

2008

ANNUAL REPORT SUSTAINABILITY REPORT

GROWTH WITH PURE ENERGY

THE WORLD HAS AN INSATIABLE APPETITE FOR PURE ENERGY. THIS OFFERS HUGE OPPORTUNITIES FOR STATKRAFT. WE HAVE AMBITIOUS PLANS FOR FURTHER GROWTH IN NORWAY, THE REST OF EUROPE AND IN SELECTED MARKETS OUTSIDE EUROPE.

COVER PHOTO: LEIRDØLA POWER PLANT IS LOCATED IN LUSTER, SOGN- OG FJORDANE, JUST SOUTH OF THE JOSTEDAL GLACIER. THE POWER PLANT ALSO SERVES AS STATKRAFT'S REGIONAL HEADQUARTERS FOR REGION CENTRAL NORWAY.

GOOGLE MAPS: REPRODUCED WITH PERMISSION

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FINANCIAL KEY FIGURES

STATKRAFT AS GROUP	UNIT OF MEASUREMENT	ADJUSTED**		ADJUSTED**		ADJUSTED**		ADJUSTED**	
		2008	2008	2007	2007	2006	2006	2005	2005
FROM THE INCOME STATEMENT									
Gross operating revenues	NOK mill.	25 061	25 061	17 619	17 619	16 200	16 200	14 015	15 021
Net operating revenues	NOK mill.	19 319	23 601	14 000	13 261	14 970	16 945	-	-
- of which unrealised changes in values and non-recurring items	NOK mill.	-	4 283	-	-739	-	1 975	-	-
EBITDA	NOK mill.	13 888	18 171	9 620	8 881	11 406	13 335	9 505	10 233
- reversal of write-down of wind farms	NOK mill.	-	307	-	-	-	-	-	-
Operating profit	NOK mill.	12 029	16 618	7 981	7 242	9 918	11 847	8 008	8 375
Share of profit from associates	NOK mill.	2 153	935	2 643	2 613	1 803	2 009	1 936	1 577
- of which unrealised changes in values and non-recurring items	NOK mill.	-	-1 218	-	-30	-	206	-	-
Net financial items	NOK mill.	-2 222	20 267	-1 317	-1 090	-1 143	-2 274	-1 838	-1 504
- of which unrealised changes in values and non-recurring items	NOK mill.	-	22 489	-	227	-	-1 131	-	-
Profit before tax	NOK mill.	11 960	37 820	9 307	8 765	10 578	11 582	8 107	8 449
Net profit	NOK mill.	8 097	33 262	7 031	6 632	6 945	7 735	5 343	5 620
FROM THE BALANCE SHEET									
Property, plant & equipment and intangible assets	NOK mill.	-	77 035	-	57 817	-	58 276	-	52 812
Investments in associates	NOK mill.	-	14 287	-	32 131	-	30 634	-	28 793
Other assets	NOK mill.	-	52 877	-	20 164	-	14 153	-	9 249
Total assets	NOK mill.	-	144 299	-	110 112	-	103 063	-	90 854
Total equity	NOK mill.	-	72 324	-	44 418	-	44 565	-	39 994
Interest-bearing debt	NOK mill.	-	40 791	-	37 284	-	32 021	-	31 251
Capital employed, basic ¹⁾	NOK mill.	-	46 991	-	42 628	-	41 169	-	41 364
CASH FLOW									
Net change in cash flow from operating activities	NOK mill.	-	11 499	-	7 720	-	6 544	-	12 250
Dividend for the year to owner (incl. minority interests)	NOK mill.	-	8 396	-	6 838	-	5 598	-	4 788
Depreciation	NOK mill.	-	1 553	-	1 639	-	1 488	-	1 858
Maintenance investments ²⁾	NOK mill.	-	796	-	571	-	573	-	468
Expansion investments in new generating capacity ³⁾	NOK mill.	-	1 196	-	1 413	-	3 125	-	1 767
Investments in shareholdings ⁴⁾	NOK mill.	-	581	-	1 800	-	750	-	4 511
Cash and cash equivalents	NOK mill.	-	2 209	-	3 150	-	1 758	-	4 374
Unused drawing rights	NOK mill.	-	8 400	-	5 400	-	5 600	-	5 334
FINANCIAL VARIABLES									
FFO interest coverage ⁵⁾		3.9	5.4	5.0	4.6	6.4	7.7	3.6	4.1
Interest-bearing debt ratio ⁶⁾	%	-	36.1	-	45.6	-	41.8	-	43.9
Equity ratio ⁷⁾	%	-	50.1	-	40.3	-	43.2	-	44.0
Long-term rating – Standard & Poor's		-	BBB+	-	BBB+	-	BBB+	-	BBB+
Long-term rating – Moody's		-	Baa1	-	Baa1	-	Baa1	-	Baa1
KEY FIGURES, ACCOUNTS									
EBITDA margin ⁸⁾	%	55	73	55	50	70	82	68	68
ROACE before tax ⁹⁾	%	26.6	37.1	17.7	17.3	22.9	29.4	19.3	20.2
Net return on investments in associates ¹⁰⁾	%	15.0	6.5	8.2	8.1	5.9	6.6	6.7	5.5
Return on total assets after tax ¹¹⁾	%	9.9	27.9	8.3	7.4	8.4	8.6	7.8	8.1
Return on equity after tax ¹²⁾	%	15.6	57.0	14.7	14.9	15.0	17.8	13.5	14.2
Tax rate ¹³⁾	%	32.3	12.1	24.5	24.3	34.3	33.2	34.1	33.5
KEY FIGURES, UPSTREAM BUSINESS*									
Production cost/MWh ¹⁴⁾	NOK/MWh	-	63.5	-	59.3	-	54.7	-	53.3
Production capacity	TWh	-	50.0	-	42.4	-	42.2	-	42.0
Production, actual	TWh	-	53.4	-	44.9	-	45.6	-	48.5
Installed capacity***	MW	-	15 478****	-	12 028	-	10 921	-	10 888
Reservoir capacity	TWh	-	40.0	-	39.7	-	38.1	-	37.5
Reservoir inventory	TWh	-	25.9	-	30.2	-	23.3	-	29.8
Wholly and partly owned power and district heating plants***	Number	-	264	-	170	-	161	-	156
KEY FIGURES, DOWNSTREAM BUSINESS*									
No. of distribution grid customers	1000	-	273	-	271	-	268	-	265
Energy supplied	TWh	-	9.1	-	9.1	-	7.4	-	9.0
Distribution grid capital (NVE capital) ¹⁵⁾	NOK mill.	-	3 614	-	3 657	-	3 694	-	3 721
No. of end-user customers	1000	-	399	-	401	-	67	-	82
Total volume supplied	TWh	-	11.4	-	2.2	-	2.0	-	2.0
MARKET VARIABLES*									
System price Nord Pool	EUR/MWh	44.7	44.7	-	22.4	-	39.1	-	23.5
Electricity consumption in the Nordic market	TWh	390	390	-	395	-	390	-	390
Electricity generated in the Nordic market, actual	TWh	391	391	-	393	-	379	-	391
Statkraft's share of Nordic electricity production	%	13.7	13.7	-	11.4	-	12.0	-	12.4

