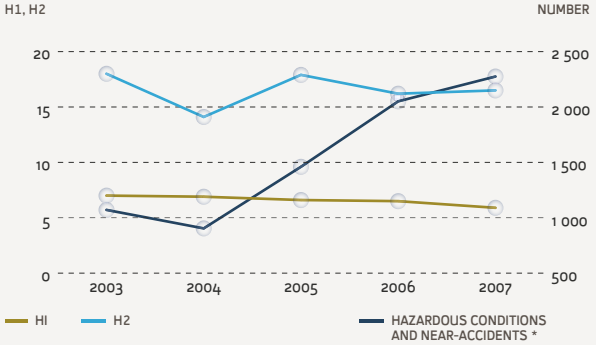
All activities within the Statkraft Group are to be distinguished by safety, and the company endeavours to prevent injuries and health problems in all areas. The Group wishes to have a business culture in which employees have the opportunity to utilise and develop their talents. The policies for safe and healthy corporate culture are reproduced in full on the Group's website.

HEALTH AND SAFETY

Health and safety aspects are integrated into the planning and performance of activities, and systems have been established for registering and analysing injuries, near misses and hazardous conditions. Emergency response plans, an emergency organisation and emergency training have been set up to ensure efficient handling of emergency situations. An updated risk assessment of the company has been prepared, which forms the basis for risk-reducing initiatives. All business areas and Group companies have action plans detailing targets and activities linked to health and safety. Reports on health and safety issues are submitted to Group management and to the board by means of Group scorecards each month.

Statkraft has a goal of zero injuries in connection with the Group's business. In 2007 the H1 indicator (number of lost-time injuries per million hours worked) was 5.9 (6.5), while the H2 indicator (total number of injuries per million hours worked) was 16.5 (16.2). Neither of these results are satisfactory. There were also 15 lost-time injuries among the Group's suppliers in 2007.

INJURIES AND HAZARDOUS CONDITIONS



* Projects in the new energy business area are not included.

In 2007 there were five fatalities in non-consolidated SN Power companies. One fatality occurred at the construction site of the La Higuera project in Chile, when falling rocks killed a contractor employee during tunnelling work. Four fatalities occurred at the Allain Duhangan construction site in India. One of these was due to falling rocks during tunnelling work, one due to a landslide during trenching work and two fatalities occurred at the construction road due to falling rocks. The Allain Duhangan project has experienced three additional fatalities in January 2008. One fatality occurred when a pickup car slipped off the road during icy conditions and two contractor employees were caught by an avalanche at the construction site during off hours.

This is an unacceptable situation. SN Power monitors the situation closely and works with its joint venture companies to take steps to improve and reinforce compliance with health and safety procedures at the construction sites. Statkraft is following up the safety performance through the board of directors of SN Power.

The sickness absence rate in 2007 was 3.9%, which is down slightly on the figure for 2006 of 4.1%. The target for the Group is a sickness absence rate of less than 4.0%. All the Norwegian companies in the Group participate in the Inclusive Working Life scheme involving active follow-up of absence and close collaboration with the company's health service.

ORGANISATION AND LEADERSHIP EVALUATION

Statkraft evaluates its organisation and management on an annual basis. This process covers areas including strategy, goals, competence, organisational conditions and the working environment. The overall results are reported to the board through the Group scorecard. The result for 2007 was 4.1 on a scale of 1–5. As in previous years, the response rate was very high: 88%.

EQUAL OPPORTUNITIES AND DIVERSITY

Statkraft employs people from around 20 different nations. The gender balance at Statkraft is in line with that of the Norwegian energy sector in general, with 24% women and 76% men. At 22% the proportion of women in management positions is lower than the proportion of women in the Group as a whole, but has increased compared to last year. Two of the seven members of Group management (29%) are women. The proportion of women on the board of directors is 44%: three of the shareholder-elected representatives and one of the three employee representatives are women. The average salary for women is 95% of the average salary for men. This reflects the fact that the proportion of men in management positions is higher than for women. Statkraft's life-phase principles for employees aged over 62 provide flexibility for the Group as well as a greater incentive for employees to remain in their positions longer.

COMPETENCE DEVELOPMENT

The range of expertise at Statkraft's disposal is well suited to ongoing operations. Around 41% of Statkraft's employees are educated to degree level and around 36% are qualified skilled workers. The average age of Statkraft's employees is 46. The average length of service is 15 years, while the annual rate of staff turnover was 5.0% in 2007.

The number of full-time job equivalents increased by 200 in 2007. Securing the adequate recruitment of skilled workers to the Group's power plants represents a challenge in the long term. The average age of Statkraft's skilled workers is higher than elsewhere in the Group, and the natural level of external replacements will probably prove insufficient in the future. In order to remedy this situation, Statkraft has been running apprentice programmes for many years, and in 2007 the Group employed 49 apprentices.

Statkraft aims to be one of the ten most preferred companies among recent graduates from key recruitment lines at universities

and colleges in Norway. In a 2007 survey of approximately 10,000 final-year students Statkraft was ranked 53rd and 28th most attractive employer by business students and technology students respectively. Statkraft's recruitment initiatives include a two-year trainee programme. The company employed a total of 23 trainees in 2007.

PREFERRED EMPLOYER RANKING IN NORWAY

PREFERRED EMPLOYER AMONG	UNIT	TARGET	**2007**	2006	2005
Business students	Ranking	25	**53**	33	28
Technology students	Ranking	25	**28**	41	29

Source: Universum Graduate Survey

MANAGEMENT DEVELOPMENT PROGRAMME

Statkraft has three separate management development programmes to accommodate different needs and levels. The Group places particular emphasis on developing young talents. For example, Statkraft focuses on project management training and individual initiatives targeting recognised educational establishments such as the International Institute for Management Development, the Norwegian University of Science and Technology and the Norwegian School of Economics and Business Administration. A total of 75 employees participated in the Group's management development programme in 2007.

INCENTIVE SCHEMES

Statkraft operates a collective, variable incentive scheme for all employees, with the exception of Trondheim Energi, Skagerak Energi and Fjordkraft, which have separate agreements. In 2007 the scheme was based on an operational index and an HSE index. These two indices are weighted equally, and can generate a maximum payment of NOK 30,000 a year for each employee. In 2007, the collective variable salary amounted to NOK 24,000. An individual, performance-based variable incentive scheme is based on employee contributions to target achievement and compliance with Statkraft's vision and values. The framework for the individual incentive scheme accounts for up to 3.5% of salary costs during the period 2005–2007, with a ceiling for each employee of 10% of his or her own salary. Both incentive schemes entail one-off annual payments, which are not included in the employee's pensionable income.

Continuous improvement

Continuous improvement is one of the Group's business principles, which are reproduced in full on the Group's website. In 2007 work started to process-orientate and simplify the Group's management system, which will make it easier to identify opportunities for improvement and increased efficiency. In 2008 the collective variable incentive scheme will be linked to the individual employees' contributions to the reporting of undesirable events, and suggestions for improvements. A new improvement indicator will be used to follow up on the number of hazardous conditions and undesirable events reported, as well as on the number of improvement proposals submitted.

INTELLECTUAL PROPERTY RIGHTS

Statkraft has two wholly owned and one partly owned patents, and patenting activities are expected to increase in the future. Applications have been made for two osmotic power-related patents, where one patent has been granted in Norway and application processes are ongoing in Europe, Canada, Japan, and Australia and at the international patenting authorities. Statkraft also owns six brands.

Contents Financial and Sustainability Statements

Income Statement

GROUP

NOK million	Note	2007	2006
Sales revenues	7	**16 544**	15 321
Other operating revenues	9	**1 075**	879
Gross operating revenues		**17 619**	16 200
Energy purchases		**-2 680**	-190
Transmission costs		**-939**	-1 040
Unrealised changes in value of energy contracts	10	**-739**	1 975
Net operating revenues		**13 261**	16 945
Salaries and payroll costs	11	**-1 604**	-1 320
Depreciation, amortisation and impairment	17, 18	**-1 639**	-1 488
Property tax and licence fees	13	**-983**	-854
Other operating expenses	14	**-1 793**	-1 436
Operating expenses		**-6 019**	-5 098
Operating profit		**7 242**	11 847
Share of profit of associates and joint ventures	19	**2 613**	2 009
Financial income	15	**400**	279
Financial expenses	15	**-1 717**	-1 422
Unrealised changes in value currency and interest rates	15	**227**	-1 131
Net financial items		**-1 090**	-2 274
Profit before tax		**8 765**	11 582
Taxes	16	**-2 133**	-3 847
Net profit		**6 632**	7 735
Of which minority interest		**166**	387
Of which majority interest		**6 466**	7 348

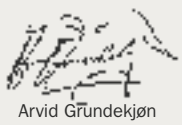
Balance Sheet

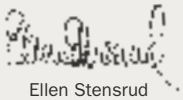
GROUP

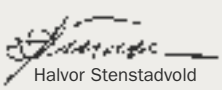
NOK million	Note	31.12.07	ASSETS
Intangible assets	17	**1 589**	1 895
Property, plant and equipment	18	**56 228**	56 381
Investments in associates and joint ventures	19	**32 131**	30 634
Other noncurrent financial assets	20	**2 944**	1 583
Noncurrent assets		**92 892**	90 493
Inventories	21	**303**	55
Receivables	22	**5 094**	3 883
Short-term financial investments	23	**347**	379
Derivatives	24	**8 326**	6 495
Cash and cash equivalents	25	**3 150**	1 758
Current assets		**17 220**	12 570
Assets		**110 112**	103 063
EQUITY AND LIABILITIES			
Paid-in capital		**31 973**	31 569
Retained earnings		**9 628**	10 053
Minority interests		**2 817**	2 943
Equity		**44 418**	44 565
Provisions	26	**10 831**	12 319
Long-term interest-bearing liabilities	27	**30 361**	25 584
Long-term liabilities		**41 192**	37 903
Short-term interest-bearing liabilities	28	**6 923**	6 437
Taxes payable	16	**1 583**	2 161
Other interest-free liabilities	28	**3 542**	2 758
Derivatives	24	**12 454**	9 239
Current liabilities		**24 502**	20 595
Equity and liabilities		**110 112**	103 063

The Board of Directors of Statkraft AS
Oslo, 12 March 2008


Berit Rødseth


Arvid Grundekjøn
Chair


Ellen Stensrud
Deputy chair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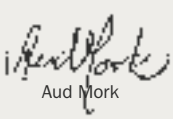
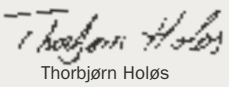
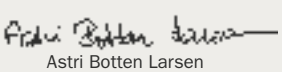

Aud Mork


Egil Nordvik


Thorbjørn Holøs


Astri Botten Larsen


Odd Vanvik


Bård Mikkelsen
President and CEO

Statement of Cash Flow

GROUP

NOK million		2007	2006
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**8 765**	11 582
Profit/loss on sale of noncurrent assets		**-9**	-6
Depreciation, amortisation and impairment		**1 639**	1 488
Share of profits from associates and joint ventures		**-2 613**	-2 009
Unrealised changes in value of derivatives		**-512**	-844
Taxes		**-2 301**	-2 169
Cash flow from operating activities		**4 969**	8 042
Change in long-term items		**-370**	-659
Change in short-term items		**1 702**	-1 926
Dividend from associates		**1 419**	1 087
Net cash flow from operating activities	A	**7 720**	6 544
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment		**-2 015**	-3 648
Proceeds from sale of noncurrent assets		**25**	63
Loans to third parties		**-212**	-20
Repayments of loans to third parties		**-**	5
Investments in other companies		**-1 800**	-750
Net cash flow from investing activities	B	**-4 002**	-4 350
CASH FLOW FROM FINANCING ACTIVITIES			
New long-term debt		**11 786**	6 584
Repayment of long-term debt and subordinated loans		**-6 236**	-5 367
Capital increase		**24**	-
Capital reduction		**-**	-1 035
Dividend and Group contribution paid		**-7 895**	-4 990
Net cash flow from financing activities	C	**-2 321**	-4 808
Net change in cash and cash equivalents during the year	A+B+C	**1 397**	-2 614
Currency effect on cash flows		**-5**	-2
Cash and cash equivalents 01.01		**1 758**	4 374
Cash and cash equivalents 31.12		**3 150**	1 758
Unused committed credit lines		**5 000**	5 000
Unused overdraft facilities		**400**	600

Statement of Changes in Equity

GROUP

NOK million	Paid-in capital	Retained earnings	Acc. transl. differences	Total majority	Minority interest	Total equity
Equity 01.01.06	31 553	7 102	-	**38 655**	3 839	**42 494**
Net profit for the period	-	7 348	-	**7 348**	387	**7 735**
Change in translation differences on investments	-	-	1 545	**1 545**	16	**1 561**
Change in value of hedging instruments	-	-	-776	**-776**	-	**-776**
Estimate deviation pensions	-	-480	-	**-480**	-58	**-538**
Equity holdings in associates	-	-364	-	**-364**	-	**-364**
Dividend and Group contribution paid	-	-4 319	-	**-4 319**	-265	**-4 584**
Capital reduction in Skagerak Energi AS	-	-	-	**-**	-1 035	**-1 035**
Change as a result of acquisitions	16	-3	-	**13**	59	**72**
Equity 31.12.06	31 569	9 284	769	**41 622**	2 943	**44 565**
Net profit for the period	-	6 465	-	**6 465**	166	**6 631**
Change in translation differences on investments	-	-	-1 636	**-1 636**	-21	**-1 657**
Change in value of hedging instruments	-	-	821	**821**	-	**821**
Estimate deviation pensions	-	-118	-	**-118**	-39	**-157**
Equity holdings in associates	-	-357	-	**-357**	-	**-357**
Dividend and Group contribution paid	-	-5 598	-	**-5 598**	-417	**-6 015**
Capital increases	-	-	-	**-**	24	**24**
Change as a result of acquisitions	-	-2	-	**-2**	161	**159**
Group contribution received from Statkraft SF	404	-	-	**404**	-	**404**
Equity 31.12.07	31 973	9 674	-46	**41 601**	2 817	**44 418**

At the board meeting of 12 March 2008 it was proposed to distribute NOK 3,332 million in dividends and NOK 4,867 million in Group contributions to the parent company Statkraft SF. This impacted the majority's share of equity in the amount of NOK 6,836 million.

INDEX OF NOTES TO THE FINANCIAL STATEMENTS

Notes

GROUP

→ 01 ACCOUNTING PRINCIPLES ETC.

GENERAL INFORMATION

Statkraft AS is a Norwegian limited company, established and domiciled in Norway. Statkraft AS is wholly owned by Statkraft SF, which is in turn wholly owned by the Norwegian state, through the Ministry of Trade and Industry. A more detailed description of the Group's activities is presented in Note 6, Segment Information.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statkraft's consolidated financial statements for 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as approved by the EU.

CHANGES IN ACCOUNTING PRINCIPLES

Statkraft's 2007 annual financial statements are the first to be prepared in accordance with IFRSs. IFRSs have been adopted for reporting since the first quarter of 2007. There have been no changes in accounting principles in accordance with IFRSs since the first quarter of 2007. However, the actual transition from generally accepted accounting practice in Norway (Norwegian GAAP) to IFRSs has resulted in extensive changes in accounting principles. These changes are described in a separate document ("Transition to IFRSs"), which was published with the interim financial statements for the first quarter of 2007. The main contents of the transition document are reproduced in Note 44.

COMPARATIVE FIGURES

All figures in the income statement, balance sheet, cash flow and supplementary information are stated together with comparative figures for the previous year.

SUMMARY OF IMPORTANT ACCOUNTING PRINCIPLES

CONSOLIDATION AND THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements show the overall financial results and the overall financial situation for the parent company Statkraft AS and its controlling shareholdings in other companies presented as though they were a single financial entity. Intercompany sales and balances and gains and losses on intercompany transactions have been eliminated.

The consolidated financial statements include companies in which Statkraft has a direct or indirect controlling interest. A controlling interest normally exists when the shareholding, either directly or via other controlled units, exceeds 50%. Subsidiaries that are acquired or established during the year are included with effect from the date of acquisition or establishment.

ACQUISITIONS

In the case of acquisitions, the transaction date determines the cost price and assessments of over/undervaluation. The transaction date is deemed to be the time when risk and control has been transferred and normally coincides with the implementation date. The cost price of shares in subsidiaries is written off against equity at the date of acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair values. Any difference between cost price and fair value for acquired assets, liabilities and contingent liabilities are recognised as goodwill or recognised in income where the cost price is lower. No provisions are recognised for deferred tax on goodwill.

ASSOCIATES AND JOINT VENTURES

Shares in companies in which Statkraft exercises 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 accounting principles, are shown on a separate line in the consolidated income statement. Such investments are classified as noncurrent assets in the balance sheet and are recognised at cost adjusted for the accumulated share of the companies' profit or loss, dividends received, currency adjustments, and equity holdings in the companies.

The accounting principles applied for the acquisition of associates and joint ventures are the same as for the acquisition of subsidiaries.

PARTLY OWNED POWER PLANTS

Co-owned power plants, i.e. those power plants in which Statkraft owns shares regardless of whether they are operated by Statkraft or one of the other owners, are accounted for in accordance with International Accounting Standards (IAS 31). These power plants are recognised as joint ventures with Statkraft's share of income, expenses, assets and liabilities.

LEASED POWER PLANTS

Power plants that are leased to third parties are recognised in accordance with the gross method. Gross leasing revenues are included in other operating revenues, while operating expenses are recorded under the relevant cost item.

REVENUES

Recognition of revenue in general

Revenues from the sale of goods and services are recognised on an accrual basis. Earnings from the sale of goods are recognised when the risk and control over the goods have substantially been transferred to the buyer.

Power revenues

Revenues from power sales are recognised as sales revenues on delivery. Realised revenues from physical and financial trading in energy contracts are recognised as sales revenues. Where these types of physical and financial contracts are covered by the definition of financial instruments (derivatives) in accordance with IAS 39, any changes in the fair value of such contracts are recognised under unrealised changes in the value of energy contracts. Realised revenues from trading portfolios are recognised on a net basis under sales revenues.

Distribution grid revenues

Distribution grid revenues are subject to a regulatory regime established by the Norwegian Water Resources and Energy Directorate (NVE). 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%. Specific efficiency requirements may also be imposed on the individual distribution grid owner. The revenue ceiling can be adjusted in the event of changes in delivery quality. Revenues included in the income statement correspond to the actual tariff revenues generated during the year. The difference between the revenue ceiling and the actual tariff revenues comprises an income excess/shortfall. Income excesses and shortfalls are not recognised in the balance sheet. The size of this item is disclosed in Note 41.

Dividends

Dividends received from companies other than subsidiaries and associates and joint ventures are recognised in income to the extent that the distribution of the dividend has been finally adopted in the distributing company.

Sale of property, plant and equipment

On the sale of property, plant and equipment, the profit/loss on the sale is calculated by comparing the sales total with the residual book value of the sold asset. Calculated profits/losses are recognised under other operating revenues and other operating expenses respectively.

PUBLIC SUBSIDIES

Public subsidies are included on a net basis in the income statement and balance sheet. Where subsidies are connected to activities that are directly recognised in the income

statement, the subsidy is treated as a reduction of the expenses connected to the activity that the subsidy is intended to cover. Where the subsidy is connected to projects that are recognised in the balance sheet, the subsidy is treated as a reduction of the gross amount recognised in the balance sheet. Subsequent write-offs and write-downs on such investments are also recognised net in the income statement.

FOREIGN CURRENCY

The consolidated financial statements are presented in Norwegian kroner, which is the parent company's functional currency. The Group has subsidiaries, associates and joint ventures that have other functional currencies. These are translated to NOK using the spot rate method. This means that balance sheet items are translated to NOK at the exchange rate in force at 31 December, while the income statement is translated using the weighted average exchange rate for the year. Translation differences are recognised in equity and included in the income statement on disposal of the unit.

Balance sheet items denoted in foreign currencies are valued at the exchange rate in force at the balance sheet date. Currency effects are recognised under financial items. Gains and losses resulting from changes in exchange rates on borrowings intended to hedge net investments in a foreign unit are recognised directly in equity.

FINANCIAL INSTRUMENTS

General

On initial recognition, financial investments are allocated to one of the categories of financial instruments described in IAS 39. The various categories that are relevant for Statkraft and the treatment to be adopted for the instruments included in each of these categories are described below.

Measurement of different categories of financial instruments

1) **Instruments valued at fair value through profit or loss**
   Financial instruments held for trading Derivatives are financial instruments that must be measured at fair value in the balance sheet. Other financial instruments held for trading purposes must also be measured at fair value through profit or loss. Changes in value not relating to hedging arrangements will be recognised through profit or loss. In the case of derivatives used as hedging instruments in a hedging arrangement, changes in value will have no impact on the income statement. In a fair value hedge, any changes in value of hedging instruments will be offset by a corresponding change in the value of the hedged item. In the case of cash flow hedges and hedges of net investments in a foreign operation, changes in value are recognised directly in equity. Derivatives consist of both stand-alone derivatives, and embedded derivatives that are separated from the host contract and recognised at fair value as if the derivative were a stand-alone contract.

   Fair value option In certain cases, financial assets and liabilities can be designated as at fair value through profit or loss. The use of the fair value option is permitted where the financial instrument is included in a portfolio that is measured and followed up by management at fair value, or where recognition at fair value through profit or loss reduces what otherwise would have been a recognition inconsistency as a result of the application of different measurement methods for different categories of financial instruments.

2) **Loans and receivables**
   Loans and receivables are measured at fair value on initial recognition together with directly attributable transaction costs. In subsequent periods, loans and receivables are measured at amortised cost using the effective interest rate method, so that the effective interest rate remains the same over the entire term of the instrument.

3) **Held-to-maturity assets**
   Held-to-maturity assets are non-derivative assets with payments that are fixed, or which are possible to establish, and where the unit has the ability and intention to hold such assets until maturity, provided that the assets are not covered by the definition of loans and receivables, are designated as at fair value through profit or loss, or are designated as available for sale.

4) **Available-for-sale assets**
   Available-for-sale assets are assets that are designated as available for sale, or which are not categorised in any of the above categories.

5) **Financial liabilities**
   Financial liabilities are measured at fair value on initial recognition together with directly attributable transaction costs. In subsequent periods, financial liabilities are measured at amortised cost using the effective interest rate method, so that the effective interest rate remains the same over the entire term of the instrument.

Principles applied to allocate financial instruments to different categories of instruments

The following describes the guidelines that Statkraft uses to allocate financial instruments to different categories of financial instruments in cases where an instrument qualifies for recognition in more than one category of instruments.

Financial instruments held for trading

Derivatives must always be recognised in the category designated as at fair value through profit or loss. Financial contracts for the purchase and sale of energy and carbon quotas must always be designated as derivative financial instruments. Physical contracts for the purchase and sale of energy and carbon quotas that are entered into as a result of authorities resulting from trading, or which are financially settled, will be deemed to be financial instruments and must be measured as at fair value through profit or loss. Physical contracts for the purchase and sale of energy, carbon quotas and gas that are entered into as a result of authorities connected to Statkraft's own requirements for use or procurement in own production normally fall outside the scope of IAS 39, as long as such contracts are not resold or do not contain written options in the form of volume flexibility. Contracts entered into for different purposes are recorded in clearly separate books.

Fair value option

Financial instruments can be designated as at fair value through profit or loss on initial recognition when these are included in a group of financial assets or liabilities that are managed on a fair-value basis. Statkraft's guidelines for the voluntary designation of financial instruments as at fair value through profit or loss prescribe that all instruments that are treated within the authorities of short-term financial investments within the placement of liquid assets (excluding bank deposits) and equity instruments connected to CO_2 fund investments are to be automatically designated as such. Statkraft will normally not designate financial liabilities as at fair value through profit or loss. Any such designation of financial liabilities must, if applicable, only be based on a concrete assessment of whether this type of designation would result in a more accurate presentation of the instrument.

Held-to-maturity assets

Statkraft will not normally have any investments that qualify for designation in the held-to-maturity category. Designating an instrument in this category must, where applicable, only be made following a closer assessment of whether the criteria for such a classification are satisfied on the basis of an intention to hold the asset until maturity.

Financial instruments used in hedge accounting

Financial instruments intended for use as hedging instruments or hedged items in hedge accounting are identified by reference to the purchaser's intention at the time of the acquisition of the financial instrument. If financial instruments acquired for financing purposes are acquired with the intention of achieving a financial hedging effect, a more detailed assessment of options should be made in order to be able to document a hedging effect. Such assessments are not normally performed

on an ongoing basis within energy trading by reference to the market even if the intention at the time of the procurement of the instrument was to use the instrument for hedging purposes. See also the more detailed description under the discussion of hedge accounting in Note 30.

Presentation of derivatives in the income statement and balance sheet
Derivatives not relating to hedging arrangements are recognised on separate lines in the balance sheet under assets or liabilities. Derivatives with respective positive and negative values are presented gross in the balance sheet provided there is no legal right to the set off of different contracts, and such set-off rights will actually be used for the current cash settlement during the terms of the contracts. In the latter cases, the actual contracts will be presented net in the balance sheet. All power contracts traded via Nord Pool are presented net in the balance sheet. Changes in the fair value of derivatives not used for hedge accounting are recognised on separate lines in the income statement. Changes in the value of energy derivatives are presented on a separate line under revenues, while changes in the value of interest rate and foreign currency derivatives are presented on a separate line under financial items.

TAXES
General
Group companies that are engaged in power generation in Norway are subject to special rules for the taxation of energy companies. The Group must therefore pay income tax, natural resource tax, resource rent tax and property tax. Property tax is classified as an operating expense.

Income tax
Income tax is calculated in accordance with ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income for the year. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the values for accounting and taxation purposes and the tax effect of losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the assets will be realised in the future. Tax related to equity transactions is recognised in equity.

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

Resource rent tax
Resource rent tax is a profit-dependent tax and is calculated at a rate of 30% 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. The actual contract price is applied for deliveries of concessionary power and power subject to physical contracts with a term exceeding seven years. Actual operating expenses, depreciation and amortisation 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 established each year on the basis of the taxable value of the power plant's operating assets, multiplied by a normative interest rate established by the Ministry of Finance. The normative interest rate for 2007 was set at 4.9%. The regulations for establishing resource rent revenue have been changed with effect from the 2007 revenue year. From 2007 onwards calculated negative resource rent revenues per power plant can be pooled with positive resource rent revenues for other power plants owned by the same tax entity. Negative resource rent revenues per power plant from the 2006 revenue year or previous years will be treated in accordance with the old rules, and can therefore 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 within a time horizon of ten years. Provision for deferred resource rent tax is made at a nominal tax rate of 30%. The tax-free allowance is treated as a permanent difference in the year it is calculated for, and therefore does not affect the calculation of deferred tax connected with resource rent.

Deferred tax liabilities and deferred tax assets connected with income tax are recognised net provided these are expected to reverse in the same period. The same applies to deferred tax liabilities and deferred tax assets connected to resource rent tax. Deferred tax positions connected with income tax cannot be offset against tax positions connected with resource rent tax.

CLASSIFICATION AS SHORT-TERM/LONG-TERM
Balance sheet items can be classified as short-term when they are expected to be realised within 12 months of the balance sheet date. With the exception of the items mentioned below, all other items are classified as long-term.

Financial instruments are recognised as short-term or long-term items in accordance with the general guidelines for such classification. The first year's repayments relating to long-term liabilities are presented as short-term items. All derivatives are presented as short-term items, apart from certain derivatives that are hedging instruments in hedge accounting, where the derivatives are recognised together with the hedged item.

INTANGIBLE ASSETS
Costs relating to intangible assets, including goodwill, are recognised in the balance sheet at historic cost provided that the requirements for doing so have been met. Goodwill and intangible assets with an indefinite useful life are not amortised.

RESEARCH AND DEVELOPMENT COSTS
Research costs are recognised in the income statement on an ongoing basis. Development costs are recognised in the balance sheet to the extent that a future financial benefit can be identified as deriving from the development of an identifiable intangible asset.

PROPERTY, PLANT AND EQUIPMENT
Investments in production facilities and other property, plant and equipment are recognised at cost less accumulated depreciation and impairment. Depreciation is charged from the time the assets are available for use. The cost of property, plant and equipment includes fees for acquiring or bringing assets into a condition in which they can be used. Loan costs in connection with major investments are calculated and recognised in the balance sheet. Expenses incurred after the operating asset has been taken into use, such as ongoing maintenance expenses, are recognised in the income statement, while other expenses that are expected to generate future economic benefits are recognised in the balance sheet. In the case of time-limited licences, provisions are made for removal obligations, while a contra entry is posted for the increase in the recognised value of the relevant investment, which is subsequently depreciated over the licence period.

Costs incurred for own investments in the Statkraft Group are recognised in the balance sheet as facilities under construction. The cost consists solely of directly attributable costs. Indirect costs are not recognised in the balance sheet.

Depreciation is calculated on a straight-line basis over assets' expected useful economic lives. Residual values are taken into account in the calculation of annual depreciation. Land is not depreciated. Waterfall rights are classified as land and not depreciated, since there is no right of reversion to state ownership and the assets are deemed to have perpetual life. Periodic maintenance is recognised in the balance sheet over the period until the time when the next maintenance round is

expected to be performed. Estimated useful lives, depreciation methods and residual values are assessed annually.

When assets are sold or disposed of, the book value is deducted and any profits or losses are recognised in the income statement. Repairs and ongoing maintenance costs are recognised in the income statement when they are incurred. If new parts are recognised in the balance sheet, the parts that have been replaced are removed and any residual book value is recognised as a loss on disposal.

Investment property is recognised in the balance sheet at historic cost.

LEASES
A lease is recognised as a finance lease when all the risks and returns incidental to ownership have been substantially transferred to Statkraft. In other cases leases are recognised on an ongoing basis on payment of the lease.

DEPRECIATION, AMORTISATION AND IMPAIRMENT
Property, plant and equipment and intangible assets that are depreciated, amortised or impaired are assessed for impairment when there is any indication that future earnings do not justify the book value. Intangible assets with an indefinite useful life are not amortised, but subject to an annual impairment test. Impairment is recognised as the difference between the book value and recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

In assessing impairments, noncurrent assets are grouped into the smallest identifiable group of assets that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). With the exception of goodwill, the opportunities of reversing previous impairment on non-financial assets are assessed at each reporting date.

INVENTORIES
Carbon quotas that are received or acquired in connection with Statkraft's emission requirements are measured at cost price and classified as intangible assets. All other carbon quotas are deemed to be held for trading purposes and are recognised as inventories. Inventories of carbon quotas and green certificates held for trading purposes are measured at net realisable value. Other inventories are measured at the lower of cost price and net realisable value. The cost price includes the purchase price and other expenses that have been incurred in bringing the inventories to their current condition and location. Net realisable value is measured as sales value less expected costs to sell.

Cost price is allocated to specific inventories where possible. For exchangeable goods, cost price is allocated in accordance with the weighted average or FIFO method (first in, first out).

CASH AND CASH EQUIVALENTS
The item "Bank deposits, cash and cash equivalents" also includes certificates and bonds with short residual terms at the time of acquisition. The market settlement of derivatives connected with financial activities (cash collateral) is recognised in the balance sheet.

EQUITY
Dividends proposed at the time of the presentation of the financial statements are classified as equity. Dividends are reclassified as current liabilities once they have been agreed.

PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES
Provisions are only recognised where there is an existing obligation as a result of a past event, and where it is probable that an outflow of resources embodying financial benefits will be required to settle the obligation. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If material, account should be taken of the time value of money in calculating the size of the provision.

No contingent assets or contingent liabilities are recognised.

CONCESSIONARY POWER, LICENCE FEES AND COMPENSATION
Each year concessionary sales are made to local authorities at statutory prices stipulated by the Norwegian Storting (parliament). The supply of concessionary power is recognised in income on an ongoing basis in accordance with the established concessionary price. In the case of certain concessionary power 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 accounting treatment adopted for the above arrangements produce the same result as payments made are recognised as an adjustment to power sales concluded at spot price.

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. Licence fees are charged as expenses as they accrue. The value of future licence fees recognised in the balance sheet has been calculated and is disclosed in Note 13.

The Group pays compensation to landowners for the right to use waterfalls and land. Compensation is also paid to others for damage caused to forests, land, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensatory power. The present value of obligations connected to the annual compensation payments and free power are classified as provisions for liabilities. Annual payments are recognised as other operating expenses, while non-recurring items are offset against the liability.

PENSIONS
Defined benefit schemes
A defined benefit scheme is a retirement benefit scheme that defines the retirement benefits that an employee will receive on retirement. The retirement benefit is normally set as a percentage of the employee's salary. To be able to receive full retirement benefits, contributions will normally be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their retirement benefits proportionately reduced. The liability relating to the defined benefit scheme recognised in the balance sheet is the present value of the future retirement benefits that are deemed to have accrued at the balance sheet date reduced for the fair value of the plan assets and for non-recognised expenses connected with previous periods' accrued retirement benefits. The present value of future benefits accrued at the balance sheet date is calculated by discounting estimated future payments at a risk-free interest rate. The retirement benefit liability is calculated annually by an independent actuary using the linear accruals method.

Actuarial gains and losses attributable to changes in actuarial assumptions or base data are recognised in equity on an ongoing basis after provisions for deferred tax.

Changes in defined benefit pension liabilities attributable to changes in retirement benefit plans that are issued with retrospective effect, i.e. where the earning of rights is not contingent on continued service time are recognised directly in the income statement. Changes that are not issued with retrospective effect are recognised in the income statement over the remaining accruals period.

Net retirement benefit fund assets for overfunded schemes are classified as noncurrent assets and recognised in the balance sheet at fair value. Net retirement benefit liabilities for underfunded schemes and non-funded schemes that are covered by operations are classified as long-term liabilities.

The net retirement benefit cost for the period is included under salaries and other payroll costs, and comprises the sum of the retirement benefits accrued during the period, the interest on the estimated liability and the projected yield on pension fund assets.

Deposit plans
A deposit plan is a retirement benefit scheme where the Group pays fixed contributions to a separate legal unit without

incurring further obligations for Statkraft once the deposit has been paid. The deposits are recognised as salaries and payroll costs as they mature.

SEGMENTS
Segments are established on the basis of differences in risk and return in the Group's business in accordance with IAS 14. The segments are described in more detail in Note 6.

CASH FLOW STATEMENT
The cash flow statement has been prepared using the indirect method. This means that the statement is based on the company's net profit/loss for the year in order to show cash flow generated by ordinary operating activities, investing activities and financing activities respectively. Dividends paid to the owner and to minority interests are presented under financing activities.

NEW ACCOUNTING STANDARDS
These financial statements have been prepared in accordance with all mandatory standards issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC). At the time of the preparation of the financial statements, the following standards and interpretations had been issued, but were not adopted by Statkraft:

- IFRS 8 – Operating Segments. The standard differs from its predecessor IAS 14 in that it requires segment allocation to be based on management reporting. The standard enters into force from 1 January 2009. The effects of the standard on Statkraft will be clarified during 2008.
- IAS 23 – Borrowing Costs. The standard has been updated effective from 1 January 2009, and prescribes the mandatory capitalisation of construction-related borrowing costs. Statkraft already applies this principle. Consequently there will be no change as a result of the adoption of the new standard.

CHANGES IN PRESENTATION FORMAT
The consolidated financial statements for 2007 are the first to be prepared in accordance with IFRSs. The most significant changes compared with Norwegian GAAP concern the accounting treatment adopted for financial instruments. In order to be able to identify the effects of these changes, new accounting lines have been established in the income statement and balance sheet. Thus in the income statement new lines have been established for the reporting of unrealised changes in value of instruments used in the respective areas of energy and finance, while two new lines have been established in the balance sheet under assets and liabilities, respectively.

Further changes include the inclusion of "energy purchases" as a separate accounting line, the recognition of compensation under "other operating expenses" and the presentation of "property tax and licence fees" as one item. Waterfall rights with an unlimited life have been reclassified from intangible assets to property, plant and equipment because these are deemed to relate to specific physical power plants.

The comparative figures have been restated accordingly.

→ 02
ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

ACCOUNTING JUDGMENTS
In applying the Group's accounting principles, the company's management have exercised judgment in the following areas that have been of material importance with regards to the amounts that have been included in the consolidated income statement and consolidated balance sheet:

NON-FINANCIAL ENERGY CONTRACTS
IAS 39 prescribes that non-financial energy contracts that are covered by the definition of "net financial settlements" shall be treated as if these were financial instruments. This will typically apply to contracts for physical purchases and sales of electricity and gas. There are no clear guidelines stipulating when such contracts shall be deemed to be financially settled. Using its best judgment and based on the criteria contained in IAS 39, management has assessed which contracts are covered by the definition of financial instruments, and which contracts fall outside the definition, primarily as a result of the "own use" exception. Contracts that are defined as financial instruments in accordance with IAS 39 are recognised at fair value in the balance sheet with changes in value being recognised through profit or loss, while those contracts that are not covered by the definition are mainly recognised on delivery.

CONCESSIONARY POWER CONTRACTS
The accounting treatment to be adopted for concessionary power contracts is unclear, and various solutions have been proposed by originators of financial statements and auditors. Statkraft has decided to continue its previous treatment of such contracts, i.e. recognition on delivery, until a solution as to the preferred accounting treatment has been established. One proposed alternative is to recognise concessionary power contracts with financial settlement in accordance with IAS 39. This will mean that these contracts are recognised at fair value in the balance sheet with changes in fair value being recognised through profit or loss. At the end of 2007 concessionary power contracts with financial settlement had a total annual volume of 500 GWh and an average price of NOK 87/MWh. Although agreements for financial settlement apply for a limited period, the calculation of fair value is based on the perpetual horizon of the underlying concessionary power contracts. On the basis of these assumptions, the estimated fair value as of 31 December 2007 would have been around NOK -4,300 million, while the change in fair value recognised in 2007 would have been around NOK -200 million.

ESTIMATES AND ASSUMPTIONS
The most important assumptions concerning future events and other important sources of uncertainty affecting estimates at the balance sheet date that can have a significant risk of resulting in material changes to the amounts of assets and liabilities recognised in future accounting periods are discussed below.

FAIR VALUE OF FINANCIAL INSTRUMENTS
The fair value of energy contracts is partly based on assumptions that are not fully observable in the market. This applies in particular to the valuation of long-term power contracts. In such cases management has based its evaluations on the information that is available in the market together with the exercising of its best judgment. More detailed assumptions relating to the valuation of such contracts are described in Note 31.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment is depreciated over its expected time in use, which in turn forms the basis for annual depreciation recognised in the income statement. Expected time in use is estimated based on experience, historical data and accounting judgments, and are adjusted in the event of any changes in such estimates. Residual values are taken into account in establishing depreciation rates. The evaluation of residual time in use is also subject to estimates.

DEPRECIATION, AMORTISATION AND WRITE-DOWNS
Significant investments are made in property, plant and equipment, intangible assets, associates and joint ventures. These noncurrent assets are tested for possible impairment where there are any indications of loss of value. Such indications could include changes in market prices, agreement structures, harmful events and other operating conditions. Calculating the recoverable amount requires a series of estimates concerning future cash flows, where price paths and production volume are the most important factors.

DEFERRED TAX ASSETS
Deferred tax assets connected to negative resource rent revenues carried forward are recognised in the balance sheet. Deferred tax assets are recognised in the balance sheet where it is expected that negative resource rent revenue will be utilised within a time horizon of ten years. The length of time over which negative resource rent revenues can be carried forward depends on the assumptions regarding future revenues, and in particular expectations of future power prices. Management has used its best judgment in making assessments relating to future power prices and other assumptions that determine future resource rent revenues.

PENSIONS
Calculation of the retirement benefit liability involves the use of judgment and estimates for a range of parameters. We refer to Note 12 for a more detailed description of the assumptions on which the calculation is based. The Note also shows how sensitive the calculations are in relation to the most important assumptions.

DEVELOPMENT COSTS
Development costs are recognised in the balance sheet when it is probable that these will result in future economic benefits. Establishing such probability involves the use of estimates of future cash flows from projects, which by its very nature involves uncertainty. The calculations are based on previous results and experiences, the company's own and third-parties' analyses and other methods that are considered appropriate.

→ 03 IMPORTANT EVENTS

2007

NEW GAS-FIRED POWER PLANTS
Three gas-fired power plants that had been under construction since 2005 were completed in the fourth quarter. The Knapsack gas-fired power plant in Germany is wholly owned by Statkraft and has a capacity of 800 MW, while Statkraft has a 50% shareholding in the respective gas-fired power plants at Herdecke in Germany and Kårstø in Norway, which each have a total capacity of 400 MW. The total construction costs for Statkraft's shareholdings amount to NOK 5,200 million.

ASSET SWAP DEAL
In October Statkraft AS and E.ON AG signed a letter of intent under the terms of which E.ON AG will acquire Statkraft's shareholding in E.ON Sverige AB (44.6%) in exchange for flexible power production assets in Sweden, Germany and the United Kingdom, and shares in E.ON AG. The total value of the swap deal is EUR 4,400 million. A final agreement is expected to be signed during the first half of 2008, while the transaction is due to be completed during the second or third quarter of the same year.

AGREEMENTS ON POWER SUPPLY AND COLLABORATION ON THE CONSTRUCTION OF RENEWABLE ENERGY
In September Statkraft and the Swedish company SCA entered into a series of power supply agreements and a collaboration initiative relating to the construction of wind farms and hydropower plants at SCA's sites in Sweden. Statkraft will deliver annual power supplies of 500 GWh to SCA's Swedish businesses within the forestry industry. Supplies will commence in 2009 and the agreement has a term of ten years. The two companies have also established a joint venture to construct seven wind farms in Västernorrland and Jämtland in Sweden. If the plants are constructed they will have an annual capacity of around 2.8 TWh and the investment will cost approximately NOK 14,000 million. The companies will also jointly investigate conditions for possible hydropower projects with a potential of 630 GWh.

SMALL-SCALE HYDROPOWER
The Pålsbu hydropower plant, which has an expected annual output of 22 GWh, was opened in October. Statkraft was also granted a licence for Kjensvatn hydropower plant (75 GWh per annum) in Nordland. The subsidiary Småkraft AS approved the construction of eight new small-scale hydropower plants (total 115 Gwh per annum) during 2007. The company has also been granted licences for a further 11 power plants.

WIND POWER
In March Statkraft was awarded its first final wind power licence in the United Kingdom. Blaengwen wind farm (50% shareholding) will have a total capacity of 20–30 GWh per annum.

DISTRICT HEATING
The new incineration plant at Heimdal district heating centre and the new district heating pipeline to Midtbyen in Trondheim were opened in September. The associated district heating capacity will be 200 GWh per annum.

NEW TECHNOLOGIES
In October Statkraft decided to build the world's first prototype osmotic power plant at Hurum with the aim of developing future commercial facilities. Statkraft has also entered into collaboration initiatives with research bodies in Norway, Sweden and Denmark to develop ocean energy.

REPRESENTATION IN THE BALKANS
Statkraft stepped up its focus in Southeast Europe during the year and established representation and project offices in Serbia, Romania and Albania.

INTERNATIONAL FOCUS
SN Power, which is 50% owned by Statkraft, has purchased the Peruvian company Electroandes SA. The acquisition makes SN Power one of Peru's five largest power producers. In the Philippines, SN Power, together with local partners, acquired one hydropower plant and is in final negotiations to acquire two further plants. The company has decided to construct a hydropower plant with a capacity of 156 MW and a wind farm with a capacity of around 50 MW in Chile. Statkraft paid a capital injection of NOK 1,200 million into SN Power in 2007.

NEW BOND LOAN UNDER THE EMTN SCHEME
Statkraft issued four loans under the EMTN scheme. Two loans, in the amount of EUR 300 million and EUR 600 million with respective terms of 6 and 10.5 years, are listed on the London Stock Exchange, while a further two loans, each in the amount of NOK 1,500 million and with respective terms of 3 and 15 years, are quoted on the Oslo Stock Exchange. The new borrowing was taken out to finance loan maturities and new investments.

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 will involve 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 OBLIGATION LOAN
In 2006 Statkraft issued two new 10-year loans under the EMTN programme. The first loan is for NOK 2,200 million with a floating rate of interest, while the other is a fixed rate loan for NOK 2,100 million. These loans, which are listed on the Oslo Stock Exchange, replace earlier bond loans.

TRANSFER OF SHARES IN HIMAL POWER LTD (HPL).
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 invested an equivalent amount in the company as the contribution in kind invested by Statkraft.

CONTINUED INTERNATIONAL FOCUS
Statkraft continued its international focus in 2006 by establishing a subsidiary in England to develop wind power 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.

→ 04 ACQUISITION AND SALE OF BUSINESSES

No businesses were acquired or sold in 2007 or 2006.

→ 05 CONSOLIDATED COMPANIES

SHARES IN CONSOLIDATED SUBSIDIARIES

Name	Registered Office	Country	Parent company	Shareholding and voting rights
Statkraft Energi AS	Oslo	Norway	Statkraft AS	100.0%
Baltic Cable AS	Malmö	Sweden	Statkraft Energi AS	66.7%
Statkraft Carbon Invest AS	Oslo	Norway	Statkraft AS	100.0%
Statkraft Financial Energy AB	Stockholm	Sweden	Statkraft AS	100.0%
Statkraft Markets GmbH	Düsseldorf	Germany	Statkraft AS	100.0%
Statkraft Markets Hungária LLC	Budapest	Hungary	Statkraft Markets GmbH	100.0%
Statkraft South East Europe Ltd	Sofia	Bulgaria	Statkraft Markets GmbH	100.0%
Statkraft Romania SRL	Bucharest	Romania	Statkraft Markets GmbH	100.0%
Statkraft Energy Austria GmbH	Vienna	Austria	Statkraft Markets GmbH	100.0%
Statkraft Markets BV	Amsterdam	Netherlands	Statkraft Markets GmbH	100.0%
Statkraft Markets Financial Services GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.0%
Statkraft Holding Knapsack GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.0%
Knapsack Power GmbH & Co KG	Düsseldorf	Germany	Statkraft Holding Knapsack GmbH	100.0%
Knapsack Power Verwaltungs GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.0%
Statkraft Holding Herdecke GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.0%
Statkraft Suomi Oy	Kotka	Finland	Statkraft AS	100.0%
Ahvionkoski Oy	Kotka	Finland	Statkraft Suomi Oy	100.0%
Statkraft Sverige AB	Stockholm	Sweden	Statkraft AS	100.0%
Graninge AB	Stockholm	Sweden	Statkraft Sverige AB	100.0%
Gidekraft AB	Stockholm	Sweden	Statkraft Sverige AB	90.1%
Statkraft Development AS	Oslo	Norway	Statkraft AS	100.0%
Smøla Vind AS	Oslo	Norway	Statkraft Development AS	100.0%
Hitra Vind AS	Oslo	Norway	Statkraft Development AS	100.0%
Kjøllefjord Vind AS	Oslo	Norway	Statkraft Development AS	100.0%
Statkraft UK Ltd	London	United Kingdom	Statkraft AS	100.0%
Fairwind Statkraft Orkney Ltd	Orkney Isles	United Kingdom	Statkraft Development AS	75.0%
Statkraft Western Balkans d.o.o.	Belgrade	Serbia	Statkraft AS	100.0%
Statkraft SCA Vind AB	Stockholm	Sweden	Statkraft AS	60.0%
Renewable Energies and Photovoltaics Spain S.L.	Malaga	Spain	Statkraft AS	70.0%
Statkraft Regional Holding AS	Oslo	Norway	Statkraft AS	100.0%
Skagerak Energi AS	Porsgrunn	Norway	Statkraft Regional Holding AS	66.6%
Skagerak Kraft AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Skagerak Nett AS	Sandefjord	Norway	Skagerak Energi AS	100.0%
Telekraft AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Skagerak Elektro AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Skagerak Linje Team AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Skagerak Varme AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Skagerak Fibernett AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Grenland Fibernett AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Nota AS	Porsgrunn	Norway	Skagerak Energi AS	100.0%
Energimåling AS	Skien	Norway	Skagerak Energi AS	85.0%
Skien Fjernvarme AS	Skien	Norway	Skagerak Energi AS	51.0%
Grunnåi Kraftverk AS	Porsgrunn	Norway	Skagerak Energi AS	55.0%
Trondheim Energi AS	Trondheim	Norway	Statkraft Regional Holding AS	100.0%
Enita AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Trondheim Energi Fjernvarme AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Trondheim Energi Kraft AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Trondheim Energi Kraftsalg AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Trondheim Energi Nett AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Trondheim Energi Eiendom AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Sluppen Eiendom AS	Trondheim	Norway	Statkraft Regional Holding AS	100.0%
Statkraft Invest AB	Malmö	Sweden	Statkraft Energy Enterprise AS	100.0%
Statkraft Forsikring AS	Oslo	Norway	Statkraft AS	100.0%

Name	Registered Office	Country	Parent company	Shareholding and voting rights
Itene AS	Trondheim	Norway	Trondheim Energi AS	100.0%
Fjordkraft AS	Bergen	Norway	[1]	
Småkraft AS	Oslo	Norway	[2]	

[1] Fjordkraft is owned by Statkraft Regional Holding AS (3.15%), Skagerak Energi AS (48%) and Bergenshalvøens Kommunale Kraftselskap AS (48.85%). Fjordkraft has been consolidated as a subsidiary since 1 January 2007.
[2] Småkraft is jointly owned by Statkraft AS, Skagerak Kraft AS, Trondheim Energi Kraft AS, Agder Energi AS and Bergenshalvøens Kommunale Kraftselskap AS, which each have a 20% shareholding.

→ 06 SEGMENT INFORMATION

Statkraft's activities are allocated into segments. Segments are established on two levels. The first level is based on inherent differences in the risk and return of the Group's various activities (primary segments). The second level is based on geographical differences (secondary segments).

PRIMARY SEGMENTS

GENERATION AND HEDGING
This segment covers the Group's generating assets and associated hedging activities. Generating assets include hydropower plants, wind farms and gas-fired power plants in Norway and abroad. Hedging is a related activity that involves financial and physical trading in electricity and other commodities in order to hedge and optimise production revenues. Hedging is performed within established volume frameworks.

TRADING AND ORIGINATION
Trading activities include trading in financial instruments in order to generate profits by leveraging fluctuations in market prices. Origination covers activities that offer customers customised energy products and hedges its own exposure with other transactions. Risk in trading and origination is primarily followed up using respective Value at Risk and Profit at Risk methods. The Trading and origination segment has offices in Oslo, Stockholm, Düsseldorf and Amsterdam.

DISTRIBUTION GRID
The Group's assets and operation of distribution grid activities are bundled in the distribution grid segment. Most of the activities are monopolistic in nature and subject to regulation by the Norwegian Water Resources and Energy Directorate (NVE). Revenues are established by reference to an annual revenue ceiling, which is dependent on a number of factors including the cost of the business.

END-USERS
This segment covers retail sales of electricity to industry and private customers. This business is characterised by strong competition and low margins. Fjordkraft and Trondheim Energi Kraftsalg are the units that are consolidated in this segment.

OTHER
The Group's other activities are bundled in this segment. The most important areas comprise district heating, R&D activities, and investment in and shares of profits from E.ON Sverige AB.

GROUP FUNCTIONS AND ELIMINATIONS
Group functions and eliminations of transactions and intercompany balances between the segments are reported in this segment.

Segment information is reported across legal units and business areas. The same segment allocation is applied for associates and joint ventures, with the exception of E.ON Sverige, all of whose activities are recorded in the Other segment. Transactions between segments are conducted on market terms and conditions. The key accounting figures for the most important segments in the Statkraft Group are shown below:

NOK million	Group	Generation and hedging	Trading and origination	Distribution grid	End-user	Other	Shared services and eliminations
2007							
Gross operating revenues	**17 619**	12 865	631	1 565	3 430	745	-1 617
Unrealised changes in value of derivatives	**-739**	-615	-83	-	53	-	-95
Depreciation, amortisation and impairment	**-1 639**	-1 066	-7	-390	-58	-59	-58
Other operating expenses	**-7 999**	-4 069	-304	-775	-3 318	-752	1 219
Operating profit	**7 242**	7 115	237	400	107	-66	-551
Share of profit from associates	**2 613**	1 349	-48	155	-20	1 231	-54
Profit before financial items and tax	**9 855**	8 464	189	555	87	1 164	-605
2006							
Gross operating revenues	**16 200**	13 478	673	1 959	872	612	-1 394
Unrealised changes in value of derivatives	**1 975**	1 905	85	-	-15	-	-
Depreciation, amortisation and impairment	**-1 488**	-973	-6	-400	-15	-32	-62
Other operating expenses	**-4 840**	-3 389	-417	-1 008	-763	-503	1 240
Operating profit	**11 847**	11 021	335	551	79	77	-216
Share of profit from associates	**2 009**	560	37	111	21	1 404	-124
Profit before financial items and tax	**13 856**	11 581	372	662	100	1 481	-340

NOK million	Group	Generation and hedging	Trading and origination	Distribution grid	End-user	Other	Shared services and eliminations
Balance sheet 31.12.07							
Investments in associates	**32 131**	8 026	-11	1 764	40	18 985	3 328
Other assets	**77 981**	58 484	5 558	6 279	1 751	2 334	3 575
Assets	**110 112**	66 510	5 547	8 043	1 791	21 319	6 903
Short-term liabilities	**24 503**	13 959	5 036	543	960	257	3 748
Long-term interest-free liabilities	**10 831**	8 929	114	732	132	287	637
Long-term interest-bearing liabilities	**30 361**	-	-	-	-	-	30 361
Liabilities	**65 695**	22 888	5 150	1 275	1 092	544	34 746
Maintenance investments	**571**	447	-	57	1	66	-
Investments in new generating capacity	**1 413**	975	-	156	-	282	-
Investments in shares	**1 800**	1 625	37	-	-	138	-
Balance sheet 31.12.06							
Investments in associates	**30 634**	9 186	44	1 962	417	19 088	-63
Other assets	**72 429**	56 987	937	5 997	543	2 310	5 655
Assets	**103 063**	66 173	981	7 959	960	21 398	5 592
Short-term liabilities	**20 595**	14 421	1 503	548	258	987	2 878
Long-term interest-free liabilities	**12 319**	10 462	60	795	305	220	477
Long-term interest-bearing liabilities	**25 584**	-	-	-	-	-	25 584
Liabilities	**58 497**	24 883	1 563	1 343	563	1 207	28 939
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	-

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

SECONDARY SEGMENTATION

Secondary segmentation is based on the geographical origin of generating assets or activities.