The numbers for 2008, 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.

*** Exclusive of gas power.

**** Includes power plants and district heating plants covered by the E.ON transaction, the consolidation of SN Power, and is applicable from January 2009.

SUSTAINABILITY KEY FIGURES

HEALTH AND SAFETY	UNIT OF MEASUREMENT	2008	2007	2006	2005
H1	Number of lost-time injuries per million hours worked	4.6	5.9	6.5	6.6
H2	Total number of injuries per million hours worked	12.1	16.5	16.2	17.9
Sickness absence	%	3.9	3.9	4.1	3.8

ENVIRONMENTALLY FRIENDLY ENERGY	UNIT OF MEASUREMENT	2008	2007	2006	2005
Production capacity (Statkraft's share)*	MW	15 478	12 335	11 213	11 150
Of which hydropower	MW	12 546	10 573	10 676	10 683
Of which wind power	MW	245	245	245	205
Of which gas power	MW	2 130	1 210	-	-
Of which bio fuel	MW	16	-	-	-
Of which district heating	MW	541	327	292	262
Power production, actual (Statkraft's share)*	TWh	53.4	44.9	45.7	48.5
Of which hydropower	TWh	47.4	42.7	45.2	48.1
Of which wind power	TWh	0.6	0.7	0.5	0.4
Of which gas power	TWh	5.4	1.5	-	-
Of which district heating	TWh	0.5	0.5	0.4	0.4
Proportion of renewable power production	%	89.7	96.4	99.6	99

* Including jointly controlled Herdecke (Germany) and Kårstø (Norway) power plants. Installed capacity includes power plants and district heating plants covered by the E.ON transaction, the consolidation of SN Power, and is applicable from January 2009.

EMISSIONS AND ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS	UNIT OF MEASUREMENT	2008	2007	2006	2005
Emissions of CO ₂ -equivalents	Tonnes	1 604 700	291 600	63 700	43 700
Environmental non-compliances and incidents					
Serious environmental non-compliances	Number	1	1	0	1
Serious environmental incidents	Number	0	0	1	2

CONTRIBUTIONS TO SOCIETY	UNIT OF MEASUREMENT	2008	2007	2006	2005
Distribution of value added*					
Owner (incl. minority interests)	NOK mill.	10 000	6 837	5 598	4 788
State and local authorities	NOK mill.	5 524	3 301	4 878	3 735
Lenders	NOK mill.	3 066	1 717	2 087	2 312
Employees	NOK mill.	1 594	1 419	1 139	1 185
The company	NOK mill.	23 382	-371	342	685
Statutory-priced industrial contracts					
Volume sold	TWh	8.3	10.3	13.1	14.6
Value lost (based on volume sold) ¹⁶⁾	NOK mill.	-1 438	-587	-3 357	-1 719
Concessionary fixed-price contracts					
Volume sold	TWh	2.6	2.9	2.5	2.8
Value lost (based on volume sold) ¹⁶⁾	NOK mill.	-706	-395	-785	-533

* 2004 figures are proforma figures.

REPUTATION	UNIT OF MEASUREMENT	2008	2007	2006	2005
Reputation among professionals ¹⁷⁾	Scale of 1 to 100, where 100 is best	80	84	74	77
Reputation among general public ¹⁷⁾	Scale of 1 to 100, where 100 is best	47	45	40	45

EMPLOYMENT AND RECRUITMENT	UNIT OF MEASUREMENT	2008	2007	2006	2005
Full-time equivalents 31.12	Number	2 633*	2 287	2 087	1 971
Percentage of women					
Total	%	24	24	22	21
Managers	%	21	22	17	16
Apprentices 31.12	Number	48	49	47	25
Trainees 31.12	Number	35	23	14	6
Employee satisfaction	Scale of 1 to 5, where 5 is best	4.1	4.1	4.1	4.0
Preferred employer ¹⁸⁾					
Business students, total	Ranking		53	33	28
Business students, selected courses**	Ranking	35	-	-	-
Technology students, total	Ranking		28	41	29
Technology students, selected courses**	Ranking	10	-	-	-

* Including 183 full-time equivalents transferred on 31 December 2008 as per the E.ON agreement.

** Courses identified as especially relevant for Statkraft.

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⁾ $\frac{\text{Interest-bearing debt} \times 100}{\text{Interest-bearing debt} + \text{equity}}$

⁷⁾ $\frac{\text{Total equity} \times 100}{\text{Total assets}}$

⁸⁾ $\frac{\text{Operating profit before depreciation} \times 100}{\text{Gross operating revenues}}$

⁹⁾ $\frac{\text{Operating profit} \times 100}{\text{Average capital employed, basic}}$

¹⁰⁾ $\frac{\text{Share of profit from associates} \times 100}{\text{Investments in associates}}$

¹¹⁾ $\frac{(\text{Net profit} + \text{financial expenses} \times 0.72) \times 100}{\text{Average total assets}}$

¹²⁾ $\frac{\text{Net profit} \times 100}{\text{Average total equity}}$

¹³⁾ $\frac{\text{Tax expense} \times 100}{\text{Profit before tax}}$

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

15 478 MW
installed
capacity

More than
3 000
EMPLOYEES

Offices in
23
COUNTRIES

264 POWER
AND DISTRICT
HEATING PLANTS

89.7%

**OF POWER GENERATION
COMES FROM RENEWABLE
SOURCES, HYDROPOWER
AND WIND POWER ARE 100%
RENEWABLE. GAS POWER IS AN
ENVIRONMENTALLY FRIENDLY
ALTERNATIVE TO OTHER FOSSIL
ENERGY SOURCES. A HIGH PRO-
PORTION OF ENERGY PRODUCED
BY THE COMPANY'S DISTRICT
HEATING PLANTS IS BASED ON
WOOD CHIPPINGS AND WASTE.**

Bård Mikkelsen,
President and CEO



There is little doubt that 2008 will go down as the year Statkraft made its international breakthrough. Not only did the company perform the largest swap deal in Norwegian history through the agreement with E.ON, we also entered into an agreement to secure a majority shareholding in SN Power. As a result of these developments, Statkraft now employs more than 3 000 staff in 23 countries. Despite this, the majority of Statkraft's activities and value creation remain in Norway, where the company is planning to implement half of its investments in the coming years.

More from the President and CEO on the next page

Strategy 2009–2011:

Statkraft's position, expertise and financial results form a solid platform for continued growth. We aim to strengthen that foundation and expand further in three main directions:

01

Industrial developer in Norway:

Statkraft is the most important provider of clean energy to private and commercial consumers in Norway. We will be a driving force in the development of the energy industry, and by doing so will create jobs and help meet the need for more pure energy.

02

European flexible power producer:

Statkraft will increase its flexible power generation in Europe and further expand its market operations. We will leverage our power plants' inherent flexibility to supply the market with environmentally friendly energy when fluctuations in demand and prices make this attractive.

Last year saw everything fall into place for the E.ON agreement,

a swap deal which secures us an important position both in Sweden and in Germany, and, together with Norwegian hydropower generation, makes Statkraft Europe's largest generator of renewable energy.

The swap deal was also the main contributing factor behind Statkraft's record profit, though it should not be overlooked that the underlying profit was also historically strong. At the same time the financial crisis is impacting the actual financial situation in the short term, including in our market. This is happening directly, in the form of reduced access to and a higher cost of financing, and indirectly in the form of falling power and commodity prices, lower demand and structural changes in the markets in which Statkraft operates. In the longer

term we are also noticing that climate challenges and future energy demands are rendering our core product more valuable and sought-after than ever before. This provides us with an ideal starting point as we attempt to identify new profitable growth areas within environmentally friendly energy.

At the end of last year Statkraft's board adopted a new Group strategy for the next three years. The strategy is based on Statkraft performing three different roles – as an industrial developer in Norway, a flexible power producer in Europe and a green global developer.

In Norway more than 100 upgrade and expansion projects within hydropower are currently underway and concrete plans have been drawn up for district heating construction. Under the direction of the newly

established subsidiary Statkraft Agder Energi Vind DA, we will construct further wind power capacity in Norway. As an industrial owner of Skagerak Energi, Agder Energi and BKK, we wish to boost profitability and build further on our strong areas of expertise. We will participate actively in consolidation within the distribution grid business, while our aim within power sales to end-users is to develop a competitive structure.

We are focusing more strongly than ever on research and development, and are undertaking a number of initiatives including the establishment of a major Nordic ocean energy programme in collaboration with leading universities. This will provide a basis for further initiatives within tidal, wave and osmotic power. Based on our position as the largest supplier

03

Green global developer: The world needs to develop much more renewable energy to counter global energy and climate challenges. Statkraft has stepped up its ambitions in renewable power generation, including outside Europe. We will establish a strong niche position within international hydropower and new, renewable energy sources in Europe.

“ We are ideally placed to benefit from new profitable growth in environmentally friendly energy ”



of power to Norwegian industry we have also started collaborating with power-intensive industry on energy optimisation.

Our European ambitions first and foremost relate to new, flexible power generation in the form of more gas power and hydropower generation. We wish to leverage our specialist expertise in the interplay between power generation and our trading activities. Last year saw the first breakthrough connected to our hydropower focus in Southeast Europe when we were granted a licence for a major hydropower project in Albania. Work in this area will continue with a focus on Turkey and Montenegro.

We are aiming to further develop wind power in the Nordic region, the UK and in the North Sea basin. Together with a number of strong

partners we are focusing aggressively on obtaining licences through the third allocation round for off-shore wind power zones around the UK coast. We are also taking our first steps in solar power in Southern Europe.