NOK million	Group	Norway	Sweden	Finland	Germany	Other
2007						
Revenues	**17 619**	15 846	618	80	1 073	3
Assets	**110 112**	77 573	23 190	1 106	8 182	61
Investments in the period	**3 783**	3 482	22	-	280	-
2006						
Revenues	**16 200**	14 767	942	99	391	-
Assets	**103 063**	72 796	25 630	1 193	3 441	3
Investments in the period	**4 448**	2 575	32	-	1 840	-

→ 07 SALES REVENUES

Statkraft optimises its hydropower 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. 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 share 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	2007	2006
Net physical spot sales, incl. green certificates	**5 469**	8 560
Concessionary sales at statutory prices	**213**	195
Industrial sales at statutory prices	**1 713**	1 773
Long-term commercial contracts	**1 582**	1 494
Dynamic hedging	**1 593**	28
Trading and origination	**623**	528
Distribution grid	**1 535**	1 933
End-users	**3 390**	806
District heating	**315**	271
Other/eliminations	**111**	-267
Total	**16 544**	15 321

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

Annual delivery volume in TWh for concessionary and industrial sales

TWh	Industry	Concessionary	Total
2008	9.3	2.9	**12.1**
2009	9.3	2.9	**12.1**
2010	9.3	2.9	**12.1**
2011	1.5	2.9	**4.3**
2012	0.5	2.9	**3.3**
2013	0.5	2.9	**3.3**
2014	0.5	2.9	**3.3**
2015	0.5	2.9	**3.3**
2016	0.5	2.9	**3.3**
2017	0.5	2.9	**3.3**
Total	32.1	28.7	**60.8**

Price and volume of concessionary sales and statutory-priced contracts

	2007	2006
Concessionary sales – Volume (TWh)	**2.9**	2.9
Concessionary sales – Price (NOK/MWh))	**88**	83
Statutory-priced contracts – Volume (TWh)	**10.3**	13.1
Statutory-priced contracts – Price (NOK/MWh)	**166**	135

Statutory-priced industrial contracts will largely gradually expire in the period leading up to 2011. As the statutory-priced contracts expires, they will mainly be replaced by commercial agreements.

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-fired power plants in Norway and Germany, Statkraft has entered into long-term agreements concerning the purchase of gas from StatoilHydro and WINGAS respectively. Statkraft has no other significant long-term physical purchasing obligations.

→ 08 RESERVOIR LEVELS AND PRODUCTION (UNAUDITED)

Production

TWh	2007	2006
Hydropower	**42.7**	45.2
Wind power	**0.7**	0.5
Gas power	**1.5**	-
Total	**44.9**	45.7

Reservoir levels

TWh	31.12.07	31.12.06	Max capacity
Group	**30.2**	23.3	39.7

In a normal year reservoir 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 2007 was higher than in a normal year. The reservoir water level as at 31 December 2007 was higher than normal.

→ 09 OTHER OPERATING REVENUES

NOK million	2007	2006
Power plant leasing revenues	**119**	110
Other leasing and service sales revenues	**427**	460
Gains/losses on sale of property, plant and equipment	**9**	22
Compensation payments	**10**	124
Other	**510**	163
Total	**1 075**	879

The item Other in 2007 includes daily fines of NOK 226 million and insurance payments recognised in the income statement in the amount of NOK 238 million.

→ 10 UNREALISED CHANGES IN THE VALUE OF ENERGY DERIVATIVES

Unrealised changes in value of energy derivatives are broken down per portfolio in the table below. Individual portfolios are described in Note 32. All changes in value relate to financial instruments, which in accordance with IAS 39 are recognised at fair value, with changes in value being recognised through profit or loss.

NOK million	2007	2006
Nordic hydropower portfolio excluding industrial power	**-1 515**	311
Industrial power contracts in the Nordic hydropower portfolio	**407**	2 176
Trading and origination	**-401**	50
Baltic Cable and continent	**122**	20
End-user portfolio	**53**	-12
Gas power activities	**595**	-570
Total	**-739**	1 975

→ 11 SALARIES AND PAYROLL COSTS AND NUMBER OF EMPLOYEES

NOK million	2007	2006
Salaries	**1 178**	966
Employer's national insurance contributions	**172**	164
Pension costs	**205**	126
Other benefits	**49**	64
Total	**1 604**	1 320

The Group employed an average of 2,187 full-time equivalents in 2007. The corresponding figure for 2006 was 2,055.

→ 12 PENSIONS

BENEFIT SCHEMES

OCCUPATIONAL PENSION SCHEMES OPERATED BY GROUP COMPANIES

The majority of employees in the Group's Norwegian companies participate in public service occupational pension schemes in accordance with the Norwegian Public Service Pension Fund Act, the Norwegian Public Service Pension Fund Transfer Agreement and regulatory framework governing public service pensions. 2,228 employees and 1,406 pensioners were covered by benefit schemes as of 31 December 2007. The Skagerak Energi Group and Fjordkraft hold their pension plans in a separate pension fund. With the exception of Småkraft, the rest of the Group operate their pension plans through the Norwegian Public Service Pension Fund (SPK). Pension benefits from the SPK are guaranteed by the Norwegian state (Section 1 of the Pension Act). The occupational retirement pension scheme covers retirement, disability, surviving spouse and child's pensions. With fully paid-up contributions, the retirement pension scheme provides pension benefits amounting to 66% of pensionable income, up to 12 times the National Insurance Scheme's basic amount (G).

Pension scheme benefits are coordinated with the benefits provided by the National Insurance Scheme. All the companies also offer early retirement at the age of 62 under the Norwegian AFP pension scheme.

Statkraft pays an annual premium to SPK and is responsible for the financing of the scheme. The Norwegian Public Service Pension Fund scheme is, however, 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% of that portion of their pensionable income exceeding 12G. This scheme also provides some 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.

Employees who leave the company before pensionable age receive a deferred pension entitlement. Statkraft and Trondheim Energi are not responsible for the obligations relating to the schemes at the Norwegian Public Service Pension Fund. Deferred entitlements in Skagerak's Pension Fund are carried forward as a pension fund liability. In the case of the uncovered schemes, employees who leave receive a deferred pension entitlement.

ACTUARIAL CALCULATIONS – BENEFIT SCHEMES

The net present value of defined benefit pension obligations and the current year's accrued pension entitlements are calculated using the accrued benefits method. The net present value of pension benefits accrued at the balance sheet date adjusted for expected future salary increases until pensionable age is based on best estimates of assumptions as of 31 December 2007. Calculations are based on beneficiary numbers and salary data at the end of the year. Management believes that there have been no changes in assumptions and basis data that will have a material effect on the calculated liability as of 31 December 2007.

Actuarial losses in 2007 are primarily attributable to changes in the pension liability as of 31 December 2007 as a result of updated assumptions, beneficiary numbers and actual salary increases. As of 31 December 2007 the discount rate changed from 4.4% to 4.6% due to the adoption of new mortality and disability rates. The K2005 mortality tariff is used for the SPK schemes, while Skagerak's Pension Fund has applied a rate based on dynamic statistics based on mortality rates for 2004. Skagerak Energi has also changed its assumed expected future salary growth from 4% to 4.5%.

DEPOSIT SCHEMES
Group companies in Sweden and Finland operate deposit schemes in accordance with local legislation.

BACKGROUND FOR SELECTED ASSUMPTIONS/RISK TABLE
The discount rate is set at 4.6% and is calculated as a weighted average of the risk-free interest rate until the time when payments are expected to be made. Salary adjustments are calculated as the total of the expected actual salary increase of 1.5%, inflation of 2.25% and career progression add-on of 0.25–0.75%. In accordance with the current regulatory framework, adjustment of current pensions follows the regulation of the National Insurance Scheme's basic amount (G) and is established in the same way as salary increases. Demographic factors are updated by adjusting assumed mortality rates to follow the new K2005 tariff. The disability risk is set to equal the IR 73 tariff.

The following assumptions are used

	31.12.07	01.01.07	31.12.06	01.01.06
Annual discount rate	4.6%	4.4%	4.4%	4.2%
Salary adjustment	4–4.5%	4.0%	4.0%	2.7%
Adjustment of current pensions	4.0%	4.0%	4.0%	2.4%
Adjustment of National Insurance Scheme's basic amount (G)	4.0%	4.0%	4.0%	2.4%
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	0.0%	0.0%	0.0%	0.0%
Projected yield	4.6–6%	4.4–6%	4.4–6%	4.2%
Rate of inflation	2.25%	2.25%	2.25%	1.50%
Tendency to take early retirement (AFP)	20%	20%	20%	20%

Assumptions as of 31 December are used to calculate net pension liabilities at the end of the year, while assumptions as of 1 January are applied to calculate costs through the year.

Net pension cost breakdown

NOK million	2007	2006
Net present value of accrued pension entitlements for funded defined benefit schemes	**3 558**	3 109
Fair value of pension assets	**-2 463**	-2 103
Actual net pension liability for funded defined benefit schemes	**1 095**	1 006
Present value of accrued pension liability for unfunded defined benefit schemes	**223**	112
Cost of pension entitlements relating to previous years not recognised in the balance sheet	**-38**	-
Employer's national insurance contributions	**181**	157
Net pension liabilities in the balance sheet	**1 461**	1 275

Movement in defined benefit pension liability during the year

NOK million	2007	2006
Defined benefit pension liabilities as of 01.01	**3 221**	2 383
Increase in liabilities for new subsidiary	**90**	-
Net present value of accrued pension entitlements for the year	**160**	98
Interest expenses	**146**	102
Actuarial losses/gains on liabilities	**224**	737
Cost of pension entitlements relating to previous years	**4**	-
Paid benefits	**-101**	-99
Gross defined benefit pension liabilities as of 31.12	**3 743**	3 221

Movement in fair value of pension assets for defined benefit pension schemes

NOK million	2007	2006
Fair value of pension assets as of 01.01	**2 103**	1 931
Projected yield on pension assets	**112**	83
Actuarial gains/losses on pension assets	**78**	26
Total grants	**200**	155
Increase in pension assets for new subsidiary	**54**	-
Paid benefits	**-85**	-92
Fair value of pension assets as of 31.12	**2 463**	2 103

Pension assets comprise

NOK million	31.12.07		31.12.06	
Equity instruments	310	13%	283	13%
Interest-bearing instruments	1 869	76%	1 619	77%
Other	285	12%	201	10%
Fair value of pension assets	2 463	100%	2 103	100%

Statkraft and Trondheim Energi hold their pension schemes in SPK. Here the pension assets comprise a fictive fund that is invested in 1, 3, 5 or 10-year Norwegian government bonds or a combination of these. Up to 35% of the assets can be connected to the yield from the Norwegian Public Service Pension Fund – abroad, although Statkraft and Trondheim Energi are yet to utilise this option.

Skagerak Energi has its own pension fund which has invested its pension assets in a diversified portfolio of Norwegian and foreign interest-bearing securities, member mortgages, shares (max. 25%), hedge funds (max. 7%) and property (max. 10%) through external managers. The same applies to Fjordkraft, which is a member of BKK's Pension Fund.

Movement in actuarial gains/losses recognised directly in equity

NOK million	2007	2006
Accumulated amount recognised directly in equity before tax 01.01	**1 038**	227
Accumulated amount recognised directly in equity before tax new subsidiary	**35**	-
Recognised in the period	**168**	811
Accumulated amount recognised directly in equity before tax 31.12	**1 241**	1 038
Deferred tax related to actuarial gain/loss recognised directly in equity	**348**	291
Accumulated amount recognised directly in equity after tax 31.12	**894**	747

Pension cost recognised in the income statement

NOK million	2007	2006
Benefit schemes		
Present value of accrued pension entitlements for the year	**160**	98
Interest expense	**146**	102
Projected yield on pension assets	**-112**	-83
Cost of pension entitlements relating to previous years	**4**	-
Employee contributions	**-19**	-8
Employer's national insurance contributions	**24**	15
Pension cost benefit schemes	**203**	124
Deposit schemes		
Advance from employer	**2**	2
Total pension cost	**205**	126

Sensitivity analysis regarding changes in assumptions

	Discount rate		Annual salary increase		Increase in G		Departure rate	
	+1%	-1%	+1%	-1%	+1%	-1%	+1%	-1%
Change in net pension cost for the period	-29	37	39	-34	23	-23	-6	5
Change in net pension liability as of 31.12	-625	807	438	-379	310	-285	-50	13

→ 13 PROPERTY TAX AND LICENCE FEES

NOK million	2007	2006
Licence fees	**254**	255
Property tax	**729**	599
Total	**983**	854

Licence fees are adjusted in line with the Consumer Price Index, with the first adjustment taking place on 1 January five years after the licence was granted and every fifth year thereafter.

The net present value of the Group's future licence fee obligations that are not provided for in the annual financial statements is estimated at NOK 6,300 million, discounted at an interest rate of 4% in accordance with the regulations relating to the adjustment of licence fees, annual compensation and funds, etc.

→ 14 OTHER OPERATING EXPENSES

NOK million	2007	2006
Materials	**197**	182
Consultants and temporary employees	**630**	489
Costs of power plants operated by third parties	**197**	157
Compensation	**88**	76
Other operating expenses	**681**	532
Total	**1 793**	1 436

→ 15 FINANCIAL ITEMS

Financial items derive from financial instruments recognised in accordance with IAS 39. The column entitled Assessment basis indicates which category of financial instruments generate the income statement entry.

Financial income

NOK million	Assessment basis	2007	2006
Interest income liquidity	Designated as at fair value through profit or loss	**287**	218
Interest income other	Amortised cost	**48**	1
Financial derivatives, realised currency gains/losses	Held for trading as at fair value through profit or loss	**-**	-75
Bank accounts and loans, realised currency gains/losses	Amortised cost	**12**	91
Securities liquidity, realised gains/losses	Designated as at fair value through profit or loss	**26**	19
Dividend	Available for sale	**4**	12
Other financial income	Amortised cost	**23**	12
Total		**400**	279

Financial expenses

NOK million	Assessment basis	2007	2006
Interest expenses	Amortised cost	**-1 563**	-1 146
Guarantee premiums	Fees	**-73**	-117
Financial derivatives, realised currency gains/losses	Held for trading as at fair value through profit or loss	**-81**	-
Bank accounts and loans, realised currency gains/losses	Amortised cost	**33**	-41
Securities liabilities, realised gains/losses	IAS 39: Financial instrument designated as at fair value	**-3**	-37
Other financial expenses	Amortised cost	**-29**	-80
Total		**-1 717**	-1 422

Unrealised changes in value of financial instruments

NOK million	Assessment basis	2007	2006
Interest swaps	Held for trading as at fair value through profit or loss	**-410**	-207
Currency and interest swaps	Held for trading as at fair value through profit or loss	**-263**	-544
Forward exchange contracts	Held for trading as at fair value through profit or loss	**372**	-174
Foreign currency loans	Amortised cost	**530**	-97
Securities liquidity	Held for trading as at fair value through profit or loss	**-2**	-109
Total		**227**	-1 131
Net financial items		**-1 090**	-2 274

→ 16 TAXES

The total tax expense is calculated as follows

NOK million	2007	2006
Income tax	**2 008**	2 540
Resource rent tax	**758**	1 148
Corrections relating to previous years	**58**	-89
Change in deferred tax	**-691**	248
Tax expense in the income statement	**2 133**	3 847

Income tax payable

Taxes payable on the Group's profit for the year	**3 714**	2 814
Effect of Group contributions on tax liability	**-2 961**	-1 881
Income tax payable before offsetting against natural resource tax for the year	**753**	933

Tax payable in the balance sheet

Natural resource tax	**562**	571
Resource rent tax	**758**	1148
Income tax exceeding natural resource tax	**191**	362
Tax correction	**75**	36
Tax due from previous financial years	**-3**	44
Total tax payable in the balance sheet	**1 583**	2 161

Prepaid tax in the balance sheet

Prepaid natural resource tax	**1 073**	624
Prepaid correction tax	**75**	36
Prepaid tax in the balance sheet – see Note 20	**1 148**	660

Reconciliation of nominal tax rate and effective tax rate

NOK million	2007	2006
Profit before tax	**8 765**	11 582
Expected tax expense at a nominal rate of 28%	**2 454**	3 243
Effect on taxes of		
Resource rent tax	**571**	1 264
Tax rate differences outside Norway	**260**	-66
Change in tax rate/tax regulations	**-588**	-
Share of profit from associates	**-732**	-562
Tax-free income	**-14**	-8
Changes relating to previous years	**38**	-89
Other permanent differences, net	**145**	65
Total tax expense	**2 133**	3 847
Effective tax rate	**24.3%**	33.2%

BREAKDOWN OF DEFERRED TAX

The following table provides a breakdown of the net deferred tax liability. Deferred tax liabilities and assets connected with tax subjects/regimes are presented individually in the balance sheet. Deferred tax assets are recognised in the balance sheet to the extent that it is probable that these will be utilised.

NOK million	01.01.06	Recognised in the period	Recognised in equity	Company acquisitions/ sales	Other	31.12.06
Current assets/current liabilities	-405	-94	204	-	1 405	1 110
Operating assets	3 670	-61	99	-	-	3 708
Pension liabilities	-128	-55	-187	-	-	-370
Other long-term items	271	179	-	-	-	450
Tax loss carryforward/compensation	-172	-21	-	-	-	-193
Deferred tax, resource rent tax	1 500	373	-	-	-	1 873
Negative resource rent tax carryforward	-202	-73	-	-	-	-275
Total deferred tax asset	4 534	248	116	-	1 405	6 303
Of which recognised as deferred tax assets, see Note 17	1 633					1 585
Of which recognised as deferred tax liabilities, see Note 26	6 167					7 887

NOK million	01.01.07	Recognised in the period	Recognised in equity	Company acquisitions/ sales	Other	**31.12.07**
Current assets/current liabilities	1 110	-479	-4	-	-227	**400**
Operating assets	3 708	226	-107	14	-	**3 841**
Pension liabilities	-370	16	-46	-14	-	**-414**
Other long-term items	450	120	-	53	-	**623**
Tax loss carryforward/compensation	-193	167	-	-	-	**-26**
Deferred tax, resource rent tax	1 873	64	-	-	-	**1 937**
Negative resource rent tax carryforward	-275	-805	-	-	-	**-1 080**
Total deferred tax asset	6 303	-691	-157	53	-227	**5 281**
Of which recognised as deferred tax assets, see Note 17	1 585	-	-	-	-	**1 025**
Of which recognised as deferred tax liabilities, see Note 26	7 887	-	-	-	-	**6 306**

The item Other primarily relates to effects connected to the Group contribution to the parent company Statkraft SF.

Deferred tax recognised directly in equity

NOK million	2007	2006
Estimate deviations pensions	**-46**	-187
Hedging instruments	**-43**	204
Translation differences	**-68**	99
Total deferred tax recognised in equity	**-157**	116

Explanation of applied tax rates

28% – Company tax rate in Norway and Sweden
26% – Company tax rate in Finland
40% – Company tax rate in Germany (31.4% from 2008)
30% – Resource rent tax rate Norway
58% – Marginal tax rate Norway (resource rent tax rate + company tax rate)

→ 17 INTANGIBLE ASSETS

Intangible assets

NOK million	2007	2006
Deferred tax assets	**1 026**	1 585
Goodwill	**207**	207
Other	**356**	103
Total	**1 589**	1 895

Deferred tax is discussed in more detail in Note 16.

NOK million	Goodwill	Other	**Total**
Cost as of 01.01.06	366	9	**375**
Accumulated amortisation and impairment	-158	-4	**-162**
Book value as of 01.01.06	208	5	**213**
Additions	-	86	**86**
Currency effects	-1	12	**11**
Book value 31.12.06	207	103	**310**
Cost as of 31.12.06	365	107	**472**
Accumulated amortisation and impairment	-158	-4	**-162**
Book value 31.12.06	207	103	**310**
Additions	-	1	**1**
Additions on consolidation of new companies	-	512	**512**
Exchange differences	-	-4	**-4**
Amortisation	-	-20	**-20**
Accumulated amortisation on additions	-	-236	**-236**
Book value 31.12.07	207	356	**563**
Cost as of 31.12.07	365	616	**981**
Accumulated amortisation and write-downs	-158	-260	**-418**
Book value 31.12.07	207	356	**563**
Assumed economic lifetime	5–25 years	10–15 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.

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 2007 and 2006 primarily related to research. Total respective amounts of NOK 49 million and NOK 37.5 million were recognised in the income statement in respect of research and development activities in 2007 and 2006.

→ 18 PROPERTY, PLANT AND EQUIPMENT

NOK million	Water regulation facilities	Turbines, generators, etc.	Distribution grid facilities	Shares in power plants operated by third parties	Land, underground facilities, buildings, roads, bridges and quays	Facilities under construction	Other[1]	**Total**
Cost 01.01.06	26 488	18 482	9 554	3 094	11 780	2 364	2 785	**74 546**
Accumulated depreciation and impairment	-4 609	-8 176	-4 065	-747	-1 845	-	-1 224	**-20 674**
Book value 01.01.06	21 879	10 305	5 489	2 347	9 926	2 364	1 562	**53 872**
2006								
Book value 01.01.06	21 879	10 305	5 489	2 347	9 926	2 364	1 526	**53 872**
Additions (investments)	170	145	105	9	15	2 940	181	**3 565**
Additions on purchase of new subsidiaries	-	-	-	-	40	-	-	**40**
Transferred from facilities under construction	216	261	109	-	-	-755	169	**-**
Disposals	-	-6	-73	-	-12	-	-199	**-290**
Recognised loan expenses	-	-	-	-	-	53	-	**53**
Foreign currency effects	24	24	71	-	497	13	-2	**627**
Depreciation	-259	-476	-345	-83	-137	-	-186	**-1 486**
Book value 31.12.06	22 030	10 253	5 356	2 273	10 329	4 614	1 525	**56 381**
Cost 31.12.06	26 898	18 906	9 766	3 103	12 320	4 615	2 936	**78 543**
Accumulated depreciation and impairment	-4 868	-8 652	-4 410	-830	-1 991	-1	-1 411	**-22 162**
Book value 31.12.06	22 030	10 253	5 356	2 273	10 329	4 614	1 526	**56 381**
2007								
Book value 01.01.07	22 030	10 253	5 356	2 273	10 329	4 614	1 526	**56 381**
Additions (investments)	53	168	196	10	68	1 124	284	**1 903**
Transferred from facilities under construction	165	2 656	-	-	322	-3 985	842	**-**
Disposals	-	-20	-74	-	-34	-9	-	**-137**
Recognised loan expenses	103	7	-	-	-	1	2	**113**
Foreign currency effects	-53	-24	-74	-	-285	-81	-	**-517**
Depreciation	-289	-537	-335	-75	-125	-	-257	**-1 619**
Accumulated depreciation on disposals	-	-	68	-	14	-	22	**103**
Book value 31.12.07	22 009	12 503	5 137	2 208	10 288	1 664	2 418	**56 228**
Cost 31.12.07	27 166	21 692	9 814	3 113	12 390	1 664	4 063	**79 904**
Accumulated depreciation and impairment	-5 157	-9 189	-4 677	-905	-2 102	-	-1 645	**-23 676**
Book value 31.12.07	22 009	12 503	5 137	2 208	10 288	1 664	2 418	**56 228**
Depreciation period (years)	30–75 years	15–40 years	25–35 years	5–50 years	25–75 years	7 years perpetual	3–40 years	

[1] The item Other primarily relates to district heating facilities, buildings, office and computer equipment, electrotechnical installations and vehicles.

A more detailed specification of the various time in use for the various assets is provided below. There have been no material changes in depreciation schedules compared with previous years.

	Depreciation period (years)		Depreciation period (years)
Waterfall rights	perpetual	Distribution grid installations	
Dams		– transformers	35
– riprap dams, concrete dams	75	– switchgear, high voltage	35
– other dams	30	Buildings (admin etc.)	25–50
Tunnel systems	75	Other fixed installations	
Mechanical installations		– permanent	20
– pipe trenches	40	– less permanent	10
– generators (turbines, valves)	40	Miscellaneous chattels	5
– other mechanical installations	15	Land	in perpetuity
Underground facilities	75	Office and computer equipment	3
Roads, bridges and quays	75	Furnishings and equipment	5
Electrotechnical installations		Vehicles	8
– transformers/generators	40	Construction equipment	12
– switchgear (high voltage)	35	Small craft	10
– control equipment	15	Gas and steam generators	20–25
– operating centre	15	Water cooling systems	20–25
– communication equipment	10	Gas-fired power plant transformers	20–25

INVESTMENT PROPERTY

The Group owns properties in Trondheim, which it intends to develop in order to sell or lease. The market value of these properties has been assessed at NOK 142 million, and the properties have been recognised in the financial statements at a value of NOK 14 million. Market value is established on the basis of financial considerations in the form of cash flow analyses performed by an independent valuer in 2007. This valuation was primarily based on local market knowledge gained from reviewing the individual properties' abilities to generate rental income currently and in the future, along with the property's expansion potential, location, condition and knowledge of the interested parties' (purchasers') return requirements.

→ 19 ASSOCIATES AND JOINT VENTURES

COMPANIES RECOGNISED IN ACCORDANCE WITH THE EQUITY METHOD

Shares in associates and joint ventures of a material size are recognised using the equity method in the consolidated financial statements. This applies to the following companies:

Name	Registered office	Shareholding	Voting rights
Joint ventures			
Statkraft Norfund Power Invest AS (SN Power)	Oslo	50.0%	50.0%
Naturkraft AS	Tysvær	50.0%	50.0%
Kraftwerksgesellschaft Herdecke GmbH & Co KG	Düsseldorf	50.0%	50.0%
Catamount Energy Ltd	UK	50.0%	50.0%
Catamount Cymru Cyf	UK	50.0%	50.0%
GreenPower Carraig Gheal	UK	50.0%	50.0%
GreenPower Little Law	UK	50.0%	50.0%
HPC Ammerån AB	Stockholm	50.0%	50.0%
HPC Byske AB	Stockholm	50.0%	50.0%
HPC Edsox AB	Stockholm	50.0%	50.0%
HPC Röan AB	Stockholm	50.0%	50.0%
Associates			
Bergenshalvøens Kommunale Kraftselskap AS (BKK)	Bergen	49.9%	49.9%
Agder Energi AS	Kristiansand	45.5%	45.5%
E.ON Sverige AB	Malmö	44.6%	43.4%
Istad AS	Molde	49.0%	49.0%
Hydra Tidal Energy Technol AS	Oslo	28.3%	28.3%
Hytrec AS	Oslo	39.0%	39.0%
Ecopro AS	Verdal	25.0%	25.0%
Telenor Cinclus AS	Bærum	34.0%	34.0%
Censitel AS	Horten	40.0%	40.0%
Vestfold Trafo Energi AS	Stokke	34.0%	34.0%
Naturgass Grenland AS	Porsgrunn	30.0%	30.0%
Energi og Miljøkapital AS	Skien	35.0%	35.0%
Larvik Fibernett AS	Larvik	34.0%	34.0%
Skagerak Fibernett Vestfold AS	Porsgrunn	49.0%	49.0%
Midtnorge Kraft	Rissa	40.0%	40.0%

None of the companies have observable market values in the form of listed market prices or similar.

NOK million	BKK	Agder	Telenor Cinclus	SN Power	Naturkraft
Opening balance	6 129	4 111	23	815	693
Share of profits	483	390	-102	158	12
Amortisation of excess value	-15	-46	-	-	-
Investment/sale	-	-	94	1 200	370
Dividend	-372	-275	-	-	-
Translation differences[1]	-	-	-	-	-
Other[2]	-32	-34	-14	-	-
Closing balance	6 193	4 146	1	2 173	1 075
Excess value 31.12.07	2 377	2 562	-	-	-
Of which unamortised waterfall rights	1 818	333	-	-	-

NOK million	E.ON Sverige	Istad	Herdecke	Other	**Total**
Opening balance	18 378	269	-274	490	**30 634**
Share of profits	1 459	31	439	5	**2 875**
Amortisation of excess value	-188	-12	-	-1	**-262**
Investment/sale	-	-	40	88	**1 792**
Dividend	-744	-14	-	-14	**-1 419**
Translation differences[1]	-700	-	38	-	**-662**
Other[2]	-291	-5	-	-451	**-827**
Closing balance	17 914	269	243	117	**32 131**
Excess value 31.12.07	4 680	122	-	-	**6 953**
Of which unamortised waterfall rights	1 729	-	-	-	**1 729**

[1] Unrealised gains/losses resulting from foreign exchange fluctuations on investments are recognised as translation differences in equity. Unrealised gains/loans on hedging instruments related to the investment in E.ON Sverige AB are also recognised in equity and included in translation differences.

[2] Including items recognised in the company's equity. The item Other largely relates to the fact that Fjordkraft is no longer recognised as a joint venture, but consolidated as a subsidiary.

INVESTMENT AGREEMENT

As of 31 December 2007 Agder Energi and BKK had respective commitments to pay in capital of NOK 190 million to the Broadband Alliance. The payments were made in January 2008.

COMPANIES RECOGNISED IN ACCORDANCE WITH THE EQUITY BASIS – 100 PERCENT BASIS

The following key figures relate to Statkraft's largest investments in associates recognised on a 100% basis.

Income statement (unaudited)

	E.ON Sverige (SEK)		Agder		BKK	
NOK million	2007	2006	2007	2006	2007	2006
Operating revenues	30 908	26 103	5 032	4 722	3 035	3 312
Operating expenses	-25 363	-21 120	-3 733	-3 064	-1 482	-1 433
Operating profit	5 545	4 983	1 299	1 658	1 556	1 879
Profit before tax and minority interests	5 381	5 274	1 141	1 536	1 610	1 831
Net profit	3 972	3 845	846	769	1 012	1 172

Balance sheet (unaudited)

NOK million	2007	2006	2007	2006	2007	2006
Noncurrent assets	90 852	82 884	11 486	10 971	14 305	14 245
Current assets	12 109	11 073	1 570	1 182	2 399	1 435
Assets	102 961	93 957	13 056	12 153	16 704	15 680
Equity	35 164	34 037	3 482	3 315	7 841	7 638
Minority interests	634	507	-	-	22	22
Long-term liabilities and obligations	48 970	43 193	6 200	5 996	2 415	4 237
Current liabilities	18 193	16 220	3 374	2 832	6 425	3 783
Equity and liabilities	102 961	93 957	13 056	12 153	16 704	15 680

JOINT VENTURES

Statkraft has shareholdings in jointly owned power plants. These power plants are treated as joint ventures and accounted for with Statkraft's share of income, expenses, assets and liabilities. Power plants with an ownership of less than 50% are operated by others.

Power plant	Shareholding
Grytten	88.00%
Vikfalli	88.00%
Folgefonn	85.06%
Kobbelv	82.50%
Ulla-Førre	73.50%
Svartisen	70.00%
Eidfjord	65.00%
Leirdøla	65.00%
Svorka	50.00%
Kraftverkene i Orkla	48.60%
I/S Sira-Kvina kraftselskap	46.70%
Mørkfoss-Solbergfoss	33.33%
Tyssefaldene	20.29%
Røldal-Suldal Kraft AS[1]	8.74%
Aurlandsverkene	7.00%

[1] Statkraft Energi AS owns 8.74% of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79% of the IS Røldal-Suldal Kraft power plant. Statkraft's indirect shareholding in the company is therefore 4.79%.

→ 20 OTHER NONCURRENT FINANCIAL ASSETS

Description	Valuation basis	2007	2006
Loan to Statkraft SF	Amortised cost	**1 014**	453
Loan to associates	Amortised cost	**284**	40
Prepaid natural resource tax	Amortised cost	**1 073**	624
Other shares and shareholdings	Available for sale	**183**	157
Equity investment CO_2 fund	Designated as at fair value	**147**	125
Bonds and other long-term receivables	Amortised cost	**243**	184
Total		**2 944**	1 583

All the above accounting items are designated as financial instruments in accordance with IAS 39.

→ 21 INVENTORIES

NOK million	2007	2006
Green certificates	**187**	-
Spare parts	**42**	55
Other	**74**	-
Total inventories	**303**	55

→ 22 RECEIVABLES

NOK million	2007	2006
Accounts receivable	**2 262**	990
Accrued revenues etc.	**1 310**	1 188
Interest-bearing restricted funds	**502**	1 063
Other receivables	**1 020**	492
Short-term receivables due from Statkraft SF	**-**	150
Total	**5 094**	3 883

All the above balance sheet items are valued at amortised cost in accordance with IAS 39. The fair value of receivables will generally closely approximate to book value.

→ 23 SHORT-TERM FINANCIAL INVESTMENTS

NOK million	2007	2006
Bonds	**156**	213
Shares and financial investments	**65**	75
Money market funds	**126**	91
Total	**347**	379

All the above balance sheet items are voluntarily valued at fair value in accordance with IAS 39.

→ 24 DERIVATIVES

The table below shows derivatives with respective positive and negative market values allocated by portfolio. The portfolios are described in Note 32. The figures for energy derivatives in the table below comprise the book values of contracts that are covered by the definition of financial instruments contained in IAS 39. The book values and underlying actual financial values of these derivatives can vary significantly since the portfolios contain contracts that are both covered and not covered by IAS 39.

All derivatives are recognised at fair value with changes in value being recognised through profit or loss.

Energy derivative assets

NOK million	2007	2006
Energy derivatives		
Nordic hydropower portfolio excl. industrial power	**947**	1 826
Industrial power contracts in Nordic hydropower portfolio	**773**	571
Trading and origination	**5 224**	2 700
End-user portfolio	**97**	-
Total	**7 041**	5 097
Currency and interest rate derivative assets		
Interest rate swaps	**493**	712
Forward exchange contracts	**216**	46
Combined interest rate and foreign currency swaps	**575**	638
Other instruments	**-**	3
Total	**1 285**	1 398
Total derivative assets	**8 326**	6 495

Energy derivative liabilities

NOK million	2007	2 006
Energy derivatives		
Nordic hydropower portfolio excl. industrial power	**2 504**	588
Industrial power contracts in the Nordic hydropower portfolio	**2 582**	4 161
Trading and origination	**5 344**	2 098
Baltic Cable and continent	**-**	35
End-user portfolio	**101**	5
Gas power activities	**955**	1 593
Total	**11 486**	8 480
Currency and interest rate derivative liabilities		
Interest rate swap agreements	**444**	138
Forward exchange contracts	**81**	316
Combined interest rate and foreign currency swaps	**443**	305
Total	**968**	759
Total derivative liabilities	**12 454**	9 239

→ 25 BANK DEPOSITS, CASH IN HAND ETC.

NOK million	Valuation basis	2007	2006
Money market funds, certificates, promissory notes, bonds	Designated as at fair value	**414**	59
Cash in hand and bank deposits	Amortised cost	**2 736**	1 699
Total		**3 150**	1 758

The above accounting items are treated as financial instruments in accordance with IAS 39.

Book value of assets pledged as guarantees for obligations
The following amounts in cash and cash equivalents are pledged as security for obligations

NOK million	2007	2006
Cash collateral for financial derivatives	**174**	-303
Deposit accounts for power trading on energy exchanges	**218**	308
Total	**392**	5

Cash collateral comprises payments made to/received from counterparties as security for net unrealised gains and losses Statkraft has on interest rate and currency swap agreements, and forward exchange contracts.

→ 26 PROVISIONS

NOK million	2007	2006
Deferred tax	**6 306**	7 887
Pension liabilities	**1 461**	1 275
Other provisions	**3 064**	3 157
Total provisions	**10 831**	12 319

Pension liabilities are discussed in more detail in Note 12, while deferred tax is covered in Note 16.

Other provisions primarily relate to an advance payment received in connection with a future power sales agreement for Rana Power Plant. The advance payment was received in 2005 and amounted to NOK 2,200 million. This is being amortised over the term of the agreement (15 years).

NOK million	Rana	Other	**Total**
Opening balance 01.01.06	2 053	1 100	**3 153**
New provisions made in the period	-	163	**163**
Amount used in the period	-147	-12	**-159**
Closing balance 31.12.06	1 906	1 251	**3 157**
New provisions made in the period	-	181	**181**
Amount used in the period	-147	-88	**-235**
Unused amount reversed in the period	-	-39	**-39**
Closing balance 31.12.07	1 759	1 305	**3 064**

→ 27 INTEREST-BEARING LONG-TERM LIABILITIES

NOK million	2007	2006
Loan from Statkraft SF	**6 034**	11 144
Bond loans on the Norwegian market	**15 311**	12 328
Other loans on non-Norwegian markets	**7 889**	937
External loans in subsidiaries	**1 127**	1 176
Total	**30 361**	25 584

All the above balance sheet items are recognised at amortised cost in accordance with IAS 39.

→ 28 CURRENT LIABILITIES

Short-term interest-bearing liabilities

NOK million	2007	2006
Debt connected to cash collateral	**714**	793
Certificate loans	**900**	1 699
Overdraft facilities	**351**	-
First year's repayment of long-term liabilities	**4 958**	3 945
Total	**6 923**	6 437

Other interest-free liabilities

NOK million	2007	2006
Trade payables	**847**	1 027
Public charges payable	**808**	449
Other interest-free liabilities	**1 709**	934
Current liabilities due to Statkraft SF	**178**	348
Total	**3 542**	2 758

All the above balance sheet items are valued at amortised cost in accordance with IAS 39. The fair value closely approximates to the book value.

→ 29 USE OF FINANCIAL INSTRUMENTS

THE EFFECT OF FINANCIAL INSTRUMENTS ON THE FINANCIAL POSITION AND RESULTS

Financial instruments account for a significant part of Statkraft's total balance sheet and are of material importance for the Group's financial position and results. Most of the financial instruments can be categorised into the two main categories of finance and energy trading. Financial instruments used in finance primarily consist of loans, interest rate and foreign currency swap agreements and forward exchange contracts. Financial instruments used in energy trading primarily comprise financial and non-financial agreements for the purchase and sale of power and gas, as well as embedded derivatives in physical energy sale agreements. In addition to the above, there are further financial instruments in the form of trade receivables, trade payables, cash, short-term liquidity investments and equity investments.

A range of financial instruments are used within the area of finance as part of a financial hedging strategy without, however, satisfying the detailed and formal requirements for hedge accounting contained in IAS 39. The hedging objects are often assets in foreign currency, future cash flows or financial instruments valued at amortised cost, while hedging instruments are measured at fair value with changes in value being recognised through profit or loss. Changes in the fair value of these instruments will result in a significant degree of volatility in the income statement without fully reflecting the financial realities of a company's situation. Hedge accounting in accordance with IFRSs has been used in certain cases. This applies to selected loan arrangements where the interest rate has been switched from fixed to floating rates (fair value hedging), and hedging of some SEK investments (hedging of net investments in a foreign unit). To highlight the unrealised effects of financial derivatives to the greatest extent possible, this type of contract, and their associated changes in value, are presented on individual lines in the income statement and the balance sheet.

Significant use is made of financial instruments in trading activities within energy trading. A further series of financial instruments are used as part of a financial hedging strategy in which future revenues from parts of expected output are hedged. This is not treated as hedge accounting in accordance with IAS 39 due to the fact that this type of hedge accounting will not necessarily be able to fully reflect the underlying financial realities. Some energy derivatives are also embedded derivatives that are components of non-financial contracts that are not as such covered by IAS 39. Energy derivatives are measured at fair value with changes in value being recognised through profit or loss. In light of the significant volumes connected to such contracts, changes in value of the contracts will potentially result in major volatility in the balance sheet and income statement, without this fully reflecting the underlying business. To highlight unrealised effects of such contracts to the greatest extent possible, this type of contract, and their associated changes in value, are presented on individual lines in the income statement and the balance sheet.

→ 30 HEDGE ACCOUNTING

GENERAL POINTS ON HEDGE ACCOUNTING AT STATKRAFT

Fair-value hedging

Only one loan arrangement is treated as a fair value hedge. An issued bond loan is designated as a hedged item in the hedging relationship, while an associated interest rate swap agreement is designated as a hedging instrument.

The opportunities for further hedge accounting through fair value hedging are assessed on an ongoing basis as new borrowings are taken out and hedging contracts are established, as well as by assessing the hedging efficiency of the hedging relationships. Hedge accounting will normally be used in cases where the efficiency of hedging can be documented.

Hedging of net investments in a foreign unit

Some investments in SEK are hedging objects covered by hedge accounting for net investments in a foreign unit. A set of financial instruments have been designated as hedging instruments in this hedging relationship. Statkraft has not used hedge accounting for any other foreign operations.

Cash flow hedging

Statkraft currently does not make use of cash flow hedging. The opportunities for hedge accounting are assessed on an ongoing basis on the finance side, and hedge accounting will normally be used in cases where hedging efficiency can be documented. In the case of power production, Statkraft has concluded that hedge accounting will not necessarily provide the desirable level of risk reduction for accounting results. Consequently opportunities to document hedge accounting connected to power production are not assessed on an ongoing basis.

MORE DETAILED DESCRIPTION OF FAIR-VALUE HEDGING
The hedging object is an issued fixed interest bond with a par value of EUR 600 million. The hedging instrument is an interest swap agreement with a par value of EUR 600 million entered into with a major bank as counterparty. The interest rate swap agreement swaps interest from fixed to floating for six months EURIBOR. The hedged risk in the hedging relationship is interest rate risk. The critical terms of the hedged item and hedging instrument are deemed to be exactly the same, and 100% hedging efficiency is assumed. As a result of the 100% efficiency of the hedging relationship, no effects of inefficiency in the hedging relationship are recognised in the income statement.

MORE DETAILED DESCRIPTION OF NET INVESTMENTS IN A FOREIGN UNIT
Parts of the investment in SEK in the associated company E.ON Sverige AB are designated as a hedged item in hedge accounting of net investments in a foreign operation. A set of financial instruments have been designated as hedging instruments in this hedging relationship. These instruments comprise currency swap agreements from Swedish to Norwegian kroner, and forward exchange contracts for the sale of Swedish kroner. The hedged risk in the hedging relationship is foreign currency risk connected to exposure in Swedish kroner. The critical terms of the hedged item and hedging instrument are deemed to be exactly the same, and 100% hedging efficiency is assumed. As a result of the 100% efficiency of the hedging relationship, no effects of inefficiency in the hedging relationship are recognised in the income statement.

Fair-value of hedging instruments

NOK million	2007	2006
Hedging instruments used in fair-value hedging	**-27**	-
Hedging instruments used to hedge net investments in a foreign operation	**225**	-437
Total fair value of hedging instruments	**198**	-437

Other information on fair-value hedging

NOK million	2007	2006
Gains and losses on hedging instruments	**-27**	-
Gains and losses on hedged items, in relation to the hedged risk	**27**	-

→ 31 FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE OF ENERGY DERIVATIVES
The following parameters and assumptions are applied in the fair value measurement of energy derivatives:

Electricity price
Nord Pool contracts are valued at official closing rates at the balance sheet date. The closing rates are discounted.

Other bilateral power contracts are valued on the basis of a market price curve (system price). Closing rates on Nord Pool are used for contracts with terms between 0 and 5 years. For contracts with terms of between 5 and 10 years, the price is extrapolated on a straight-line basis based on observed trading of 5–10 year contracts on the market, and broker quotes for corresponding contracts. For time horizons of more than ten years the price is adjusted by the expected inflation rate.

Some contracts are linked to area prices. These contracts are valued using the official closing rates on Nord Pool. The price is adjusted for the expected rate of inflation for contracts that extend beyond the horizon quoted on Nord Pool.

Foreign currency
Several power contracts have prices denoted in different currencies. Current market prices are obtained from major financial institutions for such currencies. If quotes are not available for the entire time horizon, the foreign currency price curve for this area is uniformly applied like the latest quoted price.

Commodities
Some power contracts have a contract price that is linked to the price development of various commodities. These are valued using forward prices from relevant commodity exchanges. If quotes are not available for the entire time horizon, the commodity prices are adjusted for inflation based on the most recent quoted price on the market.

CO_2
CO_2 contracts are priced based on the forward price of EUA quotas and CER quotas. Statkraft uses the closing rate on Nord Pool to price EUA quotas. The closing rate on Nord Pool and broker quotes are used to establish the market price of CER quotas.

For certain power sale agreements that are recognised at fair value, the price is dependent on CO_2 costs at the Group's gas-fired power plants. Here it has been assumed from 2007 that the power plants will not be allocated free carbon quotas after the expiry of the Kyoto Protocol in 2012.

Interest rates
The market interest rate curve (swap interest rate) is used as a basis for discounting expected cash flows from derivatives. This is obtained from major financial institutions. In cases where the credit risk is relevant, the interest rate curve is adjusted upwards accordingly.

FAIR VALUE OF CURRENCY AND INTEREST RATE DERIVATIVES
Interest rate swaps, foreign currency swaps and forward exchange contracts
Interest rate swaps are measured using valuation techniques where expected cash flows are discounted to net present value. Expected cash flows are calculated and discounted using observed market interest rates for the various currencies (swap interest rate curve) and observed foreign currency rates (from which forward foreign currency rates are derived). Calculated present values are checked against the corresponding calculations from counterparties to the contracts.

FAIR VALUE OF SHORT-TERM FINANCIAL INVESTMENTS

Certificates and bonds

Certificates and bonds are valued at quoted prices where prices are available and the securities are liquid. Other securities are valued using valuation techniques and by discounting expected future cash flows.

Shares

Equity investments are measured at quoted prices where such are available and the securities are liquid. Other securities are valued using valuation techniques and by discounting expected future cash flows.

FAIR VALUE OF EQUITY INVESTMENTS IN THE CO_2 FUND

Equity investments in the CO_2 fund are designated as "at fair value through profit or loss" and measured using valuation techniques and by discounting expected future cash flows. The most important assumptions for calculating fair value are those relating to the number of quotas that are allocated from the fund, and the future trading price of such quotas.

FINANCIAL INSTRUMENTS RECOGNISED IN ACCORDANCE WITH CRITERIA OTHER THAN FAIR VALUE.

		2007		2006	
NOK million	Other note	Book value	Fair value	Book value	Fair value
Receivables					
Loans to Statkraft SF	Note 20	1 014	1 022	453	453
Total		1 014	1 022	453	453
Liabilities					
Loans from Statkraft SF	Note 27	6 034	6 362	11 145	11 870
Bond issues on the Norwegian market	Note 27	15 311	15 537	12 328	12 613
Other loans raised on non-Norwegian markets	Note 27	7 889	8 017	937	1 130
External loans in subsidiaries	Note 27	1 127	1 223	1 176	1 234
Certificate loans	Note 28	900	914	1 700	1 710
First year's repayments of long-term liabilities	Note 28	4 958	4 931	3 945	4 166
Liabilities connected to cash collateral	Note 28	714	714	793	793
Total		36 932	37 697	32 023	33 516

All the above instruments are recognised at amortised cost in the balance sheet, with the exception of one loan in EUR which is measured at fair value as result of the hedging arrangement described in Note 30. The fair value that is presented is calculated on the basis of the observed interest rate curve in the market. Thus no account is taken of changes in Statkraft's own credit risk. In light of the volatile international credit markets, credit margins are rated on the basis of reports from market players. Statkraft's credit margin on the Norwegian market is rated at 35 basis points for 5 years and 50 basis points for 10 years. The credit margin in the euro market is rated significantly higher. Individual trades in Statkraft's outstanding bond loan show an increased credit spread and lower price compared with comparable companies. The average term for Statkraft's borrowing is 5.5 years and an increase in the credit spread of +10 basis points could result in a reduced market value of outstanding debt amounting to NOK 159 million.

For all other financial instruments other than those listed above, the book value of such instruments either equals or is deemed to closely approximate to fair value.

→ 32 MARKET RISK IN THE GROUP

GENERAL COMMENTS ON RISK CONCERNING FINANCIAL INSTRUMENTS

Statkraft's financial instruments are exposed to market risk. Market risk is the risk that a financial instrument's fair value or future cash flows will fluctuate as a result of changes in market prices. Market risk primarily relates to power price risk, interest rate risk and foreign currency risk. Risk management at Statkraft focuses on entire portfolios of contracts rather than on specific contracts in accordance with IAS 39. The following section contains a more detailed account of the various types of risk, and how these are managed.

ELECTRICITY PRICE RISK

DESCRIPTION OF THE VARIOUS PORTFOLIOS

Nordic hydropower

The Nordic hydropower portfolio is intended to cover hydropower production in the Nordic region and the risk associated with this. All financial and parts of some physical contracts are measured at fair value. The physical contracts that are measured at fair value are contracts with volume optionality and embedded derivatives.

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. The portfolio is intended to hedge the value of future revenues. The management portfolio normally has a net financial short position.

The physical sales commitments comprise 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 certain of these sales obligations the price is indexed to other market risks such as metals and foreign currency (embedded derivatives).

The financial contracts are both contracts traded via Nord Pool and bilateral contracts. These generally have terms of less than five years, though some financial contracts run until 2020. To some degree the perpetual concessionary power contracts 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 with several Norwegian energy companies. Statkraft has a 53.46% share of the above-mentioned volume.

Trading and origination
Statkraft has various portfolios for trading and origination that are managed independently of the company's expected electricity production. The portfolios act in the market with the intention of realising gains on short and long changes in the market values of energy, and are described in more detail below.

All trading and origination contracts are valued at fair value in accordance with IAS 39.5 and 39.6.

Trading (Norway) The Norway portfolio comprises short-term financial forward and option contracts for electricity and CO_2 contracts traded via Nord Pool. The portfolio also contains bilateral financial contracts normally with identical terms to standardised contracts traded via Nord Pool.

Origination (Norway) Statkraft offers customers customised bilateral contracts. Excess values compared with standard contracts listed on power trading markets are generated by adapting the contract terms to suit customers' individual requirements. Listed liquid contracts such as system price, area prices and foreign currency are generally used to reduce the risk involved in trading in structured products. The majority of the contracts in the portfolio have terms of up to five years, though some contracts run until 2017.

Statkraft Financial Energy This portfolio consists of physical and financial bilateral contracts as well as cleared contracts in the Nordic market and hedging contracts in various currencies. CO_2 and green certificates are also traded. Efforts are generally made to offset the bulk of the volume exposure by entering into corresponding standardised financial contracts, so that the portfolio's total net exposure remains relatively moderate.

Continental Asset Hedges This portfolio comprises hedging contracts related to Baltic Cable AB and the gas-fired power plants in Germany. The Baltic Cable portfolio comprises financial power contracts with both the Nordic electricity market and the European electricity market. The objective of the portfolio is to hedge price differences with a time perspective of 0–5 years. Electricity purchases from the gas-fired power plants are hedged using forward contracts for the commodities oil and coal and the electricity price.

Statkraft Markets Continental Statkraft Markets Continental has organised its commodity derivative trading activities in three portfolios: trading, origination and CO_2/green certificates.

The trading portfolio mainly comprises electricity contracts traded on the Scandinavian, German and Dutch markets. Despite the development of organised financial markets, such as the EEX (Germany) and the 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 United Kingdom and Zeebrugge in Belgium.

The origination portfolio consists of structured contracts. These are electricity contracts with embedded 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 subportfolio 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 certificates cover trading in various green certificates and carbon quotas as well as documentation of the physical flows of environment-friendly power.

End-user sales
The Group has two portfolios connected with end-user activities. These are incorporated in Fjordkraft AS and Trondheim Energi Kraftsalg AS respectively. In this context end-user activities refers to sales to end-users who are private consumers, public enterprises/government agencies or private businesses and industry, though not to major industrial businesses within Nordic hydropower. Contracts with the latter are connected to the management portfolio. Various types of contracts are entered into with end-users, including both physical and financial contracts. Physical contracts may have a spot price, variable price, fixed price or variable price with a ceiling. Ongoing deliveries of electricity are made by purchasing at spot price. Many of the physical contracts that are entered into have volume flexibility. Some of the financial contracts that are entered into via Nord Pool have back-to-back agreements with end-users.