SN Power will act as a spearhead for the Group's future development of renewable energy outside Europe. In the next few years the company will quadruple its generation capacity by focusing primarily on hydro-power projects in selected areas of Asia and South America. Africa and Central America will be managed through a new subsidiary.

The power sector is responsible for a large proportion of global greenhouse gas emissions. We also know that demand for power will continue to increase into the future. Statkraft's investment plans for the

period leading up to 2015 total around NOK 80 billion–NOK 100 billion. These are investments for the future which will contribute to new technology and more environmentally friendly power generation. This leaves the company well placed to deliver in line with its vision of meeting the world's need for more pure energy, and to secure continued strong returns for our owner.

Bård Mikkelsen
President and CEO

VISION:

WE WILL MEET THE WORLD'S NEED FOR PURE ENERGY

VALUES:

Competence →

Using knowledge and experience to achieve ambitious goals and be recognised as a leader.

Responsibility →

Creating values, while showing respect for employees, customers, the environment and society.

Innovation →

Thinking creatively, identifying opportunities and developing effective solutions.

STATKRAFT:

- Is Europe's largest renewable energy company
- Generates hydropower, wind power, gas power and district heating
- Has the largest activity levels and value creation in Norway and is the most important supplier of power to industry in the Norwegian market
- Focuses on innovation and energy solutions of the future, such as marine energy, osmotic power and solar power
- Is a major player on Europe's power exchanges and has cutting-edge expertise in the fields of physical and financial power trading
- Delivers electricity and heating to more than 600 000 customers in Norway and Sweden
- Majority shareholder of the Baltic Cable transmission cable between Sweden and Germany
- Constructs hydropower in emerging markets outside Europe through the company SN Power
- Employs more than 3 000 staff in 23 countries.
- Has more than 100 years' experience as a supplier of pure energy
- Is wholly owned by the Norwegian state

UNITED
KINGDOM



PERU



CHILE



BRAZIL



2008 was an important year. The swap deal with E.ON made Statkraft one of Europe's leading generators of renewable power.

BOOSTING WIND POWER



In March Statkraft and Catamount Energy Corporation announced the start of commercial operation of Blaengwen Wind Farm in Wales in autumn 2009. In November Statkraft decided to purchase all the shares in the operating company from Catamount Energy, in the process becoming the sole owner.

In June Statkraft and GreenPower were granted a licence to construct Carraig Gheal Wind Farm on the west coast of Scotland.

In August Statkraft and Agder Energi entered into an agreement to establish the company Statkraft Agder Energi Vind DA. The new company will manage all new projects involving the development, construction, operation and maintenance of wind farms in Norway.

INDUSTRIAL POWER UNTIL 2030

Statkraft and Boliden Odda entered into two long-term, commercial industrial power agreements for the period 2009 to 2030. The agreement for the supply of around 20 TWh is the largest industrial power agreement Statkraft has entered into since 1998, and confirms the company's status as the largest and most important supplier of power to power-intensive industry.



E.ON swap deal worth EUR 4.5 billion

On 24 July Statkraft and E.ON signed a final agreement for a swap deal worth NOK 44 billion. At the end of the year Statkraft took over a total of 63 power and district heating plants in Sweden, Germany and the United Kingdom and acquired 217 new employees. The agreement made Statkraft the fourth-largest power generator in Sweden, doubled the Group's production capacity in Germany and established a firm foothold for the company in the United Kingdom.

217 new employees

63 new plants

4TH largest in Sweden

2 new gas-fired power plants

INCREASED SHAREHOLDING IN SN POWER

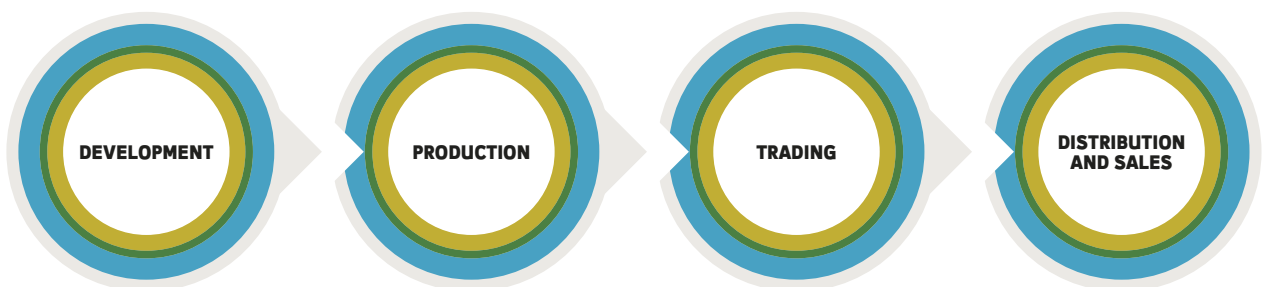
In November Statkraft and Norfund agreed a new ownership structure for SN Power. Statkraft increased its shareholding from 50% to 60% from 13 January 2009, with an option to increase its shareholding to 67% by no later than 2015.

INNOVATION MILESTONES

Statkraft stepped up its innovation initiatives in 2008 and passed important milestones in a number of projects. Statkraft began construction of the world's first prototype osmotic power plant and established a joint venture to develop tidal power in Northern Ireland. Tidal power, together with wave power and offshore wind power, also represents an important part of the Ocean Energy Programme.



STATKRAFT'S VALUE CHAIN



- Hydropower
- Wind power
- Gas power
- District heating
- New energy sources

- Hydropower (Norway, Sweden, Finland, Germany, UK)
- Wind power (Norway)
- Gas power (Norway, Germany)
- District heating (Norway, Sweden)

- Direct sales to major customers in the Nordic region and Europe
- Trading on power exchanges in the Nordic region and the rest of Europe

- Distribution grid operations, district heating and power sales to private customers and businesses through the Group companies Trondheim Energi, Skagerak Energi, Statkraft Värme and Fjordkraft



UNITED KINGDOM

3



Statkraft operates three hydropower plants, is constructing wind power facilities in Wales and has also received consent for construction in Scotland.

PERU

11

Hydropower through SN Power.



CHILE



Hydropower and wind power construction through SN Power.



BRAZIL



SN Power

NORWAY

149 3 1 6 1

Statkraft is Norway's largest power generator.

THE NETHERLANDS

Trading office in Amsterdam.

BELGIUM

Treasury Centre in Brussels.

SPAIN

Statkraft is focusing on solar power in southern Europe. We have an office in Spain and involved in projects in Italy and Spain.

SOUTHEAST EUROPE

Statkraft is involved in trading and hydropower development.

SWEDEN

58 5

Statkraft is the country's fourth-largest power generator and is developing wind power.

FINLAND

4 Four hydro-power plants in Finland.

GERMANY

11 4 2

Statkraft commenced its own production of gas power on the European continent in 2007, thus strengthening trading activities.

NEPAL

1 Hydropower through SN Power.

LAOS

1 Hydropower-construction.

INDIA

1 Hydropower through SN Power.

THAILAND

Nordic Hydro Power

THE PHILIPPINES

3 Hydropower through SN Power.

SRI LANKA

2 Hydropower through SN Power.

SINGAPORE

SN Power

STATKRAFT'S HISTORY

- Statkraft can trace its history back to 1895, when the Norwegian state acquired its first waterfall for the purpose of hydropower production – Paulenfossen in Vennesla. Later, after the turn of the century, expansion of power-intensive industry was the driving force behind the construction of several hydropower plants in Norway.
- After the Second World War the authorities in Norway wanted to realise the enormous potential offered by unutilised hydropower resources, and this second major expansion period lasted until the mid 1980s.
- In 1991, the Norwegian power market was the first power market in the world to be deregulated, when it was split into a competitive and monopoly based section. Statkraft was established in 1992 to take charge of the Norwegian state's power production and sales. A national power exchange was also established.
- For the company, the last 15 years have been characterised by growth. Statkraft has invested in several regional power companies in Norway. Trondheim Energi and Skagerak Energi are now included as subsidiaries in the Statkraft Group.
- Statkraft has had a presence as a market player in Sweden since 1996, and has had its own power generation facilities here since 2005. In 1998 the company expanded its trading activities to cover the European continent through the establishment of trading offices in the Netherlands and Germany.
- The opening of gas-fired plants in Germany in 2007 marked an important milestone. An agreement with E.ON, effective from the end of 2008, makes Statkraft Europe's leading generator of renewable power.

BRANDS



Trondheim Energi is a wholly owned subsidiary of Statkraft, which generates power at 14 wholly owned and five partly owned power plants and operates the regional distribution grid and distribution of power in Trondheim.



Skagerak Energi is a partly owned subsidiary of Statkraft and a significant power producer with 45 wholly or partly owned power plants in southern Norway. The company is also responsible for the distribution grid in Vestfold and the Grenland region.



Fjordkraft AS is an electricity retailer that sells electricity to customers across Norway, and is the country's second-largest supplier of electricity. Fjordkraft is owned by Statkraft, Skagerak Energi and BKK.



SN Power was established in 2002 as a joint venture between Statkraft and Norfund, and invests in hydropower projects in selected emerging markets.



Småkraft is owned by Statkraft, Skagerak Energi, Trondheim Energi, Agder Energi and BKK. Småkraft aims to construct power plants on a scale of 1-10 MW in collaboration with local land owners.

PURE ENERGY FROM NUMEROUS SOURCES



HYDROPOWER

The majority of the Statkraft Group's energy production is generated through hydropower. Production takes place in 225 hydropower plants in Europe – 149 in Norway, 58 in Sweden, 11 in Germany, four in Finland and three in the United Kingdom. Statkraft is involved in new hydropower projects in the Nordic region and Southeast Europe. We are developing new production capacity in selected countries in South America and Asia through the company SN Power, in which Statkraft has a 60% shareholding.



WIND POWER

Wind power is one of the most environmentally friendly forms of energy available for use in large-scale energy production. Statkraft has constructed and operates three wind farms in Norway and has a range of other project applications pending. Statkraft has one wind power facility under construction in Wales and has received consent for construction of a wind farm in Scotland. The company is planning to develop six wind farms in Sweden. We are developing new wind power projects in Norway through the company Statkraft Agder Energi Vind, in which Statkraft holds a 60% stake.



DISTRICT HEATING

Statkraft is focusing on district heating based on environmentally friendly energy sources. Initiatives in Norway centre on the company's activities in Trondheim and Porsgrunn. The company operates five district heating plants in Sweden.

BIOMASS

Statkraft is co-owner of two biomass plants in Germany.



TRADING

Statkraft's trading activities on the European power exchanges account for more than five times the value of the Group's own power generation.



DISTRIBUTION

Statkraft operates distribution grids for electricity supply in Central and Southern Norway.



GAS POWER

Gas power provides a bridge towards sustainable energy supplies of the future. Statkraft operates three gas-fired power plants in Germany and has shareholdings in two other gas-fired plants, one in Germany and one in Norway.

NEW ENERGY SOURCES



OSMOTIC POWER

Statkraft is in the process of constructing the world's first pilot osmosis power plant in Norway. Osmotic power is produced using a process that fuses fresh water and salt water. The annual global potential for this energy source is estimated at 1 600 TWh.