DESCRIPTION OF RISK MANAGEMENT FOR POWER PRICE RISK
Internal guidelines regulating the degree of exposure in the market are generally established for both hedging and trading purposes. The responsibility for ongoing follow-up of issued authorisations and frameworks lies with independent organisational units in Oslo and Düsseldorf. The frameworks for trading in both financial and physical contracts are continually monitored and regularly reported.

Nordic hydropower Statkraft trades in various physical and financial instruments to hedge revenues. Contract trading helps to stabilise the company's revenues from year to year, which is deemed desirable in light of the major uncertainty that otherwise attaches to overall power sales revenues. The purpose of hedging, which takes into account the company's current and future production ability, is to secure an optimal contract position in relation to the company's risk attitude. Statkraft is exposed to both price and volume risk, because both future price and inflow are unknown. Authorisations for power trading are based on annual volume thresholds and the situation with regards to available production. Individual market strategies have also been established at operating level, which also safeguard the consideration of risk based on a PaR (Profit at Risk) method with different potential outcomes. For purposes of risk management financial and physical contracts are regarded as one item.

Trading portfolios VaR (Value at Risk – the maximum loss that can be incurred with a given probability over a given period) is the most important tool for risk management in this portfolio. Although the traded volume is significant, the financial exposure connected to trading at any one time is limited. Authorisations for power trading are based on amount thresholds for any losses. Risk management at operative level focuses on minimising such potential losses.

Origination portfolios The risk in this business is to a significant extent hedged by trading in standard contracts. Residual economic exposure is small in relation to hedging and is quantified using both VaR and PaR. Internal restrictions on these target figures are used to ensure that the exposure remains within adopted guidelines. As a rule listed liquid contracts (system price, area prices and currency) are used to reduce the risk associated with trading in structured products. The risk in the portfolio is connected to exposure in price areas, profiles, volatility in options and user time contracts, temperature, foreign currencies and CO_2.

END-USER ACTIVITIES

This business is exposed to an electricity price risk where fixed prices are agreed with end-users, and where changes in floating prices have to be notified to the end-users with a certain notice period. Where this type of price risk exists, prices will be hedged by entering into financial hedging contracts with Nord Pool. Efforts are normally made to eliminate the bulk of the power risk, and frameworks have been established for maximum exposure within various time periods of delivery periods. The existing exposure in relation to the established frameworks are reported to management. End-user portfolios are also exposed to a volume risk due to the fact that many physical contracts have volume flexibility. Based on experience, knowledge of normal seasonal fluctuations and knowledge of other specific conditions that impact the electricity consumption of end-users, calculations of the volumes that can be expected to be consumed and for which hedging relationships must therefore be made.

COMMODITY PRICE RISK

Several power contracts in the Nordic hydropower portfolio, both statutory industrial contracts and commercial industrial contracts, are indexed against the price of various commodities/metals (product price dependent contracts). This helps ensure that the power costs in power-intensive industries will correlate with the revenues. Volume authorisations have been established in connection with the products that are traded in the forwards market. Product-price dependent power contracts are included in the risk measurement for the hydropower portfolio.

GAS PRICE RISK

The Group has shareholdings in three gas-fired power plants, two in Germany and one in Norway, and has in this connection entered into long-term supply contracts for natural gas. The purchase price in these contracts is indexed to various carbon-related commodities. Price development in the spot market for electricity, gas, the underlying commodities included in the indexing and CO_2 therefore affect the gas-fired power plants' earnings. Statkraft performs hedging activities in accordance with the applicable mandates by locking in earnings when electricity prices are attractive relative to gas prices plus carbon costs. The company's Risk Management group follows up exposures and hedging deals on an ongoing basis.

FOREIGN CURRENCY AND INTEREST RATE RISK

Statkraft is exposed to two main types of market risk on the finance side; foreign exchange risk and interest rate risk. Statkraft's method of managing these risks is described below.

FOREIGN EXCHANGE RISK

Statkraft's foreign exchange risk primarily relates to power sales revenues in foreign currencies, as well as its shareholding in E.ON Sverige and other SEK-based investments. The operational currency for trading at Nord Pool is EUR, and all contracts that are entered into via Nord Pool are denoted in EUR. This means that all contracts entered into via Nord Pool are exposed to EUR. Statkraft hedges the EUR exposure connected with cash flows from power sales (physical contracts and financial trading on Nord Pool). Statkraft hedges the EUR exposure connected with cash flows as a result of hedged power sales (physical contracts and financial trading on Nord Pool). Financial investments in foreign currency can be hedged. To hedge exposure, both financial derivatives and loans in foreign currency are used as hedging instruments. Even where the financial circumstances are such that hedging could be presumed to exist, few of these hedging relationships qualify as hedge accounting under IAS 39.

Exposure to foreign exchange risk is continually followed up by the department for risk management in finance. Responsibility for respectively entering into and following up positions is subject to division of responsibility and allocated to separate organisational units. The value exposure per currency is regularly reported to Group management through the EVP Finance in relation to established frameworks in the finance strategy.

INTEREST RATE RISK

The majority of Statkraft's interest rate risk exposure relates to the loan portfolio. 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, but that up to 50% of the loan portfolio may be exposed to fixed interest rates. As a rule fixed interest rates shall apply for a period of more than five years. The strategy for managing interest rate risk is established based on an objective of achieving the most cost-efficient financing possible, but is also coupled with a desire for a certain stability and predictability in finance costs. A management framework has also been established to limit the interest rate exposure in currencies other than NOK. The positions that shall be entered into are assessed by currency on an ongoing basis, given the market conditions observed for the currency and the overall exposure that exists for that currency.

Exposure to interest rate risk is continually followed up by the department for risk management in finance. Responsibility for respectively entering into and following up positions is subject to division of responsibility and allocated to separate organisational units. The value exposure per currency is regularly reported to the Group management through the EVP Finance in relation to established frameworks in the finance strategy.

USE OF INTEREST RATE AND FOREIGN CURRENCY INSTRUMENTS

Statkraft uses interest rate and foreign currency instruments in its management of the company's interest rate and foreign exchange exposure. Interest rate and currency swaps and forward interest rate agreements are used to achieve the desired currency and interest rate structure for the company's borrowing portfolio. Forward exchange contracts are used to hedge cash flows in foreign currencies and occasionally to establish commitments as part of the hedging of foreign currency investments.

→ 33 ANALYSIS OF MARKET RISK

Statkraft's main activities are the generation and trading of electrical power. In a market in which hydropower plays an important role, and where the supply of water varies a great deal from year to year, price and generating capacity will also vary considerably. Statkraft makes considerable use of forward contracts and other financial instruments to hedge its revenues. Market risk connected with energy optimisation thus covers volume risk, electricity price risk in the spot market and risk connected with positions in financial instruments. Market positions are also taken up in connection with the trading and origination portfolios. Statkraft is further exposed to market risk related to interest rate and foreign currency positions, district heating and end-user activities along with risk connected to distribution grid operations due to the fact that revenues are linked to the interest rate market.

The Statkraft Group quantifies risk as deviations from expected results with a given confidence level. Market risk is included in these calculations, and these calculations are used both in the follow-up of the business areas/portfolios and at Group level as part of reporting to Group management and the board. Statkraft's risk targets for market risk shall have a 95% probability of covering all potential losses (deviations from expected results) connected with market risk of positions at the balance sheet date during the course of a year. Uncertainty in the underlying instruments/prices and their interrelatedness are calculated using statistical methods.

The time horizon for the calculations is one year. For contracts with exposure of more than one year, only uncertainty affecting the current year is reflected in the calculations. The exposure can take the form of actual exposure or an expected maximum utilisation of frameworks. The model also takes into account covariation, both within the individual areas and between the areas.

Total market risk is calculated at NOK 1,563 million as of 31 December 2007, where the main risk relates to energy optimisation. The increase in energy utilisation from 31 December 2006 to 31 December 2007 should be seen in conjunction with the fact that expected revenues for 2008 are greater than those for 2007, and that the downside (risk) is therefore also greater.

NOK million	**2007**	2006
Market risk, energy optimisation	**1 548**	999
Market risk, trading and origination	**193**	194
Market risk, interest rates and foreign currency	**91**	33
Market risk, distribution grid revenues	**15**	93
Market risk, end-user activities	**40**	65
Diversification effects	**-325**	-361
Total market risk	**1 563**	1 023
Diversification effect as percentage	**17%**	26%

Breakdown of debt by currency[1]

NOK million	**2007**	2006
Debt in NOK	**18 241**	12 425
Debt in SEK	**13 882**	17 551
Debt in EUR	**3 941**	-
Total	**36 064**	29 976

[1] Includes interest rate and foreign currency swaps.

Breakdown of interest rates by currency[1]

	2007	2006
Average nominal interest rate, NOK	**5.1%**	5.3%
Average nominal interest rate, SEK	**3.7%**	2.5%
Average nominal interest rate, EUR	**4.8%**	-

[1] Includes interest rate and foreign currency swaps.

Fixed rate loan portfolio[1]

NOK million	2008	1–3 year	3–5 year	5 years and later	**Total**
Debt in NOK	1 996	1 780	2 777	11 669	**18 222**
Debt in SEK	13 882	18	-	-	**13 900**
Debt in EUR	1 194	-	397	2 350	**3 941**
Total	17 072	1 798	3 174	14 019	**36 064**

[1] Includes interest rate and foreign currency swaps.

Liquid funds – bonds per debtor category

NOK million	**2007**	2006
Commercial/savings banks	**82**	83
Industry	**32**	39
Public sector	**42**	91
Total	**156**	213

2007

	Duration	Av. interest rate (%)
Commercial/savings banks	1.15	8.24
Industry	3.36	5.72
Public sector	4.61	4.99
Total	9.12	18.95

→ 34 CREDIT RISK AND LIQUIDITY RISK

Statkraft's financial instruments are exposed to credit risk and liquidity risk.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. Statkraft is exposed to credit risk through power trading and physical sales, investing its surplus liquidity and trading in financial instruments.

The majority of financial instruments entered into are cleared through Nord Pool Clearing. No counterparty risk is assumed for these contracts. For all other power contracts, frameworks are established for individual counterparties based on an internal credit rating. Counterparties are grouped into four different categories. The internal credit rating is based on key financial figures. Bilateral contracts are subject to frameworks for each counterparty with regard to volume, amount and duration.

In some cases, bank guarantees are used to reduce the credit risk on entering into agreements. The bank that issues the guarantee must be an internationally rated commercial bank. Parent company guarantees are also used. The parent company is assessed and categorised in the normal way in such cases. It will naturally never be possible to rate a subsidiary above its parent company. In cases where bank guarantees and parent company guarantees are issued, the counterparty can be upgraded to a higher class in the internal credit rating.

Statkraft has netting agreements with several of its counterparties within energy trading. Incoming and outgoing cash flows are netted off and the debtor pays the net amount owing to the contract counterparty. Settlement is normally effected on a monthly basis.

Excess liquidity is primarily placed with institutions with BBB ratings or higher. A loss potential regarding the non-fulfilment of the contract by the counterparty is calculated for financial instruments. Statkraft has entered into an agreement for ongoing cash settlement of the market value of financial instruments with most of its counterparties (cash collateral), which means that counterparty exposure connected to these agreements is strongly reduced.

Statkraft has efficient follow-up routines to ensure that outstanding receivables are paid in accordance with agreements. Aged debtor listings are followed up on an ongoing basis. If a contract counterparty experiences payment problems, special procedures are followed.

The risk of counterparties not having the economic means to fulfil their obligations is regarded as limited. Historically Statkraft's bad debts have been of a limited scope.

The maximum credit risk associated with energy derivatives approximately equates to the book values recognised in the balance sheet. The frameworks for exposure for individual counterparties is continuously monitored and regularly reported. Counterparty risk is also quantified by combining exposure with the probability of an individual counterparty default. The total counterparty risk is calculated and reported for all relevant units in addition to being consolidated at Group level and incorporated in Group risk management.

Statkraft's gross exposure for credit risk corresponds to the recognised values of financial assets as stated in the various notes to the balance sheet. Statkraft has not pledged any guarantees or loans, or pledged securities in any other way and the maximum exposure for credit risk does not exceed the values of financial assets already recognised. Gross exposure to credit risk for financial assets is partly reduced by the use of securities. Where relevant collateral of material importance has been pledged, this is stated below.

CREDIT RISK, DERIVATIVES

Energy derivatives

NOK million	2007	2006
Gross credit risk exposure	**7 041**	5 097
Cleared financial power contracts and bank guarantees	**-808**	-919
Net credit risk exposure	**6 233**	4 178

Currency an interest rate derivatives

NOK million	2007	2006
Gross credit risk exposure	**973**	1 005
Exposure reduced by the provision of collateral (guarantees, cash collateral etc.)	**-714**	-793
Net credit risk exposure	**259**	212

In the case of currency an interest rate derivatives, the credit risk for most counterparties and derivatives is reduced by the provision of collateral in the form of cash collateral. Counterparties without cash collateral have an AAA-rating. Cash collateral is settled on a weekly basis and will therefore not always be settled as of 31 December in any given year. There could therefore be an outstanding credit risk at the year end.

Credit risk short-term financial investments

NOK million	2007	2006
Gross credit risk exposure	**347**	379
Exposure reduced by the provision of collateral (guarantees, cash collateral etc.)	**-**	-
Net credit risk exposure	**347**	379

Framework for exposure to individual counterparties have been adopted which are used in short-term financial investments.

CREDIT RISK, CASH AND CASH EQUIVALENTS

Money market funds, certificates, promissory notes and bonds

NOK million	2007	2006
Gross exposure credit risk	**414**	59
Exposure reduced by the provision of collateral (guarantees, cash collateral etc.)	-	-
Net exposure credit risk	**414**	59

Framework for exposure to individual counterparties have been adopted which are used in investing in money market funds, certificates and bonds.

Cash in hand and bank deposits

NOK million	2007	2006
Gross credit risk exposure	**2 736**	1 699
Exposure reduced by the provision of collateral (guarantees, cash collateral etc.)	-	-
Net credit risk exposure	**2 736**	1 699

All cash in hand and bank deposits are receivables due from banks. All the deposits held at Norwegian banks are secured through the Norwegian Banks' Insurance Fund. Corresponding schemes exist for deposits at foreign banks, and the entire credit risk is thus reduced through the provision of collateral.

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 on the Norwegian and European money markets and on the banking market. Drawdown facilities are used to secure access to short-term financing. Statkraft's drawdown 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 required by Nord Pool. Statkraft has a liquidity capacity target of between 1.5 and 3.0. Liquidity capacity in this context is defined as cash and cash equivalents, plus committed drawdown facilities and projected receipts for the next six months, divided by projected payments for the next six months.

Exposure to liquidity risk is continually followed up by the department for risk management in finance. Responsibility for respectively entering into and following up positions is subject to division of responsibility and allocated to separate organisational units. The value exposure per currency is regularly reported to Group management via the EVP Finance in relation to established frameworks in the finance strategy. Exposure is also followed up by setting individual target figures for liquidity reserves etc., which are reported to management as part of the Group scorecard.

The finance department prepares the liquidity forecast, which is important for daily liquidity management and for planning future financing requirements. The liquidity reserve is a tool for the finance department's risk management and functions as a buffer in relation to the liquidity forecast. The liquidity reserve consists of the company's cash and cash equivalents, committed drawdown facilities and overdraft facilities. Cash and cash equivalents are intended to cover normal fluctuations in the company's cash flow. Committed credit lines will be Statkraft's buffer against unforeseen events with significant liquidity-related consequences. An individual target figure for short-term liquidity capacity, which reflects Statkraft's ability to cover its future obligations, is included in the Group's scorecard.

Maturity schedule external long-term liabilities

NOK million	2008	2009	2010	2011	2012	After 2012
Bond loan repayments on the Norwegian market	2 745	3 601	1 500	2 671	-	10 610
Other loan repayments	2 213	100	3 054	658	235	7 930
Intrest repayments	1 961	1 520	1 261	1 071	934	3 332
Total	6 919	5 221	5 815	4 400	1 178	21 872

The Group has a significant number of financial instruments, which are reported as derivatives in the balance sheet. The non-discounted values of derivatives with negative market values are allocated to the time periods shown in the table below.

Allocation of non-discounted values per period

NOK million	Fair value 31.12.07	2008	2009	2010	2011	2012	After 2012
Energy derivatives	11 414	4 571	2 292	1 936	1 191	882	2 171
Interest rate and foreign currency derivatives	1 040	339	91	262	86	-9	183
Total derivatives	12 454	4 910	2 383	2 198	1 277	873	2 354

Allocation of non-discounted values per period

NOK million	Fair value 31.12.06	2007	2008	2009	2010	2011	After 2012
Energy derivatives	8 480	1 098	1 484	1 156	967	687	3 787
Interest rate and foreign currency derivatives	759	121	162	134	247	46	66
Total derivatives	9 239	1 219	1 646	1 290	1 214	733	3 853

→ 35 MANAGEMENT OF CAPITAL STRUCTURE

The main aim of the Group's capital structure management is to maintain a strong credit-rating.

Tools for long-term management of capital structure primarily comprise the taking out of and repayment of long-term liabilities and payments of paid-in capital from/to the owner. The Group endeavours to obtain external financing from various submarkets. The Group is not subject to any external requirements with regard to the management of capital structure other than those relating to the market's expectations and the owner's dividend requirements.

There were no changes in the Group's targets and guidelines governing the management of capital structure in 2006 or 2007.

The most important target figure for the Group's management of capital structure is long-term credit rating. Statkraft AS has a long-term credit rating of BBB+ from Standard & Poor's and Baa1 from Moody's. In the short and medium-term Statkraft's target is to have a minimum rating of BBB+/Baa1. The company's long-term aim is to achieve an A rating.

Overview of equity included in management of capital structure

NOK million	2007	2006
Interest-bearing liabilities and other loans	**30 361**	25 583
Current liabilities	**6 923**	6 437
Cash balances and short-term placements	**-3 497**	-2 137
Net liabilities	**33 787**	29 884

→ 36 BENEFITS RECEIVED BY EXECUTIVE MANAGEMENT AND THE BOARD

Statkraft is organised into three business areas and three Group staff and support functions. Each of these units is managed by an executive vice president (EVP) who reports to the President and CEO. Group management comprises the President and CEO and the EVPs.

Salaries and other benefits – executive management

NOK	Salary	Bonus	Benefits in kind	Salary and other benefits
Bård Mikkelsen, President and CEO	3 013 039	-	238 784	3 251 823
Jørgen Kildahl, executive vice president	2 030 208	185 000	179 304	2 394 512
Jon G. Brandsar, executive vice president	1 631 455	170 000	153 233	1 954 688
Ingelise Arntsen, executive vice president*	965 849	170 000	58 393	1 194 242
Siri Hatlen, executive vice president*	382 258	-	29 018	411 276
Haakon Alfstad, executive vice president*	465 745	-	39 038	504 783
Eli Skrøvset, executive vice president	1 578 557	200 000	139 927	1 918 484
Stein Dale, executive vice president	1 637 382	170 000	141 967	1 949 349
Ragnvald Nærø, executive vice president	1 734 927	170 000	230 499	2 135 426

* Ingelise Arntsen resigned her position at the end of May 2007. Haakon Alfstad took over as temporary manager from this time until Siri Hatlen's appointment in the middle of October 2007. Salaries and other benefits reflect the respective periods in which the above held the position of executive vice president.

Members of Group management, with the exception of the President and CEO, are covered by a bonus scheme under which they may qualify for an annual bonus of up to NOK 250,000. Bonus payments in 2007 were based on a maximum annual bonus of NOK 200,000. Payment of the bonus is dependent on the achievement of individually established goals.

Group management has 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.

The total salaries and other benefits paid to executive management in 2006 amounted to NOK 14,460,559.

Directors' fees and fees paid to the Audit and Compensation Committee

NOK	Directors' fees	Audit Committee	Compensation Committee
Arvid Grundekjøn, board chair	317 500	-	20 000
Ellen Stensrud, deputy chair**	135 000	-	-
Halvor Stenstadvold, board member***	210 000	60 000	-
Aud Mork, board member	210 000	-	12 500
Berit J. Rødseth, board member**	107 500	25 000	-
Egil Nordvik, board member**	107 500	-	-
Marit Büch-Holm, deputy chair*	130 000	35 000	-
Olav Fjell, board member*	102 500	-	-
Gunn Wærsted, board member*	102 500	-	-
Astri Botten Larsen, employee representative	210 000	50 000	-
Thorbjørn Holøs, employee representative	210 000	-	-
Odd Vanvik, employee representative	210 000	-	12 500

* Marit Büch-Holm, Olav Fjell and Gunn Wærsted resigned from the board on 30 June 2007.
** Ellen Stensrud, Berit J. Rødseth and Egil Nordvik were appointed to the board on the same date.
*** Halvor Stenstadvold succeeded Marit Büch-Holm as Head of the Audit Committee.

The board has no remuneration agreements other than the directors' fee, and compensation for participation in committee work, and no loans or pledges have been granted with respect to board members.

Total remuneration paid to the board and Audit Committee for 2006 totalled NOK 2,005,000 and NOK 170,000 respectively.

Pensions – executive management

NOK	Pensions [1]
Bård Mikkelsen, President and CEO	4 012 885
Jørgen Kildahl, executive vice president	1 137 059
Jon G. Brandsar, executive vice president	589 678
Ingelise Arntsen, executive vice president	280 112
Siri Hatlen, executive vice president	156 740
Eli Skrøvset, executive vice president	493 115
Stein Dale, executive vice president	499 024
Ragnvald Nærø, executive vice president	1 453 489

[1] Pension scheme provision for the year per the financial statements

The President and CEO may retire at the age of 65 with a pension amounting to 66% 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% salary until the official retirement age.

Members of Group management may retire at the age of 65 with a pension amounting to 66% 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 severance pay agreements in addition to those mentioned above. Nor have any loans or pledges been granted to these parties.

In 2006 the total pension expense for executive management amounted to NOK 5,857,399.

→ 37 FEES PAID TO EXTERNAL AUDITORS

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

The total fees paid to the external auditors for auditing and other services break down as follows:

NOK	2007	2006
Statutory auditing	**7 557 000**	6 723 000
Other certification services	**620 000**	932 000
Tax consultancy services	**391 000**	650 000
Other services	**1 841 000**	190 000
Total	**10 409 000**	8 495 000

Other services for 2007 contain an amount of NOK 638,000 relating to support for environmental auditing, NOK 384,000 relating to support for the establishment of sustainability indicators, NOK 182,000 to support for an internal control project and NOK 637,000 to other support.

Statutory auditing for 2006 includes NOK 1,267,000 for auditing of the opening IFRS balance as of 1 January 2006.

→ 38 RELATED PARTIES

All the subsidiaries, associates and joint ventures stated in Note 5 and Note 19 are related parties of Statkraft. Intercompany balances and transactions between consolidated companies are eliminated on consolidation and are not shown in this Note.

The individuals stated in Note 36 and who are members of Group management or the board are also related parties of Statkraft.

All transactions with related parties are conducted on market terms and conditions. Apart from the transactions that are stated in this Note and Note 36, there are no material transactions or outstanding balances with related parties.

The table below shows the transactions with related parties that are associates that are not eliminated in the consolidated financial statements.

NOK million	2007	2006
Income	**56**	14
Expenses	**1 243**	7
Receivables at the end of the period	**284**	91
Liabilities at the end of the period	**159**	-

The increase in expenses between 2006 and 2007 is primarily attributable to Fjordkraft's purchase of power from associates. This also explains the increase in outstanding liabilities as of 31 December 2007.

→ 39 PLEDGES, OBLIGATIONS AND GUARANTEES

PLEDGES
Under certain circumstances local authorities and publicly owned energy companies are entitled to a share of the output from power plants belonging to Statkraft in return for paying a share of the construction costs, cf. Note 13. To finance the acquisition of such rights, the local authorities/companies have been granted permission to pledge the power plant as security. The mortgage debt raised by the local authorities under this scheme totals NOK 1,834 million. As at 31 December 2007, the book value of the pledged assets in Statkraft Energi AS totalled NOK 6,327 million. Other subsidiaries have a total of NOK 72 million in correspondingly pledged assets.

OBLIGATIONS AND GUARANTEES
The Statkraft Group has off-balance-sheet obligations and guarantees totalling NOK 8,413 million. Of this an amount of NOK 3,276 million relates to parent company guarantees, NOK 1,522 million to financial power exchange agreements, NOK 1,211 million to Nord Pool guarantees, NOK 829 million to property rental obligations, NOK 215 million to regress guaranties, NOK 173 million to investment obligations, NOK 193 million to sureties, NOK 600 million to customer receivables pledged as security for overdraft facilities and NOK 394 million to other guarantees.

CONTRACT OBLIGATIONS
Statkraft has entered into long-term agreements to purchase gas from StatoilHydro and WINGAS respectively in connection with the construction of the gas-fired power plants in Norway and Germany.

A third of the production volume in the Knapsack gas-fired power plant is pre-sold to the Dutch energy company Essent under an agreement with a duration of 15 years.

→ 40 LEASES

Statkraft's rents an office building in Lilleakerveien 6, Oslo. The lessor is Mustad Eiendom AS. The rental agreement has a residual term of 14 years with an option to renew for a further ten years. The annual rent totals NOK 59 million.

There are no other material operating leases. The company has no leases that qualify for treatment as financial leases.

→ 41 CONTINGENCIES AND EVENTS AFTER THE BALANCE SHEET DATE

INCOME SHORTFALLS/SURPLUSES
In the monopoly-regulated distribution grid business, differences can arise between the revenue ceiling determined by the Norwegian Water Resources and Energy Directorate (NVE) and the amount actually invoiced as grid rental charges. If the invoiced amount is lower than the revenue ceiling, this results in surplus income, while if the invoiced amount is higher this generates an income shortfall. Income surpluses/shortfalls will even out over time as actual invoicing is adjusted.

Revenues are recognised in the financial statements on the basis of actual invoicing. Accumulated revenue surpluses/shortfalls that will be recognised in future periods are shown in the table below.

Revenue surplus/shortfall distribution grid operations, closing balance

NOK million	2007	2006
Cumulative revenue surplus transferred to subsequent years	**102 480**	45 483
Cumulative revenue shortfall transferred to subsequent years	**-23 033**	-48 848
Net revenue surplus/shortfall	**79 447**	-3 365

DISPUTES
Statkraft engages in extensive business activities and is consequently likely to be involved in disputes of varying magnitude at any one time. At the time of the preparation of the financial statements, there were no disputes that could have a material effect on Statkraft's net profit or liquidity.