MARINE ENERGY

Marine energy is a generic term for technologies such as offshore wind power, tidal power and wave power. Statkraft is focusing on research and development in these areas.



SOLAR POWER

Statkraft aims to be a major player within solar power and is focusing on solar plants in Italy and Spain. Through partnerships, we are developing two solar plants in Italy, each with a capacity of 3.3 MW.

INNOVATION

Statkraft focuses on innovation in order to be able to meet the need for pure energy and adapt the business to changes in the market.





NORWAY          

SWEDEN     

FINLAND 

BELGIUM 

GERMANY     

MONTENEGRO 

THE NETHERLANDS  

ROMANIA  

BULGARIA  

SPAIN  

ALBANIA 

SERBIA  

NEPAL  

INDIA  

SRI LANKA 

LAOS 

THAILAND 

SINGAPORE 

THE PHILIPPINES  

Statkraft's segments

Statkraft reorganised its activities with effect from 1 July 2008. In connection with this change, Statkraft's segments were reorganised inline with the internal management model to reflect the information used by management to make and follow up decisions.

GENERATION AND MARKETS

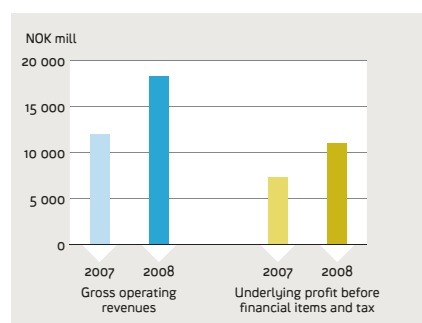


Comprises:

- Operation and maintenance of hydropower plants in the Nordic region, Germany and the United Kingdom and gas-fired power plants in Norway and Germany.
- Energy optimisation and physical and financial power trading in Europe.

Important events:

- At the end of 2008 the segment acquired a number of hydropower plants in Germany, Sweden and the United Kingdom, together with gas-fired power plants in Germany from E.ON. The installed capacity increased by 2 190 MW as a result of these acquisitions.
- In October Statkraft and Boliden Odda signed two long-term industrial power contracts for the period 2009 to 2030. The agreement for the supply of around 20 TWh is the largest industrial power agreement Statkraft has entered into since 1998.
- Knapsack gas-fired power plant entered commercial operation on 16 January 2008.



→ You can read more on page 48

WIND POWER

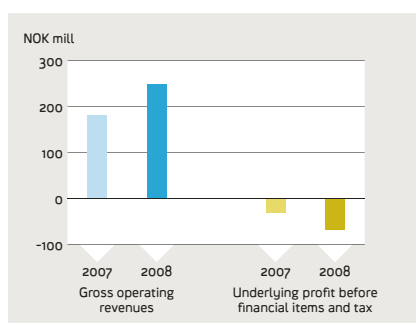


Comprises:

- Development, construction and operation of onshore wind farms in Norway, Sweden and the United Kingdom and offshore wind farms in the North Sea Basin.
- Development and commercialisation of offshore wind power technology.

Important events:

- In August 2008, together with Agder Energi, the segment established the company Agder Energi Vind DA, which is responsible for developing onshore wind power in Norway.
- In March 2008 the decision was taken to construct Blaengwen Wind Farm in the United Kingdom, which will have an installed capacity of 23 MW.
- In December 2008 the segment submitted licence applications for six wind farms in Sweden with a combined installed capacity of more than 1 000 MW.



→ You can read more on page 50

EMERGING MARKETS

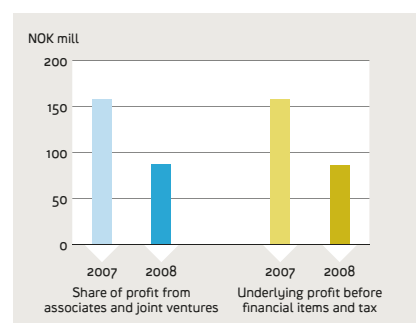


Comprises:

- Management and further development of ownership positions outside Europe through the company SN Power. The segment primarily focuses on hydropower.
- Power generation in six countries in Southeast Asia and South America.

Important events:

- In January 2009 Statkraft's shareholding in SN Power increased from 50 to 60%, with an option to increase the shareholding to 67% no later than 2015.
- In June 2008, together with Aboitiz, SN Power acquired two hydropower plants in the Philippines with a combined installed capacity of 175 MW.
- In August 2008 SN Power entered into a collaboration with the Indian company Tata to develop hydropower in the Himalayas.
- In June 2008 SN Power decided to construct the company's first wind farm, which will have an installed capacity of 46 MW.



→ You can read more on page 51



OTHER

Comprises:

→ The business units Southeast Europe Hydro, Solar Power, Small-Scale Hydro, Innovation and Growth, group functions and eliminations.

→ You can read more on page 56

SKAGERAK ENERGI



Comprises:

→ Activities at Skagerak Energi, which are primarily connected to generation, trading and distribution of power.

Important events:

- In September 2008 the boards of Skagerak Energi and Trondheim Energi approved a merger of the companies Nota and Enita. The company will perform metering and billing activities and the new company name is Metor.
- In 2008 Skagerak Varme was granted a licence for district heating plants at Tønsberg and Horten and began construction of a district heating plant at Jørlø.

CUSTOMERS



Comprises:

→ Distribution grid, district heating and power sales business owned by Trondheim Energi, and district heating activities in Sweden.

Important events:

- In connection with the agreement with E.ON AG, at the end of 2008 the segment acquired five district heating plants in Sweden with a combined installed capacity of around 200 MW.
- In January 2009 Trondheim Energi was granted a licence to construct a district heating plant in Harstad.

INDUSTRIAL OWNERSHIP

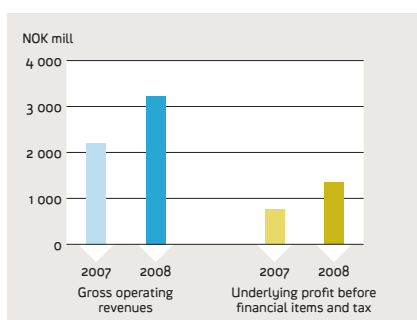


Comprises:

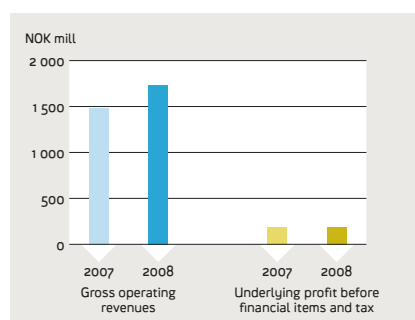
→ Management and further development of industrial ownership positions at Fjordkraft, BKK and Agder Energi.

Important events:

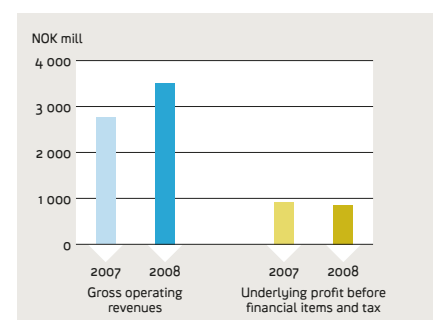
- In collaboration with Trondheim Energi, Fjordkraft introduced UN-recognised climate quotas for the private sector market in 2008, as well as for business customers who wish to ensure that their business activities are carbon neutral with regard to carbon emissions.
- In November Agder Energi opened the new Hunsfoss Øst power plant, the first major hydropower construction project in the south of Norway for ten years.



→ You can read more on page 53



→ You can read more on page 54



→ You can read more on page 55

NORWAY: MORE THAN 100 YEARS OF PURE ENERGY

STATKRAFT'S CORE BUSINESS IS TO MEET NORWAY'S REQUIREMENTS FOR PURE ENERGY. THE GROUP'S OUTPUT OF HYDROPOWER AND WIND POWER CURRENTLY COVERS AROUND 35% OF POWER CONSUMPTION IN NORWAY. IN 2008 GENERATING CAPACITY WAS INCREASED THROUGH UPGRADING MEASURES AND EFFICIENCY IMPROVEMENTS, THE OPENING OF LEIRFOSSENE POWER PLANT IN TRONDHEIM AND THE CONSTRUCTION OF FIVE SMALL-SCALE HYDROPOWER PLANTS. CONSTRUCTION OF THE WORLD'S FIRST PROTOTYPE OSMOTIC POWER PLANT STARTED AT HURUM, JUST OUTSIDE OSLO. STATKRAFT WILL CONTINUE TO DEVELOP ITS BUSINESS ACTIVITIES AND POSITIONS THROUGHOUT THE VALUE CHAIN, FROM CONSTRUCTION OF NEW GENERATING FACILITIES TO THE SALE AND DISTRIBUTION OF POWER AND HEAT TO PRIVATE AND BUSINESS CONSUMERS.



149
hydropower plants

3



wind farms



1

gas-fired power plant

6



district heating plants

273 000
GRID CUSTOMERS

399 000
RETAIL CUSTOMERS



TYSO II

Tysso II is one of the power plants within the Tyssefaldene hydropower scheme. Energy has been produced in Tyssedal since 1908. It was this that prompted the development of the industrial communities at the head of Sørfjorden. In 2008 this tradition was continued when Boliden Odda signed two long-term commercial power supply contracts with Statkraft. The contracts run until 2030.

Some 20 people work at the Tyssefaldene power plants. Jan Sandven is an energy operator apprentice and an important part of his work involves monitoring Statkraft's plants to ensure that there are no faults with any of the machines.

Jan Sandven,
Apprentice



TROSA DISTRICT HEATING PLANT

Trosa is one of five towns in Sweden where Statkraft provides private and business customers with environmentally friendly, water-borne heat. Statkraft supplies around 900 households and 400 public and private sector organisations in Sweden, in addition to 5 500 district heating customers in Norway.

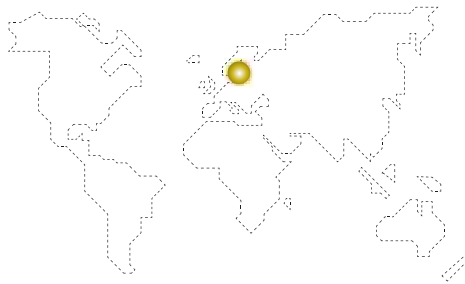


Rolf Ebbvik is one of Statkraft's 180 employees in Sweden. He is operations manager for the Trosa and Vagnhärad district heating plants.

Rolf Ebbvik,
Operations manager



4TH LARGEST POWER GENERATOR IN SWEDEN



SWEDEN ACCOUNTS FOR A SUBSTANTIAL SHARE OF THE NORDIC POWER MARKET. IN 2008 STATKRAFT SIGNIFICANTLY EXPANDED ITS BUSINESS IN SWEDEN, ADDING 39 HYDROPOWER AND FIVE DISTRICT HEATING PLANTS. THIS HAS MADE STATKRAFT ONE OF SWEDEN'S LARGEST POWER GENERATORS AND AN IMPORTANT PLAYER IN THE MARKET.

The five district heating plants which were incorporated into Statkraft's Swedish portfolio in 2008 are powered by wood chippings. The plants support Statkraft's ambition of increasing its output of environmentally friendly heat and provide a platform for further growth.