→ 42 PUBLIC SUBSIDIES

Subsidies recognised in the period

NOK million	2007	2006
Subsidies directly recognised in the income statement in the period	**4**	5
Subsidies recognised in the balance sheet in the period	**6**	74

The subsidy amount included in the balance sheet in 2006 relates to the construction of Kjøllefjord Wind Farm. There are no unfulfilled conditions connected to the subsidies received; however, the subsidy for Kjøllefjord can be settled in accordance with given production criteria.

→ 43 SHARES AND SHAREHOLDER INFORMATION

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

→ 44 TRANSITION TO IFRSs

On 10 May 2007 Statkraft published a document describing the principle effects of the transition from generally accepted Norwegian accounting principles (Norwegian GAAP) to International Financial Reporting Standards (IFRSs). The document is reproduced below. Some figures have changed as a result of new circumstances that have arisen since the publication of the original document.

GENERAL

The EU has adopted a directive that requires all listed companies in the EU to prepare consolidated financial statements in accordance with IFRSs. As a result of the EEA agreement, these rules also apply to Norwegian companies with listed equity or debt instruments. Companies that issue listed debt instruments were required to implement financial reporting in accordance with IFRSs no later than 1 January 2007.

Statkraft's annual financial statements for 2007 are the company's first annual financial statements to be prepared in accordance with IFRSs. Comparative figures for 2006 are required to be restated in accordance with IFRSs, and the opening balance sheet as of 1 January 2006 has been prepared in line with this requirement.

The purpose of this document is to describe the accounting effects of the transition from reporting in accordance with Norwegian GAAP to reporting in accordance with IFRSs. This document describes the transition from Norwegian GAAP to IFRSs on the basis of interpretations of the applicable accounting standards contained in the IFRSs at the time the document was published. The opening balance sheet as of 1 January 2006, all interim financial statements prepared during 2007 and the annual financial statements as of 31 December 2007 shall be prepared in accordance with the accounting standards effective as of 31 December 2007. By the time the 2007 annual financial statements are prepared, existing standards may have changed and new interpretations and statements may have been issued. Management would therefore like to point out that the reported figures have been prepared based on a current understanding of the regulatory framework and that financial reports that are presented during the course of the year could contain changes.

BASIS FOR ADOPTION OF IFRSs

IFRS 1 "First-Time Adoption of International Reporting Standards" describes how the implementation of IFRSs shall be effected. The IFRSs shall essentially be applied retrospectively for all adopted standards, which means that the financial statements are to be prepared as though IFRSs had always been applied. IFRS 1 permits some exemptions from the requirements relating to the retrospective application of IFRSs. Statkraft makes use of the following currently available such exemptions:

BUSINESS COMBINATIONS AND INVESTMENTS IMPLEMENTED BEFORE 1 JANUARY 2006

Statkraft avails itself of the option not to restate the accounting treatment of previous business combinations and investments in accordance with IFRS 3.

RESETTING OF TRANSLATION DIFFERENCES TO ZERO

In accordance with IFRSs, cumulative translation differences shall be reported as a separate item under equity. Statkraft has availed itself of the option to reset translation differences to zero at the time of the establishment of the opening balance sheet as of 1 January 2006.

SUMMARY OF IMPORTANT FACTORS

The most important consequences of the transition from Norwegian GAAP to IFRSs are described in the following sections. Attention is also drawn to the 2006 annual financial statements, where accounting principles that have changed as a result of the transition to IFRSs are described under Accounting principles (Norwegian GAAP).

FINANCIAL INSTRUMENTS

Under Norwegian GAAP financial instruments were essentially recognised in the financial statements at the time of realisation or maturity. As a rule, IAS 39 requires all such instruments to be recognised at fair value at the reporting date, with changes in fair value subsequently being recognised in the income statement. The exception is when such instruments are accounted for as a hedging arrangement. For Statkraft, financial instruments consist of financial power contracts, forward exchange contracts, interest rate swaps and combined interest rate and foreign currency swaps. A number of contracts for the purchase and sale of physical goods must also be treated as if these were financial instruments in accordance with IFRSs. This applies, for example, to contracts that contain issued options or which form part of a trading portfolio. Physical power contracts that are financially settled may also be regarded as financial instruments.

HEDGE ACCOUNTING

IFRSs impose stricter regulations with regard to hedge accounting than Norwegian GAAP. As a result of the stringent requirements to formalise the hedging arrangement and measure its effectiveness, hedge accounting will provisionally no longer be continued within power generation, end-user operations or forward exchange contracts, interest rate swaps or combined interest rate and foreign currency swaps in accordance with IFRSs. One exception is foreign currency exposure relating to the investment in E.ON Sverige AB, where hedge accounting will be continued for those parts of the hedging instruments that qualify as hedging instruments under IFRSs.

DISTRIBUTION GRID OPERATIONS – REVENUE SURPLUS/SHORTFALL

The regulator (Norwegian Water Resources and Energy Directorate (NVE)) allocates annual revenue ceilings for distribution grid operations. In accordance with Norwegian GAAP grid rental charges recognised as income for individual years have been identical with these revenue ceilings. To the extent that invoiced revenues exceed or fall below the allocated ceiling in any given year, the difference is recognised in the balance sheet as a revenue surplus/shortfall to be settled in subsequent periods. Revenue surpluses/shortfalls may not be recognised in the balance sheet in accordance with IFRSs. This means that grid rental charges are recognised in the income statement at the time of invoicing and the amount recognised as income in any year corresponds to

the delivered volume settled at the applicable established tariff in the period. The same change also applies to ordinary revenue surplus/shortfall related to the KILE scheme (Quality Adjusted Revenue Ceiling).

CHANGES IN PRESENTATION FORMAT
IFRSs permit the option of presenting the income statement by the nature of expense or cost of sales method. Statkraft has opted 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 and the existing presentation format has been continued as far as possible.

For Statkraft, the greatest effects on the income statement caused by the adoption of IFRSs will be linked to financial instruments, which in accordance with IAS 39 are recognised at fair value in the balance sheet with any change in value being recognised in the income statement. The effect of any change in unrealised values of energy contracts on the income statement will be presented as a separate line under operating revenues, while the effect of interest rate and foreign currency contracts will be presented as a separate line under financial items. Financial instruments that are recognised at fair value will be reported on separate lines in the balance sheet.

OTHER PRESENTATION-RELATED FACTORS
In accordance with Norwegian GAAP proposed but not approved dividends are reported as liabilities. Under IFRSs proposed dividends are not recognised as liabilities until the dividend has been approved by the annual general meeting.

In accordance with Norwegian GAAP the following years' repayments of long-term liabilities are classified as long-term liabilities. In accordance with IFRSs the following years' repayments of long-term liabilities must be classified as current liabilities.

UNSETTLED ISSUES – CONCESSIONARY POWER CONTRACTS
Opinions on the accounting treatment to be adopted for concessionary power differ. The solutions under discussion can result in the non-recognition of concessionary power contracts in the financial statements or, alternatively, all financially settled contracts being recognised at fair value in the balance sheet in perpetuity in accordance with IAS 39. One key issue centres on whether the obligation to deliver concessionary power is a contractual or a statutory obligation. A statutory obligation will essentially fall outside the scope of IAS 39. In those cases where the concessionary power obligation is settled financially and not on the physical delivery of the power, the question also arises as to whether an agreement that is covered by the definition of a financial instrument has arisen. Statkraft will provisionally not incorporate concessionary power contracts in the financial statements until a solution has been established for the accounting treatment.

As of 1 January 2006 Statkraft's concessionary power contracts with financial settlement had an annual volume of 648 GWh and an average price of NOK 85 per MWh. In accounting for concessionary power contracts, the fair value of these contracts after tax will be recognised in equity as of 1 January 2006. The change in fair value in subsequent accounting periods will be recognised in the income statement under unrealised changes in value of energy contracts.

RECONCILIATION OF THE OPENING BALANCE SHEET AND EQUITY UNDER NGAAP AND IFRSs AS OF 1 JANUARY 2006

Statkraft AS Group

NOK million	NGAAP 01.01.06	IFRSs 01.01.06	Change
Assets			
Intangible assets	896	2 021	1 125
Property, plant and equipment	53 872	53 872	-
Investments in associates	28 793	28 855	62
Other noncurrent financial assets	1 110	939	-171
Noncurrent assets	84 671	85 687	1 016
Inventories	50	50	-
Receivables	3 380	2 543	-837
Short-term financial investments	335	353	18
Derivatives	-	6 684	6 684
Cash and cash equivalents	4 374	4 383	9
Current assets	8 139	14 014	5 875
Assets	92 810	99 701	6 891
Equity and liabilities			
Paid in capital	31 553	31 553	-
Returned earnings	4 926	7 102	2 176
Minority interests	3 752	3 839	87
Total equity	40 231	42 494	2 263
Provisions	12 019	10 325	-1 694
Long-term interest-bearing liabilities	29 011	24 691	-4 320
Long-term liabilities	41 030	35 016	-6 014
Short-term interest-bearing liabilities	2 240	6 962	4 722
Taxes payable	2 197	2 197	-
Other interest-free liabilities	7 111	2 968	-4 143
Derivatives	-	10 063	10 063
Current liabilities	11 548	22 190	10 642
Equity and liabilities	92 810	99 701	6 891

Equity as of 01.01.06 (Norwegian GAAP)	40 231
Financial instruments energy contracts	-5 094
Financial instruments currency derivatives and currency/interest rate swaps	1 199
Revenue surplus/shortfall distribution grid operations	-154
Effects from associates	-617
Other including reversal of accruals/prepayments per Norwegian GAAP	1 445
Effects of reclassification of dividend and Group contribution	4 861
Tax on IFRS effects	622
Equity as of 01.01.06 (IFRSs)	42 494

The figures for Norwegian GAAP do not correspond with the figures contained in the 2005 financial statements due to the fact that adaptations to IFRSs made in reporting under Norwegian GAAP in 2006 are included in the figures as of 1 January 2006 for comparative purposes.

COMMENTS ON DIFFERENCES IN THE OPENING BALANCE SHEET PREPARED IN ACCORDANCE WITH NORWEGIAN GAAP AND IFRSs.

The comments are made on the basis of the statement of changes in shareholders' equity as of 1 January 2006 and the effects of the transition from Norwegian GAAP to IFRSs as reported therein.

Power contracts – financial instruments **NOK -5,094 million**

Power contracts are not accounted for as hedging arrangements, and in accordance with IAS 39 represent financial instruments that must be recognised at fair value in the income statement. Fair value is based on market prices in active markets. The fair value of contracts and portfolios will change in line with market prices and contribute to higher profit volatility in future periods.

The most important effect – in the amount of NOK -2,800 million – is linked to statutory industrial contracts that grant the customer the right to reduce annual withdrawals to 75%. Due to the fact that the option element is covered by the definition of issued options, these contracts are classified as financial instruments in accordance with IAS 39. The low price of the contracts compared with market prices results in a significantly lower valuation at the time of transition. The contracts mature in the period leading up to 2011, by when the transitional effects will have fully reversed through the income statement.

An amount of NOK -1,400 million relates to contracts with embedded derivatives. The embedded derivatives relate to commodity prices for aluminium and coal and foreign currencies. The most significant contracts mature in 2020, by when the transitional effects will have fully reversed through the income statement.

Contracts for the purchase of gas and sale of power have been entered into in connection with gas activities in Knapsack, Germany. Both the gas purchase and power sales contracts grant an option to reduce volume withdrawals. Due to the fact that the option element is covered by the definition of issued options for power sales contracts, these contracts are classified as a financial instruments in accordance with IAS 39. The book value of power sales contracts as of 1 January 2006 amounted to NOK -1,000 million.

Other changes will relate to financial contracts in the Group's trading portfolios that include positions on Nord Pool and bilateral agreements. At the time of the transition, the total fair value of these contracts amounted to NOK 100 million. The amount is reported as the net amount of contracts with positive and negative values of NOK 4,100 million and NOK -4,000 million, respectively.

As of 1 January 2006 the contracts are reported in the balance sheet under derivatives. Contracts and portfolios with a positive value are reported under current assets, while contracts and portfolios with a negative value are recognised under short-term liabilities. The net value after tax is recognised in other equity.

Currency and interest rate derivatives – financial instruments **NOK 1,199 million**

The most significant amount relates to the net added value of the interest rate element contained in the interest rate swaps, the combined interest rate and currency swap agreements and FRA agreements connected with the Group's financing activities. Interest rate and currency derivatives that are not accounted for as hedging arrangements are recognised at fair value in the balance sheet, with subsequent changes in value being recognised in the income statement.

The contracts are reported under derivatives in the balance sheet as of 1 January 2006. Contracts and portfolios with a positive value are classified as current assets and contracts and portfolios with negative value as short-term liabilities. The net value after tax at the time of transition to IFRSs is recognised in other equity.

Investments in associates and joint ventures **NOK -617 million**

Investments in associates and joint ventures are impacted by the effects of the transition to IFRSs in the financial statements of the individual associates and joint ventures. The largest change relates to the book value of the shareholding in E.ON Sverige AB, which was reduced by NOK 320 million. The largest effect impacts financial instruments, which must be recognised in the balance sheet at fair value in accordance with IAS 39. Changes in other shareholdings in associates/joint ventures were of a smaller magnitude. Financial instruments (swaps) that currency hedge the investment in E.ON Sverige AB are reported together with the hedged item in the balance sheet. This is a reclassification in the amount of NOK 650 million from long-term liabilities to investments in associates and has had no impact on equity.

The gas power company Herdecke in Germany has contracts relating to the purchase of gas and sale of power. Both gas purchase and power sales contracts grant an option to reduce volumes. Due to the fact that the option element is covered by the definition of issued options for power sales contracts, these contracts are classified as financial instruments in accordance with IAS 39 and must therefore be recognised at fair value in the income statement. Statkraft's share of the value of power sales contracts as at 1 January 2006 amounted to NOK -282 million.

Distribution grid operations – revenue surplus/shortfall **NOK -154 million**

Revenue surpluses/shortfalls may not be recognised in the balance sheet in accordance with IFRSs. Receivables as of 1 January 2006 were reduced by revenue shortfalls of NOK 154 million. Contra entries are posted to equity and deferred tax. This amount will reverse through the income statement over the period in which the revenue shortfall is invoiced to the customer.

Other – provisions and accruals in accordance with Norwegian GAAP **NOK 1 445 million**

This amount primarily relates to advance payments received, which in accordance with Norwegian GAAP are recognised in the balance sheet and subsequently credited to the income statement in line with the delivery of the supplies the advance payment was intended to cover. Under IFRSs, the advance payments will not qualify for recognition in the balance sheet and the book value after tax as of 1 January 2006 will be recognised in other equity.

Dividend and Group contribution – reclassification **NOK 4 861 million**

The proposed dividend and Group contribution as of 1 January 2006 were reported as a short-term liability in accordance with Norwegian GAAP. Under IFRSs dividends and Group contributions may not be reported as short-term liabilities until these have been approved. The proposed dividend and Group contribution as of 1 January 2006 have been reclassified from short-term liabilities to other equity.

Deferred tax **NOK 622 million**

The post-tax monetary changes resulting from the adoption of IFRSs are recognised in other equity. The nominal tax rate in the individual country is used to calculate deferred tax/deferred tax assets. The key effects relate to companies in Germany and Norway, where the tax rates are 40% and 28%, respectively.

RECONCILIATION OF 2006 INCOME STATEMENT

Statkraft AS Group 2006

NOK million	NGAAP	IFRSs	Change
Sales revenues	15 416	15 321	-95
Other operating revenues	879	879	-
Gross operating revenues	16 295	16 200	-95
Energy purchases	-190	-190	-
Transmission costs	-1 039	-1 040	-
Unrealised changes in value energy contracts	-	1 975	1 975
Net operating revenues	15 066	16 946	1 880
Salaries and payroll costs	-1 313	-1 320	-7
Depreciation and impairment	-1 501	-1 488	13
Property tax and licence fees	-854	-854	-
Other operating expenses	-1 446	-1 436	10
Operating expenses	-5 115	-5 098	17
Operating profit	9 950	11 847	1 897
Share of income from associates	1 689	2 009	320
Financial income	267	279	12
Financial expenses	-1 846	-1 422	425
Unrealised changes in value currency and interest	-235	-1 131	-896
Net financial items	-1 815	-2 274	-459
Profit before tax	9 825	11 582	1 757
Taxes	-3 541	-3 847	-307
Net profit	6 284	7 735	1 451
Of which minority interests	346	387	41
Of which majority interests	5 938	7 348	1 410

Some figures in the Norwegian GAAP column from the published financial statements for 2006 have been restated in accordance with IFRSs.

INCOME STATEMENT – EXPLANATION OF CHANGES CONNECTED WITH IFRSs FOR 2006

Sales revenues **NOK -95 million**

This amount includes increased distribution grid revenues of NOK 135 million and the derecognition of revenues from power contracts in the amount of NOK 250 million, which will be recognised at fair value in the income statement following the transition to IFRSs.

Unrealised changes in the value of energy contracts **NOK 1 975 million**

A significant volume of the statutory industrial contracts with volume optionality were realised during 2006. This resulted in a fall in the negative value of these contracts and contributed to an increase in profit of NOK 729 million before tax. The reduction in electricity prices at the end of 2006 reinforced these effects.

As a result of the increase in the price of commodities and foreign exchange rates to which industrial contracts with embedded derivatives are linked, the value of these contracts has increased, giving rise to an increase in profit before tax of NOK 1,200 million. Due to fluctuations in market electricity prices, the value of other contracts included in the trading portfolio rose by NOK 440 million and contributed a corresponding increase in profit before tax.

The fair value of power sales contracts entered into in connection with gas activities in Germany fell slightly, resulting in a reduction in profit before tax of NOK 569 million.

Financial expenses **NOK 425 million**

The change is primarily attributable to the loss on terminated swaps, which are recognised in accordance with the accruals concept over the residual term of the swaps under Norwegian GAAP. The annual amount recognised in the financial statements in accordance with Norwegian GAAP was around NOK 270 million and the residual accrued loss is recognised in equity at the time of transition. In addition, imputed interest recognised in accordance with Norwegian GAAP in the amount of NOK 230 million has been derecognised. Imputed interest will no longer be calculated in accordance with IFRSs. Other items are of a smaller magnitude.

Unrealised changes in the value of interest rate and foreign currency contracts **NOK 896 million**

The unrealised changes are reported under unrealised changes in value interest rate and foreign currency contracts and are the result of changes in foreign exchange and interest rates. Statkraft is primarily exposed to currency fluctuations in SEK and EUR.

The fair value of currency derivatives that do not meet the requirements for hedge accounting in accordance with IAS 39 was reduced by NOK 300 million as a result of appreciation of the SEK. The derivatives were acquired in connection with a loan of SEK 5,000 million.

The fair value of interest rate derivatives was reduced by NOK 522 million as a result of the increase in the market interest rate and reduced time values.

A further negative change in value of NOK 104 million was recognised in respect of an option relating to the shareholding in E.ON Sverige AB.

SUBSIDIARIES NOT CONSOLIDATED IN ACCORDANCE WITH NORWEGIAN GAAP
Other items that appear as changes in operating revenues and operating expenses primarily relate to subsidiaries that are not consolidated under Norwegian GAAP but are included in the scope of consolidation following the transition to IFRSs.

RECONCILIATION OF THE BALANCE SHEET AND EQUITY AS AT 31 DECEMBER 2006

Statkraft AS Group

NOK in million	NGAAP 31.12.06	IFRSs 31.12.06	Change
Assets			
Intangible assets	1 013	1 895	882
Property, plant and equipment	56 381	56 381	-
Investments in associates	30 997	30 634	-363
Other noncurrent financial assets	1 460	1 583	122
Noncurrent assets	89 851	90 492	641
Inventories	55	55	-
Receivables	4 553	3 883	-670
Short-term financial investments	379	379	-
Derivatives	-	6 495	6 495
Cash and cash equivalents	1 758	1 758	-
Current assets	6 746	12 571	5 825
Assets	96 596	103 063	6 466
Equity and liabilities			
Paid-in capital	31 569	31 569	-
Returned earnings	4 735	10 053	5 318
Minority interests	2 501	2 943	442
Total equity	38 805	44 565	5 760
Provisions	12 284	12 319	34
Long-term interest-bearing liabilities	29 976	25 583	-4 393
Long-term liabilities	42 261	37 903	-4 358
Short-term interest-bearing liabilities	2 493	6 437	3 945
Taxes payable	2 161	2 161	-
Other interest-free liabilities	10 877	2 758	-8 119
Derivatives	-	9 239	9 239
Current liabilities	15 530	20 595	5 064
Equity and liabilities	96 596	103 063	6 466

Equity as of 31.12.06 (Norwegian GAAP)	38 805
Difference between profit for the year per Norwegian GAAP and IFRSs	1 340
Financial instruments energy contracts	-5 167
Financial instruments currency derivatives and currency/interest rate swaps	1 555
Revenue surplus/shortfall distribution grid operations	3
Effects from associates	-374
Other including reversal of accruals/prepayments per Norwegian GAAP	1 581
Effects of reclassification of dividend and Group contribution	8 010
Tax on IFRS effects	-1 189
Equity as of 31.12.06 (IFRSs)	44 565

Income Statement

STATKRAFT AS

NOK million	Note	2007	2006	2005
Sales revenues	1	**350**	362	305
Salaries and payroll costs	2,3	**-213**	-172	-227
Other operating expenses	4,5	**-366**	-288	-238
Depreciation, amortisation and impairment	8	**-36**	-35	-83
Operating expenses		**-615**	-496	-548
Operating loss		**-265**	-133	-243
Financial income	6	**9 103**	10 641	5 467
Financial expenses	6	**-1 884**	-1 773	-1 866
Net financial items		**7 219**	8 868	3 601
Profit before tax		**6 954**	8 734	3 358
Taxes	7	**-1 386**	-1 636	-255
Net profit		**5 568**	7 098	3 103
Disposal of profit for the year				
Dividend payable	13	**3 332**	762	3 100
Group contribution payable after tax	13	**3 505**	4 836	-
Transfer to (+)/from (-) other equity	13	**-1 270**	1 500	3

Balance Sheet

STATKRAFT AS

NOK million	Note	31.12.07	31.12.06	31.12.05
ASSETS				
Deferred tax asset	7	**68**	20	-
Property, plant and equipment	8	**92**	83	85
Investments in subsidiaries and associates	9	**46 199**	35 444	40 600
Other noncurrent financial assets	10	**18 186**	25 975	26 750
Noncurrent assets		**64 545**	61 521	67 435
Receivables	11	**12 106**	12 930	5 179
Cash and cash equivalents	12	**2 624**	1 152	3 157
Current assets		**14 730**	14 082	8 336
Assets		**79 275**	75 603	75 771
EQUITY AND LIABILITIES				
Paid-in equity	13	**31 569**	31 569	31 553
Retained earnings	13	**819**	1 432	5
Equity		**32 388**	33 001	31 558
Provisions	14	**454**	399	607
Long-term interest-bearing liabilities	15	**29 075**	28 691	27 207
Long-term liabilities		**29 529**	29 090	27 814
Short-term interest-bearing liabilities	16	**8 490**	5 366	11 700
Other interest-free liabilities	17	**8 868**	8 146	4 699
Short-term liabilities		**17 358**	13 512	16 399
Equity and liabilities		**79 275**	75 603	75 771

The Board of Directors of Statkraft AS
Oslo, 12 March 2008

Berit Rødseth

Arvid Grundekjøn
Chair

Ellen Stensrud
Deputy chair

Halvor Stenstadvold

Aud Mork

Egil Nordvik

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
President and CEO

Statement of Cash Flow

STATKRAFT AS

NOK million		2007	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax		**6 954**	8 734	3 358
Depreciation, amortisation and impairment		**36**	35	83
Taxes		**-**	-12	-1
Cash flow from operating activities		**6 990**	8 757	3 440
Change in long-term items		**55**	57	-
Change in other short-term items		**467**	-8 700	7 709
Net cash flow from operating activities	A	**7 512**	114	11 149
CASH FLOW FROM INVESTING ACTIVITIES				
Investments in property, plant and equipment		**-45**	-35	-
Proceeds from sale of noncurrent assets		**-**	2	-
Loans to third parties		**-2 503**	-	-400
Repayment of loans to third parties		**-**	-	860
Investments in other companies		**-1 610**	-663	-4 495
Net cash flow from investing activities	B	**-4 158**	-696	-4 035
CASH FLOW FROM FINANCING ACTIVITIES				
New long-term debt		**11 752**	6 574	963
Repayment of long-term debt		**-6 154**	-4 897	-9 051
Dividend and Group contribution paid		**-7 478**	-3 100	-
Net cash flow from financing activities	C	**-1 880**	-1 423	-8 088
Net change in cash and cash equivalents during the year	A+B+C	**1 473**	-2 005	-975
Cash and cash equivalents 01.01		**1 152**	3 157	4 132
Cash and cash equivalents 31.12		**2 624**	1 152	3 157

As part of the process to establish a group after the reorganisation of Statkraft into a limited company, Statkraft AS took part in several major transactions that had no effect on cash flow. An internal refinancing was implemented with effect from 1 January 2005. As a result Statkraft AS reduced its receivables due from 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.

Statkraft Energi AS's capital was reduced by NOK 23 billion. This also had no impact on the cash flow 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 due from Statkraft Energi AS after the refinancing. The remaining receivables totalled around NOK 4 billion.

As the final stage in the process of establishing a group, in 2006 Statkraft Energi AS paid an extraordinary dividend of NOK 7 billion to Statkraft AS, which took the form of the former company reducing its receivables due from 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 (Norwegian GAAP).

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Shares in subsidiaries, associates and joint ventures are recognised in accordance with the cost method in Statkraft AS's single entity financial statements. Group contributions received are recognised under dividends from subsidiaries.

VALUATION AND CLASSIFICATION PRINCIPLES

UNCERTAINTY IN ESTIMATES

The financial statements are based on assumptions and estimates that 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. The results of subsidiaries are recognised in income in the year they are earned, while dividends from other companies are recognised in accordance with the cash principle. Gains/losses on the sale of ordinary noncurrent assets are treated as operating revenues or expenses.

PENSION COSTS

Statkraft AS's pension schemes are defined benefit plans. The net pension cost for the period is included under salaries and other payroll costs, and comprises 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, i.e. 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 recognised directly in equity.

Net retirement benefit fund assets for overfunded schemes are classified as noncurrent assets and recognised in the balance sheet at fair value. Net pension obligations for under-funded schemes are classified as provisions under long-term liabilities.

TAXES

Statkraft AS is subject to income tax, which is calculated in accordance with ordinary taxation rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income for the year. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax-written down values and the tax effect of losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the assets will be realisable in the future. Tax related to equity transactions is recognised in equity.

Classification and valuation of assets and liabilities Assets intended for permanent ownership or long-term use are classified as noncurrent assets. Other assets are classified as current assets. Receivables falling due for payment within one year are classified as current assets. Similar criteria are applied to the classification of current and long-term loans.

Noncurrent assets are recorded at cost and are written down to fair value when any impairment in value is not considered to be temporary in nature. Noncurrent assets with a limited useful economic life are depreciated or amortised. Long-term liabilities are recorded in the balance sheet at their nominal value, adjusted for any unamortised premium or discount. Current assets are valued at the lower of cost or fair value. Current liabilities are recorded in the balance sheet at the nominal amount received at the time the liability was incurred.

Intangible assets Costs relating to intangible assets are recognised in the balance sheet at historic cost provided that the requirements for doing so have been met.

Property, plant and equipment Property, plant and equipment is recorded in the balance sheet and depreciated on a straight-line basis over the expected useful economic life of the assets from the date on which the assets went into ordinary operation. The cost consists solely of directly attributable costs. Indirect administration costs in connection with the recording of own hours worked are therefore not included.

Subsidiaries/associates Subsidiaries and associates are recognised using the cost method. Investments are recognised at the cost of acquisition of the shares and are adjusted for any impairment where necessary. Shares are written down to fair value where the impairment in value is attributable to causes that are not deemed to be temporary in nature and this is deemed necessary in accordance with good accounting practice. Impairments are reversed when the basis for the impairments no longer exists. Dividends and other distributions are recognised in income the same year they are proposed in the subsidiary. If the dividend exceeds the share of the retained earnings after the purchase, the excess share is deemed to represent a repayment of the invested capital and the distributions are deducted from the value of the investment in the balance sheet.

Long-term shareholdings All long-term investments are recognised in accordance with the cost method in the single entity financial statements. Dividends received are treated as financial income.

Receivables Accounts receivable and other receivables are recorded at nominal value less provisions for expected bad debts. Provisions for bad debts are made on the basis of an individual assessment of the receivables concerned.

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

Cash and cash equivalents Cash and cash equivalents also include certificates and bonds with short residual terms. The market settlement of derivatives connected with financial instruments (cash collateral) is recognised in the balance sheet.

Contingent liabilities 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.

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

HEDGING

The treatment of financial instruments depends on the reason for entering into the specific agreement. Each agreement is defined either as a hedging transaction or a commercial transaction when it is entered into.

Where agreements are treated as hedging transactions in the financial statements, revenues and costs are recognised in accordance with the accruals concept 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 recognised in the balance sheet.

FOREIGN CURRENCIES
Balance sheet items denoted in foreign currency are valued at the exchange rate in force at the balance sheet date. Currency effects are recognised as financial expenses or income. Gains/losses resulting from changes in exchange rates on debt intended to hedge net investments in a foreign operation are recognised in the balance sheet.

INTEREST
Interest rate instruments are recognised in accordance with the accruals concept in the same way as interest on interest-bearing debt and receivables. Unrealised gains/losses on fixed interest rate positions that are linked to interest-bearing balance sheet items are not recognised in the income statement since these are considered to be part of the hedging arrangement.

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

CASH FLOW STATEMENT FORMAT
The cash flow statement has been prepared using the indirect method. This means that the statement is based on the company's net profit/loss for the year in order to show cash flow generated by ordinary operating activities, investing activities and financing activities, respectively.

Notes
STATKRAFT AS

→ 01 OPERATING REVENUES

Operating revenues primarily consist of intragroup service sales revenues, including property rental revenues.

→ 02 SALARIES AND OTHER PAYROLL COSTS

NOK million	2007	2006	2005
Salaries	**131**	118	112
Employer's national insurance contributions	**23**	20	20
Pension costs	**41**	23	88
Other benefits	**18**	11	7
Total	**213**	172	227

The parent company employed an average of 175 employees in 2007.

For information concerning salaries and payroll costs for Group management and the board, see Note 36 to the consolidated financial statements.

→ 03 PENSIONS

TRANSFER OF PENSION SCHEMES FROM STATKRAFT AS
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 calculations as of 1 January 2005.

OCCUPATIONAL PENSION SCHEMES
Statkraft AS operates occupational pension schemes for its employees through the Norwegian Public Service Pension Fund. The benefits include retirement, disability, surviving spouse and child's pensions. For individuals qualifying for the full entitlement, the scheme provides retirement and disability pension benefits amounting to 66% of pensionable income, up to a maximum of 12G. The company's employees are also entitled to retire early under the early retirement (AFP) scheme from the age of 62. Pension benefits from the Norwegian Public Service Pension Fund are guaranteed by the Norwegian state (Section 1 of the Pension Act).

Statkraft pays an annual premium to the Norwegian Public Service Pension Fund and is responsible for the financing of the scheme. The Norwegian Public Service Pension Fund scheme is, however, not asset-based. Management of the pension fund assets (fictive assets) is simulated as though the assets were invested in long-term government bonds. In this simulation it is assumed that the bonds are held to maturity.

OTHER SCHEMES

Statkraft's Pension Fund

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.

Unsecured pension obligations

In addition to the above, Statkraft AS has entered into additional pension agreements that provide all employees whose pensionable income exceeds 12G with a retirement and disability pension equivalent to 66% of their pensionable income exceeding 12G. This scheme also provides some 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 Norwegian Public Service Pension Fund, which is a continuation of a an earlier scheme provided by Statkraft's Pension Fund. The scheme is closed and does not cover employees who joined Statkraft after 1 October 2003.

Pension cost breakdown

NOK '000	**2007**	2006	2005
Net present value of accrued pension entitlements for the year	**34**	20	22
Interest costs on pension liabilities	**15**	9	8
Projected yield on pension assets	**-7**	-6	-4
Recognised effects of estimate deviations	**-**	-	10
Termination of the Statkraft Pension Fund	**-**	-	53
Net pension cost for the year	**41**	23	88

Reconciliation of pension liabilities and pension fund assets

NOK '000	**2007**	2006	2005
Gross pension liabilities	**387**	313	207
Pension assets in the Norwegian Public Service Pension Fund	**-138**	-118	-103
Unamortised estimate deviations	**-**	-	-12
Employers' national insurance contribution	**36**	27	13
Net pension liabilities	**285**	222	104

Movement in estimate deviations charged directly to equity

NOK '000	**2007**	2006
Cumulative amount recognised directly in equity before tax 01.01	**110**	-
Estimate deviations recognised in equity during the period	**34**	110
Total increase in book pension liability including employer's national insurance contribution recognised in equity in 2006	**143**	110
Recognised in equity	**103**	79
Recognised in deferred tax	**40**	31

Assumptions

NOK '000	31.12.07	01.01.07	2006	2005
Annual discount rate	4.6%	4.4%	4.4%	4.5%
Salary adjustment	4.0%	4.0%	4.0%	2.7%
Adjustment of current pensions	4.0%	4.0%	4.0%	2.4%
Adjustment of National Insurance Scheme's basic amount (G)	4.0%	4.0%	4.0%	2.4%
Projected yield on assets	4.6%	4.4%	4.4%	4.5%
Forecast voluntary exit				
– Up to age 45	2.5%	2.5%	2.5%	2.5%
– Between 45 and 60 years	0.5%	0.5%	0.5%	0.5%
– Over age 60	0.0%	0.0%	0.0%	0.0%
Rate of inflation	2.25%	2.25%	2.25%	1.5%
Tendency to take early retirement (AFP)	20%	20%	20%	20%

The actuarial calculations are based on demographic assumptions ordinarily used in calculating life insurance and pensions. Closing pension liabilities and estimate deviations as of 31 December 2007 are calculated on the basis of updated mortality (K2005) and disability tariffs.

Assumptions as of 31 December are used to calculate the net pension liability at the end of the year, while assumptions as of 1 January are used to calculate the pension costs of the year.

→ 04 OTHER OPERATING EXPENSES

NOK million	**2007**	2006	2005
Materials	**9**	2	2
Consultants and temporary employees	**164**	109	92
Other operating expenses	**193**	177	144
Total	**366**	288	238

→ 05 FEES PAID TO EXTERNAL AUDITORS

Deloitte AS is the Statkraft Group's and Statkraft AS's auditor. The total fees paid for auditing and other services for Statkraft AS for 2007 are broken down as follows:

NOK	2007	2006	2005
Statutory auditing	**2 294 000**	1 697 000	995 000
Other certification services	**271 000**	759 000	342 000
Tax advisory services	**-**	307 000	59 000
Other services	**1 313 000**	-	431 000
Total	**3 878 000**	2 763 000	1 827 000

Other services for 2007 comprise environmental auditing in the amount of NOK 638,000, support concerning the establishment of sustainability indicators in the amount of NOK 384,000, support for an internal control project in the amount of NOK 182,000 and further support services in the amount of NOK 109,000.

→ 06 FINANCIAL INCOME AND FINANCIAL EXPENSES

Financial income

NOK million	2007	2006	2005
Interest income from Group companies	**1 057**	1 026	896
Interest income	**219**	113	129
Other financial income	**7 827**	9 502	4 442
Total	**9 103**	10 641	5 467

Other financial income in 2007 includes dividends from subsidiaries in the amount of NOK 2,504 million. Group contributions received from subsidiaries in the amount of NOK 5,000 million and an amount of NOK 323 million, which primarily relates to net unrealised foreign currency gains, were also recognised in other financial income.

Financial expenses

NOK million	2007	2006	2005
Interest paid to Group companies	**923**	1 481	1 564
Interest expenses	**950**	43	22
Other financial expenses	**11**	249	280
Total	**1 884**	1 773	1 866

→ 07 TAXES

The total tax expense is calculated as follows

NOK million	2007	2006	2005
Income tax	**1 363**	1 891	-
Correction relating to previous years	**-**	-	-6
Change in deferred tax	**23**	-255	261
Total tax expense in the income statement	**1 386**	1 636	255

Income tax payable

Tax payable on profit for the year	**1 363**	1 880	-
Tax effect of Group contributions	**-1 363**	-1 880	-
Income tax payable	**-**	-	-

Tax payable in the balance sheet

NOK million	2007	2006	2005
Income tax	**-**	-	-
Correction tax	**75**	36	-
Tax due from previous year	**-**	-	-
Tax payable in the balance sheet	**75**	36	-

Reconciliation of nominal tax rate and effective tax rate

NOK million	2006	2006	2005
Profit before tax	**6 954**	8 734	3 358
Expected tax expense at a nominal rate of 28%	**1 947**	2 446	940
Tax effects of			
Tax-free income	**-701**	-895	-646
Changes relating to previous years	**-**	-	-6
Other permanent differences, net	**140**	85	-33
Total tax expense	**1 386**	1 636	255
Effective tax rate	**20%**	19%	8%

BREAKDOWN OF TEMPORARY DIFFERENCES AND TAX LOSS CARRYFORWARDS

The following table specifies temporary differences and tax loss carryforwards, as well as a calculation of deferred tax. 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	2007	2006	2005
Current assets/current liabilities	**79**	195	1 104
Operating assets	**-39**	-47	-52
Pension liabilities	**-285**	-222	-104
Total temporary differences and tax loss carryforward	**-245**	-74	948
Total deferred tax liability (+)/deferred tax asset (-)	**-68**	-20	265
Applied tax rate	**28%**	28%	28%

→ 08 PROPERTY, PLANT AND EQUIPMENT

NOK million	Other	Facilities under construction	Total
Cost 01.01.07	221	10	**231**
Additions 2007	27	18	**45**
Disposals 2007	-1	-	**-1**
Reclassification	10	-10	**-**
Acc. depreciation and impairment 31.12.07	-184	-	**-184**
Book value 31.12.07	74	18	**92**
Depreciation charge for the year	36	-	**36**
Depreciation period	3–40 years		

→ 09 SHARES IN SUBSIDIARIES AND ASSOCIATES

NOK million	Registered office	Shareholding and voting rights	Book value
Subsidiaries			
Statkraft Energi AS	Oslo	100%	10 062
Statkraft Carbon Invest AS	Oslo	100%	4
Statkraft Markets Continental GmbH	Düsseldorf	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%	54
Statkraft Development AS	Oslo	100%	366
Statkraft Regional Holding AS	Oslo	100%	13 951
Statkraft Forsikring AS	Oslo	100%	80
Småkraft AS [1]	Oslo	20%	37
Statkraft Western Balkans d.o.o.	Belgrade	100%	11
Statkraft Invest AB	Malmö	100%	13 025
Renewable Energies and Photovoltaics Spain S.L.	Malaga	70%	4
Statkraft SCA Vind AB	Stockholm	60%	2
Itene AS [2]	Trondheim	100%	10
Total subsidiaries			43 056
Associates and joint ventures			
Naturkraft AS	Bærum	50%	1 089
Statkraft Norfund Power Invest AS	Oslo	50%	2 053
Hydra Tidal Energy Technology AS	Oslo	29%	1
Total associates and joint ventures			3 143
Total			46 199

[1] Småkraft AS is jointly owned by Statkraft AS, Skagerak Kraft AS, Trondheim Energi Kraft AS, Agder Energi AS, and Bergenshalvøens Kommunale Kraftselskap AS, which each have a 20% shareholding.
[2] The company will merge with Statkraft AS on 1 January 2008.

→ 10 OTHER NONCURRENT FINANCIAL ASSETS

NOK million	2007	2006	2005
Loans to Group companies	**18 168**	25 961	26 739
Other shares	**18**	14	11
Total	**18 186**	25 975	26 750

→ 11 RECEIVABLES

NOK million	2007	2006	2005
Trade receivables	**91**	54	203
Accrued revenues etc.	**13**	382	11
Interest-bearing restricted funds	**502**	1 063	64
Other receivables	**531**	444	701
Current receivables from Group companies	**10 969**	10 987	4 200
Total	**12 106**	12 930	5 179

As at 31 December 2007, no need to make provision for bad debts had been identified.

Interest-bearing restricted funds consist of collateral pledged in respect of the negative market value of derivative contracts.

Current receivables from Group companies primarily relate to dividends due from subsidiaries in the amount of NOK 2,476 million, contributions due from Group companies of NOK 5,000 million, receivables associated with the Group account scheme in the amount of NOK 2,236 million and an intercompany loan in the amount of NOK 1,034 million.

→ 12 BANK DEPOSITS, CASH IN HAND ETC.

NOK million	2007	2006	2005
Bonds and promissory notes	**404**	-	385
Cash in hand and bank deposits	**2 220**	1 152	2 772
Total	**2 624**	1 152	3 157

Cash in hand and bank deposits for 2007 includes NOK 174 million in cash collateral (including capitalised interest). Cash collateral represents payments made to/by contractual parties as security for net unrealised gains/losses Statkraft recognises on interest rate and currency swap agreements. Since such gains/losses are not recognised in income, a contra entry in the amount of NOK 714 million has been recorded under other interest-free liabilities, while NOK 502 million has been recognised under receivables.

As at 31 December 2007, Statkraft AS had unused long-term committed credit lines of up to NOK 5,000 million and overdraft facilities totalling NOK 400 million.

→ 13 EQUITY

NOK million	Share capital	Share premium account	Other paid-in capital	Retained earnings	**Total equity**
Equity as of 31.12.05	20 000	11 553	-	5	**31 558**
Implementation effect of new policies	-	-	-	-23	**-23**
Profit for 2006	-	-	-	7 098	**7 098**
Consolidation of subsidiary	-	-	16	6	**22**
Pension estimate deviations 31.12.06	-	-	-	-56	**-56**
Group contribution paid	-	-	-	-4 836	**-4 836**
Dividend to Statkraft SF	-	-	-	-762	**-762**
Equity as of 31.12.06	20 000	11 553	16	1 432	**33 001**
Group contribution relating to previous years	-	-	404	-	**404**
Consolidation of subsidiary	-	-	-	276	**276**
Pension estimate deviations 31.12.07	-	-	-	-23	**-23**
Group contribution paid	-	-	-404	-3 101	**-3 505**
Dividend to Statkraft SF	-	-	-	-3 332	**-3 332**
Equity as of 31.12.07	20 000	11 553	16	819	**32 388**

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

→ 14 PROVISIONS

NOK million	2007	2006	2005
Pension liabilities	**285**	222	104
Deferred tax	**-**	-	265
Other provisions	**169**	177	238
Total	**454**	399	607

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

→ 15 LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	2007	2006	2005
Loans from Statkraft SF (back-to-back agreements)	**6 034**	15 068	19 225
Bond issues on the Norwegian market	**15 311**	11 883	7 088
Loans from the Norwegian state	**-**	-	425
Other loans raised on non-Norwegian markets	**7 730**	1 741	469
Total	**29 075**	28 691	27 207

All interest rate swaps are recognised in 'Other loans raised on non-Norwegian markets'.

Breakdown of debt by currency

NOK million	2007	2006	2005
Debt in NOK	**11 271**	11 212	11 994
Debt in SEK	**13 863**	17 480	14 875
Debt in USD	**-**	-	338
Debt in EUR	**3 941**	-	-
Total	**29 075**	28 691	27 207

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

Average nominal interest rate, NOK, including the effect of terminations	**5.60%**	5.30%	6.36%
Average nominal interest rate, SEK	**3.70%**	2.49%	2.05%
Average nominal interest rate, USD	**-**	-	3.23%
Average nominal interest rate, EUR	**4.70%**		

Interest terms – debt portfolio

		Future interest rate adjustments			
NOK million	2008	1–3 years	3–5 years	5 years and later	**Total**
Debt in NOK	1 086	1 589	1 821	11 685	**16 182**
Debt in SEK	13 864	-	-	-	**13 864**
Debt in EUR	1 193	-	398	2 350	**3 941**
Total	16 143	1 589	2 219	14 035	**33 986**

The above breakdown takes into account underlying currency and interest rate swaps connected to the loans.

Payment schedule

NOK million	2008	2009	2010	2011	2012	After 2012	**Total**
Loans from Statkraft SF (back to back agreements)	2 713	2 019	2 963	653	-	400	**8 748**
Bonds issued on the Norwegian market	-	1 582	1 500	2 018	-	10 210	**15 310**
Other loans raised on non-Norwegian markets	2 198	-	-	620	173	7 122	**10 113**
Exchange rate regulation, currency and interest rate swaps	-185	-	-	-	-	-	**-185**
Total	4 726	3 601	4 463	3 291	173	17 732	**33 986**

The recognised effects of underlying currency swaps have been allocated to their respective dates of maturity.

→ 16 SHORT-TERM INTEREST-BEARING LIABILITIES

Included in the total of NOK 8,490 million is debt in the amount of NOK 4,912 million in respect of payments on liabilities due within one year, while NOK 714 million is connected to cash collateral (see Note 12). The remainder of the debt relates to a certificate loan in the amount of NOK 900 million and liabilities associated with the Group account scheme in the amount of NOK 1,965 million.

→ 17 OTHER NON-INTEREST BEARING LIABILITIES

NOK million	2007	2006	2005
Trade payables	**68**	50	20
Public charges payable	**6**	6	6
Accrued expenses	**15**	1	17
Other non-interest bearing debt	**324**	575	19
Taxes payable	**75**	36	-
Dividend payable	**3 332**	762	3 100
Current liabilities due to Group companies	**5 048**	6 716	1 537
Total	**8 868**	8 146	4 699

Taxes payable in the amount of NOK 75 million are specified in Note 7.

Current liabilities due to Group companies for 2007 primarily comprise the Group contribution payable to Statkraft SF in the amount of NOK 4,868 million.

→ 18 OBLIGATIONS AND GUARANTEES

The Statkraft Group has off-balance-sheet obligations and guarantees totalling NOK 4,093 million. Of this, an amount of NOK 3,260 million relates to parent company guarantees, NOK 824 million to property rental obligations, and NOK 9 million to tax deductions payable.

Included under property rental obligations is Statkraft's office building at Lilleakerveien 6 in Oslo. The lessor is Mustad Eiendom AS. The agreement has a residual term of 14 years with an option to renew for a further ten years. The annual rent totals NOK 59 million.

→ 19 DERIVATIVES

Statkraft trades in financial instruments for various purposes. The accounting treatment adopted for these 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 agreements

	31.12.07		31.12.06		31.12.05	
NOK million	Book value	Fair value	Book value	Fair value	Book value	Fair value
Interest rate swaps	-	-8	-	618	-	676
Forward rate agreements	-	-	-	-	-	-1
Interest rate and cross-currency swaps	186	310	-359	-76	916	1 409
FX forwards	74	74	-212	-212	28	28
Total	260	376	-571	329	944	2 112

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 foreign currency swaps) are used to manage the company's interest rate risk and are recorded as hedging instruments. These are recorded at acquisition cost, zero, in the balance sheet. The unrealised losses on the components of the loan contracts that are swapped are offset against off-balance-sheet unrealised gains on fixed-interest loans. The fair value stated in the table does not include accrued interest.

The currency component of the interest rate and foreign currency swaps is recorded at the exchange rate in force at 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.

→ 20 RELATED PARTIES

Statkraft AS owns shares in a number of companies. For further details, see Note 9. Transactions with these companies are concluded on market terms and conditions.

Auditor's Report

Deloitte.

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AUDITOR'S REPORT FOR 2007

We have audited the annual financial statements of Statkraft AS as of 31 December 2007, showing a profit of NOK 5,568 million for the parent company and a profit of NOK 6,632 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, the statement of changes in equity and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the parent company's financial statements. International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. 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 parent company's financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2007, 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 group accounts are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2007, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- 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, 12 March 2008
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

Sustainability Statement

→ ENVIRONMENT-FRIENDLY PRODUCTION

POWER AND DISTRICT HEATING PRODUCTION	UNIT OF MEASUREMENT	2007	2006	2005
Power production, actual	TWh	**44.9**	45.7	48.5
Of which hydropower	TWh	**42.7**	45.2	48.1
Of which wind power	TWh	**0.7**	0.5	0.4
Of which gas power	TWh	**1.5**	-	-
District heating production	TWh	**0.5**	0.4	0.4
Proportion of renewable power production	%	**96.4**	99.6	99

→ LANDSCAPE AND WATERCOURSE INTERVENTION

IMPACT ON NATURE	UNIT OF MEASUREMENT	2007	2006	2005
Affected watercourse				
Affected river course with anadromous fish	Km	**882**	871	874
Presence in national salmon rivers	Number	**11***	6	6
Presence in protected rivers	Number	**30***	23	23
Fish management				
Restocking of fish and smolt	Number	**593 000**	729 000	897 000
Egg planting	Number	**1 164 000**	850 000	289 000
Regional and distribution grid (overhead lines)	Km	**7 520**	-	-

* Increase compared with 2006 due to measures relating to new national salmon rivers and protected rivers.

→ ENERGY AND RESOURCE CONSUMPTION

CONSUMPTION	UNIT OF MEASUREMENT	2007	2006	2005
Electricity*	GWh	**843**	213	98**
Of which pumped-storage power and electric boilers for district heating plants	GWh	**705**	-	-
Of which certified renewable (RECS)***	%	**100**	100	-
Fossil fuels				
Natural gas, gas-fired power plants	Mill. Nm^3	**116.1**	-	-
Natural gas and butane, district heating plants	Tonnes	**5 500**	-	-
Fuel oil	Tonnes	**2 200**	-	-
Engine fuel	m^3	**1 000**	1 400	1 500
Other fuel				
Waste	Tonnes	**138 500**	-	-
Biofuel	Tonnes	**5 200**	-	-
Transformer and lubricating oils	Litres	**6 800**	10 400	2 500**

* Does not include energy losses at transformer stations and power lines. Electric boilers are included from 2007, and pumped-storage power from 2006.
** Does not include Trondheim Energi and Skagerak Energi.
*** Renewable Energy Certificate System.

INVENTORIES	UNIT OF MEASUREMENT	2007	2006	2005
SF_6	Kg	**23 600**	-	-
Halon	Kg	**2 200**	-	-

Statkraft has been temporarily exempted from the requirement to phase out halon as an explosion suppression medium in transformer rooms.

In 2007, Statkraft Energi decided to replace halon with FE-36 in three of the plants (Tokke, Vinje and Mauranger) which currently have halon installations. The replacement will take place during 2008.

GREENHOUSE GAS EMISSIONS AND LOCAL POLLUTION

DISCHARGES TO AIR	UNIT OF MEASUREMENT	2007	2006	2005
CO_2-equivalents	Tonnes	**292 000**	150 900	134 100
Of which CO_2 from gas power	Tonnes	**229 900**	-	-
Of which CO_2 from district heating plants*	Tonnes	**55 700**	137 500	128 000
Of which CO_2-equiv. from SF_6 emissions	Tonnes	**1 500**	9 600	1 400
Of which CO_2-equiv. from halon emissions	Tonnes	**2 100**	0	700
Of which CO_2 from fuel consumption**	Tonnes	**2 800**	3 800	4 000
SF_6	Kg	**61**	400	59
Halon	Kg	**303**	0	177
SO_2	Tonnes	**15**	21	92
Of which from gas power	Tonnes	**-****	-	-
Of which from district heating plants	Tonnes	**15**	21	92
NO_X	Tonnes	**152**	141	203
Of which from gas power	Tonnes	**-****	-	-
Of which from district heating plants	Tonnes	**152**	141	203

* For 2007 only CO_2-emissions from non-renewable fuel has been included, for 2005–2006 both renewable and non-renewable fuel have been included.
** CO_2 from fuel consumption from the Group's own equipment and machinery.
*** Data unavailable for running-in period for Knapsack gas-fired power plant.

WASTE MANAGEMENT

WASTE	UNIT OF MEASUREMENT	2007	2006	2005
Hazardous waste	Tonnes	**372**	267	342
Hazardous waste from waste incineration*	Tonnes	**26 393**	-	-
Other waste	Tonnes	**1 268**	2 154	1 467
Percentage of other waste recycled**	%	**86**	74	59

* Consists of slag, filter dust and filter cake.
** Includes material and heat recycling.

ENVIRONMENTAL NON-COMPLIANCES

ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS	UNIT OF MEASUREMENT	TARGET	2007	2006	2005
Serious environmental non-compliances	Number	0	**1**	0	1
Serious environmental incidents	Number	-	**0**	1	2
Less serious environmental non-compliances	Number	-	**32**	18	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 non-compliance in 2007. This involved the discharge of 2,000 litres of oil into the Kokemäenjoki river as a result of a fault with a generator at Kolsi Power Plant in Finland. The Finnish emergency services, who led the work to deal with the oil leakage, decided not to lay out booms to collect the oil. There was recorded damages to fish, birds or animals. 32 less serious environmental non-compliances were also recorded. Most of these related to short-term breaches of minimum water flow requirements, and minor emissions of oil, diesel, halon and SF_6.

CONTRIBUTION TO SOCIETY

VALUE CREATION	UNIT OF MEASUREMENT	2007*	2006*	2005
Gross operating revenues	NOK million	**17 619**	16 200	15 021
Unrealised changes in value energy contracts	NOK million	**-739**	1 865	-
Paid to suppliers for goods and services**	NOK million	**5 412**	2 666	2 697
Gross value added	NOK million	**11 486**	15 399	12 324
Depreciation and amortisation	NOK million	**1 639**	1 488	1 858
Net value added	NOK million	**9 829**	13 911	10 466
Financial income	NOK million	**400**	279	808
Unrealised changes in value currency and interest	NOK million	**227**	-1 131	-
Share of profit from associated companies	NOK million	**2 613**	1 935	1 577
Minority interests	NOK million	**166**	387	147
Total wealth for distribution	NOK million	**12 903**	14 607	12 704

* Data presented in accordance with IFRSs.
** Includes energy purchases, transmission costs and other operating expenses.

DISTRIBUTION OF VALUE ADDED	UNIT OF MEASUREMENT	2007*	2006*	2005
Employees				
Gross salaries and benefits	NOK million	**1 419**	1 146	1 185
Lenders/owner				
Interest	NOK million	**1 717**	1 422	2 312
Dividend**	NOK million	**6 837**	5 598	4 788
Taxes***	NOK million	**3 301**	4 878	3 735
The company				
Change in equity	NOK million	**-371**	1 566	685
Total wealth distributed	NOK million	**12 903**	14 607	12 704

* Data presented in accordance with IFRSs.
** Includes dividend and Group contribution from Statkraft AS to Statkraft SF, and minority interests.
*** Includes taxes, property tax, licence fees and employers' national insurance contribution.

TAXES PAID TO NORWEGIAN LOCAL AUTHORITIES	UNIT OF MEASUREMENT	2007	2006	2005
Vinje	NOK million	**91.8**	81.0	77.6
Hemnes	NOK million	**84.4**	76.9	69.7
Suldal	NOK million	**75.8**	70.6	68.3
Rana	NOK million	**73.1**	69.4	67.4
Sirdal	NOK million	**60.2**	53.1	48.9
Nore og Uvdal	NOK million	**55,0**	45.5	42.9
Tokke	NOK million	**50.1**	44.7	41.8
Eidfjord	NOK million	**49.8**	42.7	38.4
Meløy	NOK million	**46.3**	44.7	41.5
Luster	NOK million	**43.9**	42.0	40.8
Total, 10 largest local authorities to which tax is paid	NOK million	**603.4**	570.5	537.3
Total, all local authorities to which tax is paid	NOK million	**1 361.0**	1 225.2	1 165.8

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

INDUSTRIAL AND CONCESSIONARY POWER CONTRACTS	UNIT OF MEASUREMENT	2007	2006	2005
Statutory-priced industrial contracts				
Volume sold	TWh	**10.3**	13.1	14.6
Value lost	NOK million	**-587**	-3 357	-1 719
Concessionary fixed-price contracts				
Volume sold	TWh	**2.9**	2.5	2.8
Value lost	NOK million	**-395**	-785	-533

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	2007	2006	2005
Sponsorships, total	NOK million	**14.65**	10.10	-
Granted by:				
Statkraft	NOK million	**6.10**	-	-
Trondheim Energi	NOK million	**0.95**	-	-
Skagerak Energi	NOK million	**7.60**	-	-
Donations, total to teams and organisations	NOK million	**5.34**	1.71	-.
Granted by:				
Statkraft	NOK million	**2.50**	1.15	-
Trondheim Energi	NOK million	**2.09**	0.36	-
Skagerak Energi	NOK million	**0.65**	0.21	-
Fjordkraft	NOK million	**0.10**	-	-
The Statkraft Fund	NOK million	**4.00**	5.00	5.00
Ny-Ålesund Symposium	NOK million	**2.00**		
Norwegian Rock Blasting Museum in Lillehammer	NOK million	**1.50**		
Norwegian Association of Hunters and Anglers' fishing club for young people	NOK million	**0.50**		

FINANCIAL SUPPORT RECEIVED FROM AUTHORITIES	UNIT OF MEASUREMENT	2007	2006	2005
Total	NOK million	**11.03**	-	-
Of which investment support	NOK million	**6.08**	-	-
Of which R&D support	NOK million	**4.30**	-	-
Of which other	NOK million	**0.65**	-	-

BRANDS

REPUTATION AND CUSTOMER SATISFACTION	UNIT OF MEASUREMENT	TARGET	2007	2006	2005
Reputation, Statkraft*					
General public	%	50	**45**	40	45
Professionals**	%	75	**84**	74	77
Customer satisfaction					
Trondheim Energi Kraftsalg***		-	**64**	58	61
Fjordkraft***		-	**62**	63	58
Skagerak Energi****	%	-	**87**	80	-

* Percentage who have a very good or quite good overall impression of the company. Source: Synovate
** Professionals include local authority chairmen and councillors, national politicians, employees in public administration, finance and specialist environments and the media. Source: Synovate
*** Satisfaction score in the Norwegian Customer Barometer survey. Source: BI Norwegian School of Management
**** Satisfaction with customer service centre.

STAFF

EMPLOYMENT AND RECRUITMENT	UNIT OF MEASUREMENT	2007	2006	2005
Full-time equivalents 31.12	Number	**2 287**	2 087	1 971
Percentage of full-time employees 31.12	%	**93**	-	-
Staff turnover rate*	%	**5.0**	2.7	1.5
Average service time	Years	**15**	16	16
Apprentices employed 31.12	Number	**49**	47	25
Trainees 31.12	Number	**23**	14	6

* Excluding retirements.

PREFERRED EMPLOYER RANKING*	UNIT OF MEASUREMENT	TARGET	2007	2006	2005
Preferred employer among					
Business students	Ranking	25	**53**	33	28
Technology students	Ranking	25	**28**	41	29

* Ranking as preferred employer among final-year students. Source: Universum Graduate Survey

GENDER EQUALITY	UNIT OF MEASUREMENT	2007	2006	2005
Percentage of women				
Total	%	**24**	22	21
In management positions	%	**22**	17	16
In Group management	%	**29**	29	29
On the board of directors	%	**44**	44	44
New employees	%	**27**	-	-
New managers	%	**33**	-	-
Full-time employees	%	**21**	-	-
Part-time employees	%	**74**	-	-
Salaries*				
Total		**0.95**	-	-
Managers		**1**	-	-

* Average salary for women in relation to average salary for men – does not include Trondheim Energi, Skagerak Energi and Fjordkraft.

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	2007	2006	2005
Age				
<30	%	**7**	7	7
30–34	%	**9**	9	9
35–39	%	**12**	13	9
40–44	%	**17**	16	17
45–49	%	**16**	17	19
50–54	%	**16**	16	17
55–59	%	**15**	15	16
>59	%	**8**	8	6
Average age	Years	**46**	47	45

EDUCATION	UNIT OF MEASUREMENT	2007	2006	2005
Competence level				
Secondary school	%	**14**	15	17
Technician/master craftsman	%	**36**	36	37
College (1–3 years)	%	**21**	22	25
University (>3 years)	%	**20**	20	20
Undisclosed	%	**9***	7*	1
Employees on internal mobility programme 31.12	%	**7**	-	-
Employees on management development programme	Number	**75**	69	-
Employees who have performed annual employee review	%	**69**	-	-

* Skills levels of employees at Knapsack, SMC and Graninge are not recorded.

→ INCENTIVE SCHEMES

VARIABLE BONUS SCHEME	UNIT OF MEASUREMENT	2007	2006	2005
Total variable bonus				
Statkraft's Norwegian operations*	NOK/employee	**24 000**	15 000	24 000
Trondheim Energi	NOK/employee	**26 800**	-	-
Skagerak Energi	NOK/employee	**12 000**	-	-
Fjordkraft	NOK/employee	**21 600**	-	-
Individual variable bonus, framework				
Statkraft's Norwegian operations**	NOK million	**13.4**	12.7	12.4

* Excluding Trondheim Energi, Skagerak Energi and Fjordkraft. The scheme is performance-related – in 2006–2007 max NOK 30,000/employee, in 2005 max NOK 40,000.
** Excluding Trondheim Energi, Skagerak Energi and Fjordkraft.

→ HEALTH AND SAFETY

INJURIES AND SICKNESS ABSENCE	UNIT OF MEASUREMENT	TARGET	2007	2006	2005
Lost-time injuries					
H1	Lost-time injuries per million hours worked	0	**5.9**	6.5	6.6
Lost-time injuries, employees	Number	0	**25**	25	23
F	Sickness days per million hours worked	0	**45**	76	114
Lost-time injuries, suppliers	Number	-	**15**	17	2*
Injuries					
H2	Injuries per million hours worked	0	**16.5**	16.2	17.9
Injuries, employees	Number	0	**70**	62	62
Sickness absence	%	4,0	**3.9**	4.1	3.8

* Does not include the business area New Energy.

EMPLOYEE SATISFACTION	UNIT OF MEASUREMENT	TARGET	2007	2006	2005
Organisation and management survey					
Result	Scale of 1 to 5, where 5 is best	4.0	**4.1**	4.1	4
Response rate	%	-	**88**	89	89

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 2007 Det Norske Veritas (DNV) carried out a recertification audit with respect to ISO 9001:2000 and ISO 14001:2004 for Statkraft Energi AS and Statkraft Development AS. The audits revealed a total of six non-compliances (all category 2) and 21 observations. DNV reported there had been a significant improvement in the management system, in particular in respect of effects on the external environment, while the need to integrate procedures into established processes and simplify documentation were highlighted as particular areas requiring improvement.

DET NORSKE VERITAS

MANAGEMENT SYSTEM CERTIFICATE

Statkraft AS

Electric Power:
Development, Construction, Operation, Generation and Trading.

DET NORSKE VERITAS

MANAGEMENT SYSTEM CERTIFICATE

Statkraft AS

Electric Power:
Development, Construction, Operation, Generation and Trading.

Global Reporting Initiative index

GRI REPORT 3rd PARTY CHECKED

The Global Reporting Initiative (GRI) is an independent association of stakeholders which, since its formation in 1997, has been a key driving force behind moves to establish more standardised sustainability reporting procedures. The latest version of GRI's guidelines (G3) was issued in autumn 2006. For further information on the GRI, see www.globalreporting.org.

The above overview shows Statkraft's reporting in relation to GRI guidelines. The table indicates where in the annual report information on the individual key performance indicators can be found. Reported additional indicators are marked *. The information may be located in several places; taken together it should address all or some of the issues in the performance indicator description. The GRI also defines ten reporting principles. Four of these deal with establishing the scope and contents of the report, while the remaining six address the quality of the information presented. Statkraft believes that the Group's reporting practice largely comply with these principles.

GRI INDICATOR	DESCRIPTION	PAGE(S)	NOT REPORTED
	PROFILE		
→	**Strategy and analysis**		
1.1	Statement of the CEO	8-9	
1.2	Description of key impacts, risks, and opportunities	8-9, 24, 29, 34-36, 38, 40, 44-45	
→	**Organisational Profile**		
2.1	Name of the organisation	Cover, 43	
2.2	Primary brands, products, and/or services	1-3, 6	
2.3	Operational structure of the organisation	6-7, 36-41, 123	
2.4	Location of organisation's headquarters	3, 123	
2.5	Countries where the organisation operates	1-3	
2.6	Nature of ownership and legal form	2, 42-43	
2.7	Markets served	1-7, 36-41	
2.8	Scale of the reporting organisation	Cover, 6-7, 36-41 46-49	
2.9	Significant changes in size, structure, or ownership	1, 20, 66-67	
2.10	Awards received in the reporting period	The Farmand award for annual report 2006	
→	**Report Parameters**		
3.1	Reporting period	Cover	
3.2	Date of most recent previous report	Annual report 2006	
3.3	Reporting cycle	Annual	
3.4	Contact point for questions regarding the report	120	
3.5	Process for defining report content	120	
3.6	Boundary of the report (organisational)	120	
3.7	Limitations on the scope or boundary of the report	120	
3.8	Basis for reporting on joint ventures, subsidiaries etc.	62, 120	
3.9	Data measurement techniques	112-116, 120	
3.10	Explanation of the effect of any re-statements	65, 112-116, 120	
3.11	Significant changes from previous reporting periods	112-116, 120	
3.12	Overview of reported indicators – GRI Index Table	118-119	
3.13	Practice for seeking external assurance for the report	120-121	
→	**Governance, Commitments, and Engagement**		
4.1	Governance structure of the organisation	42-43	
4.2	Whether the Chair of the board also is an executive officer	42-43	
4.3	Independent and/or non-executive members of the board (if unitary board structure).	42-43	
4.4	Mechanisms to provide recommendations or direction to the board	25, 42-43, 56	
4.5	Linkage between compensation and performance	24, 42-43, 91-92	
4.6	The Board's role to ensure conflicts of interest are avoided	42-43	
4.7	Process for determining the qualifications of the Board members	42-43	
4.8	Mission or values, codes of conduct, and principles	24-25, 42-43, 50, 52, 55	
4.9	Board procedures for overseeing the organisation	24, 42-43	
4.10	Processes for evaluating the Board's own performance	42-43	
4.11	Precautionary approach or principle	50-51	
4.12	Externally developed charters, principles, or other initiatives	24, 43, 50-53	
4.13	Memberships of associations	52-54	
4.14	Stakeholder groups engaged by the organisation	120	
4.15	Identification and selection of stakeholders	120	
4.16	Approaches to stakeholder engagement	26, 49, 53-54, 56, 115, 120	
4.17	Key topics and concerns raised in stakeholder engagement	53	

GRI INDICATOR	DESCRIPTION	PAGE(S)	NOT REPORTED
	PERFORMANCE INDICATORS AND MANAGEMENT APPROACH		
→	**Economic**		
	Disclosure on Management Approach	50, 52-53	
EC1	Direct economic value generated and distributed	Cover, 6, 26, 52-53, 113-114	
EC2	Financial implications due to climate change	8-9, 25, 30-31, 37, 41, 45, 50	
EC3	Coverage of the organisation's defined benefit plan obligations	72-74	
EC4	Financial assistance received from government	114	
EC6	Spending on locally-based suppliers		x
EC7	Procedures for, and proportion of senior management from the local community		x
EC8	Development and impact of infrastructure investments	51	
EC9*	Indirect economic impacts	Cover, 47-48, 54, 114	
→	**Environmental**		
	Disclosure on Management Approach	25-26, 50-52	
EN1	Materials used by weight or volume		x
EN2	Percentage of recycled materials		x
EN3	Direct energy consumption by primary energy source	52, 112	
EN4	Indirect energy consumption by primary source		x
EN5*	Energy saved due to conservation and efficiency improvements	51	
EN6*	Energy-efficient or renewable energy based products and services	51	
EN8	Total water withdrawal by source		x
EN11	Locations in, or adjacent to, areas of high biodiversity value	112	
EN12	Significant biodiversity impacts		x
EN14*	Managing impacts on biodiversity	51	
EN16	Direct and indirect greenhouse gas emissions	Cover, 52, 113	
EN17	Other relevant indirect greenhouse gas emissions		x
EN18*	Initiatives to reduce greenhouse gas emissions	50, 53	
EN19	Emissions of ozone-depleting substances	112-113	
EN20	NOx, SOx, and other significant air emissions	52, 113	
EN21	Total water discharge by quality and destination		x
EN22	Total weight of waste by type and disposal method	52, 113	
EN23	Total number and volume of significant spills	Cover, 51, 113	
EN26	Mitigation of environmental impacts of products	50-52	
EN27	Products and packaging materials that are reclaimed		x
EN28	Fines and sanctions related to environmental issues	No incidents recorded	
EN29*	Significant environmental impacts of transportation	52, 113	
→	**Labour Practices and Decent Work**		
	Disclosure on Management Approach	25-27, 55-57	
LA1	Workforce by employment type, contract, and region	Cover, 6, 55-56, 115-116	
LA2	Total number and rate of employee turnover	115	
LA4	Employees covered by collective bargaining agreements		x
LA5	Notice period(s) regarding significant operational changes		x
LA7	Health and safety indicators	Cover, 27, 55–56, 116	
LA8	Assistance programs regarding serious diseases		x
LA10	Average training hours per employee by employee category		x
LA11*	Skills management and lifelong learning	27, 56	
LA12*	Performance and career development reviews	116	
LA13	Governance bodies and employees diversity	27, 43, 56, 115	
LA14	Ratio of basic salary of men to women	115	
→	**Human Rights**		
	Disclosure on Management Approach	24-25, 54	
HR1	Significant investment agreements with human rights clauses or screening	54	
HR2	Suppliers and contractors undergone screening on human rights		x
HR4	Incidents of discrimination and actions taken	No incidents recorded	
HR5	Freedom of association and collective bargaining		x
HR6	Child labour		x
HR7	Forced or compulsory labour		x
→	**Society**		
	Disclosure on Management Approach	25-26, 52-55	
SO1	Programs and practices for assessing community impact	52-54, 114	
SO2	Business units analysed for risks related to corruption		x
SO3	Employees trained in anti-corruption policies and procedures	25	
SO4	Actions taken in response to incidents of corruption	No incidents recorded	
SO5	Participation in public policy development and lobbying	28-29, 55	
SO8	Significant fines and non-monetary sanctions	No incidents recorded	
→	**Product Responsibility**		
	Disclosure on Management Approach	25, 53	
PR1	Health and safety impacts in the life-cycle of products and services		x
PR3	Product and service information required by procedures		x
PR5*	Practices related to customer satisfaction	53-54, 115	
PR6	Adherence to laws, standards etc. related to marketing		x
PR9	Fines for non-compliance concerning the provision and use of products and services	No incidents recorded	

About the Sustainability Statement

Statkraft's business principles state that the Group shall comply with laws and regulations and communicate in an open, accurate and timely manner with all its stakeholders. The Group policies further emphasise that the environmental impact and social consequences of the company's operations shall be communicated and be transparent. The Sustainability Statement therefore represents an important and integral part of the company's annual report. Data is reported in accordance with the Group's business principles: sustainable value creation, ethical business operation, a safe and healthy business culture and continuous improvement.

The performance indicators presented in the Sustainability Statement for 2007 are largely the same as those included in the 2006 report. These indicators have been selected on the basis of the recommendations for voluntary reporting of sustainable development issued by the Global Reporting Initiative (GRI). The GRI index table provides clear references to the GRI indicator layout. Statkraft has initiated work to further enhance the Group's sustainability reporting. Reporting shall be based on GRI version 3, and the GRI's recommendations on additional information for the energy industry. Individual experiences gained from the above work have been incorporated into Statkraft's Sustainability Statement for 2007, while the majority of new sustainability indicators will be included from the 2008 financial year.

The sustainability data included in this year's report is presented in a separate section immediately following the financial statements. The management report contains graphs and analyses relating to sustainability, where emphasis has been placed on presenting a correct and balanced picture of Statkraft's policies, practices and performance in the area of sustainability. More detailed information on 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 the company to meet the requirements regarding materiality, completeness and stakeholder responsiveness, which companies must exhibit to comply with the AA1000 Assurance Standard.

REPORTING SCOPE AND DATA COLLECTION

Sustainability reporting follows the company's accounting principles for the treatment of subsidiaries, partly owned power plants and associated companies, and as a general principle all presented sustainability data shall be prepared on a Group-wide basis. However, it has not been possible to prepare Group-wide figures for some indicators. In such cases this is clearly indicated in an accompanying note. The notes also clarify individual concepts, explain significant, annual changes and describe any changes in calculation methods.

Sustainability data is retrieved from all relevant units based on GRI guidelines. The Group scorecard represents another important reporting channel for sustainability data. Data is generally 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, a degree of uncertainty may attach to some of the material.

DIALOGUE WITH STAKEHOLDERS

The GRI's guidelines stipulate that companies shall actively and systematically involve their stakeholders in work relating to sustainability. Statkraft has many stakeholders, including its employees, owner, customers and suppliers, local and regional authorities, voluntary organisations, local authorities where the company is active and the media. Statkraft conducts a dialogue with these on various levels, including through information meetings, results presentations and surveys. Any comments and questions relating to Statkraft's sustainability initiatives and reporting can be sent to csr@statkraft.no.

ASSURANCE

Statkraft wishes to ensure that the information on sustainability that it publishes is transparent, relevant and reliable. An external auditor has therefore reviewed the company's sustainability reporting for 2007, and the management systems and processes on which this is based. The auditor's work is based on the AA1000 Assurance Standard. This standard has been specifically developed for certification of sustainability reporting. The standard not only focuses on the actual report, but also includes an analysis of the management systems and processes which are of key importance to the company's handling of sustainability, and which underpin the report. The auditor's conclusions are presented in the auditor's statement on page 121. The auditor also addresses comments and recommendations to Group management. These are summarised below.

COMMENTS FROM THE AUDITOR

As in previous years, Statkraft's sustainability reporting for 2007 integrates sustainability information in the annual report in a way that supports Statkraft's vision of being a European leader in environment-friendly energy, and the company's business principles of sustainable value creation, ethical business operation, a safe and healthy business culture and continuous improvement.

The report for 2007 provides a good picture of the challenges, and not least, the commercial opportunities Statkraft believes to exist in connection with the global climate challenges facing the world. However, the quality of the reporting could be improved over the coming years by reporting targets and ambitions for company performance on climate change and other aspects.

Statkraft has made further improvements to this year's sustainability statement compared with previous years. However, the quality and consistency of the reporting of sustainability information in the various reporting units in the company continues to vary. We therefore recommend that the company continues to prioritise work currently being performed to strengthen relevant indicators and appropriate reporting processes for the company's sustainability management and reporting activities. This work may also cover processes that ensure necessary and desired information on significant sustainability aspects is retrieved from non-consolidated companies.

We further recommend that Statkraft provide a clearer and more coordinated description of the collaboration and dialogue the company is currently pursuing with its most important interest groups, and how this impacts the company's work on and reporting of sustainability. This also involves strengthening reporting on collaboration with employees and their representatives. The report could also include more extensive information on marketing and product development for end-user groups in the areas of distribution grid, power and district heating.

Auditor's Statement

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INDEPENDENT AUDITOR'S REPORT
to the Statkraft Sustainability Report 2007

We have reviewed certain aspects of Statkraft's Sustainability Report for 2007 (The "Report") and related management systems and procedures. The Report, presented on pages 50 – 57 and 110 – 118 in Statkraft's Annual Report for 2007, 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 selected reporting units represented by Smøla Wind Farm and Pålsbu hydropower plant as well as the head office of Trondheim Energi AS and its subsidiary Trondheim Energi Fjernvarme AS (district heating operations).

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 sustainable value creation, as described on pages 50 – 57, in accordance with the principles of AA1000AS.
- Statkraft applies procedures to identify, collect, compile and validate data and information for 2007 to be included in the report, as described on page 118, and data presented for 2007 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 2007 from these units has been reported according to the procedures noted above and is consistent with source documentation presented to us.
- Statkraft applies a reporting practice for its sustainability reporting aligned with the GRI reporting principles. The GRI Index presented on pages 116 – 117 in the Report appropriately reflects where relevant information on each of the elements and core indicators of the GRI Sustainability Reporting Guidelines 2006 is to be found within the Statkraft Annual Report 2007.

Oslo, Norway, 12 March 2008
Deloitte AS

Preben J. Sørensen
State Authorized Public Accountant
Environment & Sustainability Services

Audit.Tax & Legal.Consulting.Financial Advisory.

Member of
Deloitte Touche Tohmatsu

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Presentation of Group Management

FROM LEFT:

SIRI HATLEN
BORN: 1957
POSITION: Executive Vice President New Energy
EDUCATION: Master of Science in Process Engineering, MBA
BACKGROUND: Management positions in Statoil including management and administration of large oil and gas projects, own business related to board work and management assignments
JOINED STATKRAFT: 2007
DIRECTORSHIPS (EXTERNAL): Chair of AS Vinmonopolet and Samlaget; Director of Kongsberggruppen ASA, PGS ASA, Scanarc ASA, NTNU, Det Norske Teatret and Norsk Bremuseum

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

BÅRD MIKKELSEN
BORN: 1948
POSITION: President and CEO of Statkraft AS and Statkraft SF
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 E.ON Sverige AB, member of corporate assembly of the Fred Olsen companies Ganger Rolf and Bonheur

JON G. BRANDSAR
BORN: 1954
POSITION: Executive Vice President Regional
EDUCATION: Engineer
BACKGROUND: CEO Trondheim Energiverk; various executive positions within Statkraft, Statkraft Engineering and ABB
JOINED STATKRAFT: 1994

ELI SKRØVSET
BORN: 1965
POSITION: Executive Vice President Finance
EDUCATION: MSc Economics and Business Administration
BACKGROUND: Controller, Statkraft
JOINED STATKRAFT: 1992

RAGNVALD NÆRØ
BORN: 1954
POSITION: Executive Vice President Organisation and Communications
EDUCATION: BEd, Cand.philol. Newspaper Management Program
BACKGROUND: EVP Communications, E-CO Energi, Widerøe and Norwegian Air Traffic and Airport Management; Partner, Geelmuyden.Kiese; Editor, Aftenposten
JOINED STATKRAFT: 2001

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

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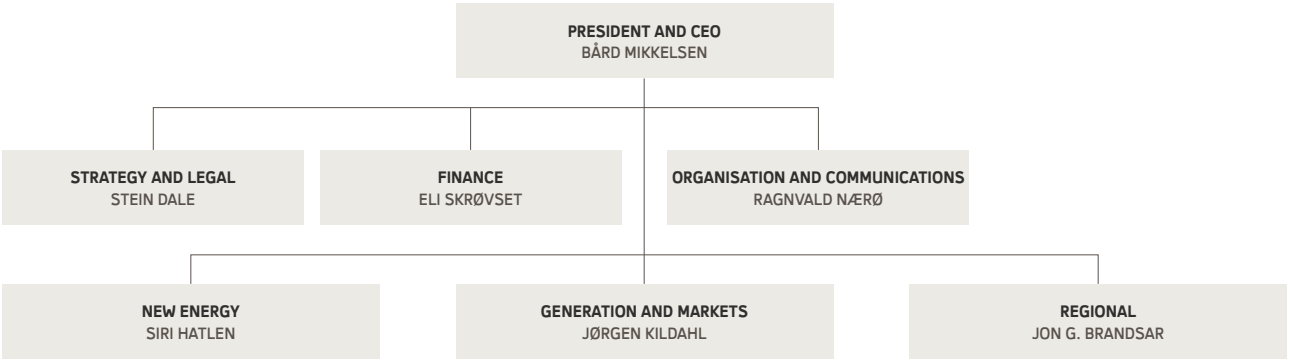
Organisation



Financial Calendar

Results, Q1 2008	8	May 2008
Results, Q2 2008	14	August 2008
Results, Q3 2008	6	November 2008
Results, Q4 2008		mid-February 2009

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