5 
district heating plants

 **58**
HYDROPOWER PLANTS

6 
wind farms under development



More than 50 Statkraft employees sit around the trading desk in the Düsseldorf office. Ulrich Haberland is part of the Origination team that sells structured contracts in Western Europe.

Ulrich Haberland,
Trader

MAJOR PLAYER



IN 2008 STATKRAFT DOUBLED ITS PRODUCTION CAPACITY IN GERMANY. WITH TWO NEW GAS-FIRED POWER PLANTS THE GROUP NOW PRODUCES A FIFTH OF THE FLEXIBLE GAS POWER GENERATED IN THIS IMPORTANT EUROPEAN MARKET. THE GROUP HAS ALSO ADDED A NUMBER OF HYDRO-POWER, BIOENERGY, GAS STORAGE AND A LONG-TERM POWER SUPPLY CONTRACT TO ITS PORTFOLIO, THUS STRENGTHENING STATKRAFT'S POWER TRADING ACTIVITIES ON THE EUROPEAN CONTINENT.

KNAPSACK GAS-FIRED POWER PLANT, GERMANY
GOOGLE MAPS – REPRODUCED WITH PERMISSION



KNAPSACK GAS-FIRED POWER PLANT

Knapsack gas-fired power plant, just outside Cologne, is the first and largest of Statkraft's German gas-fired power plants. The power plant is equipped with two gas turbines and one steam turbine which together have an installed capacity of 800 MW.

IN GERMANY



4

GAS-FIRED POWER PLANTS

1

pump power plant



1

trading office in Dusseldorf



10

HYDROPOWER PLANTS

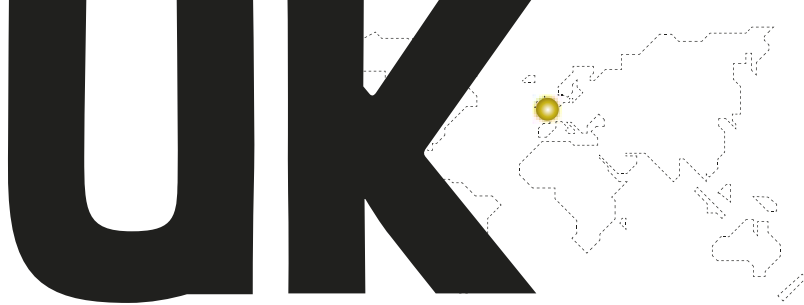
Eivind Torblaa is head of Statkraft's operations in the UK. Based in London, he and his team search for new projects and manage the wind power construction work currently underway in Wales.

Eivind Torblaa,
Managing Director



BLAENGWEN WIND FARM

Blaengwen Wind Farm will comprise 10 wind turbines, with a combined installed capacity of 23 MW. Its annual output will supply renewable energy to around 10 000 households. Construction of the Blaengwen Wind Farm started in 2008. The facility is due to enter operation in 2010.



EXTENDING OUR REACH WITH HYDRO AND WIND

STATKRAFT IS POSITIONING ITSELF AS A PRODUCER OF PURE, RENEWABLE ENERGY IN THE UNITED KINGDOM, PRIMARILY THROUGH THE CONSTRUCTION OF WIND FARMS. BLAENGWEN WIND FARM – STATKRAFT'S FIRST WIND FARM OUTSIDE NORWAY – IS CURRENTLY UNDER CONSTRUCTION, AND IS DUE TO ENTER OPERATION IN 2010. IN 2008 STATKRAFT WAS GRANTED A LICENCE TO BUILD A WIND FARM AT CARRAIG GHEAL ON THE WEST COAST OF SCOTLAND. A NUMBER OF OTHER WIND POWER PROJECTS ARE IN THE PIPELINE. IN 2008 STATKRAFT TOOK OVER THE HYDROPOWER PLANTS IN RHEIDOL IN WALES FROM E.ON.



1
wind farm
under development



3
hydropower
plants

2009

– first year as power generator
in the United Kingdom

HYDRO = POWERFUL

DEVELOPMENT IN INDIA



ALLAIN DUHANGAN HYDROPOWER PLANT

SN Power is a minority shareholder in the Malana Power Company Ltd (MPCL). MPCL is developing the Allain Duhangan project in Himachal Pradesh in India. The facility will have an installed capacity of 192 MW and is due to enter operation in 2009. It will provide 400 000 people with clean energy.

The Allain Duhangan project highlights the health, safety and environmental challenges associated with major construction projects in developing countries. A number of fatalities and injuries have occurred during construction. SN Power has initiated a wide range of measures to secure high HSE standards at the site.



THE WORLD COULD PRODUCE A LOT MORE HYDROPOWER. SO FAR, ONLY ONE THIRD OF THE WORLD'S HYDROPOWER POTENTIAL HAS BEEN TAPPED. THE POTENTIAL IS GREATEST IN AREAS WHERE THE NEED FOR ENERGY IS SUBSTANTIAL, SUCH AS SOUTH AMERICA, ASIA AND AFRICA. THROUGH ITS 60% SHAREHOLDING IN SN POWER, STATKRAFT INVESTS IN THE CONSTRUCTION OF HYDROPOWER SCHEMES IN GROWTH MARKETS SUCH AS INDIA, NEPAL, THE PHILIPPINES, PERU AND CHILE. HERE HYDROPOWER CAN MAKE A REAL DIFFERENCE AND PROVIDE A SUBSTANTIAL CONTRIBUTION TO DEVELOPMENT AND ECONOMIC GROWTH.



1

**HYDROPOWER PLANT
IN PRODUCTION**



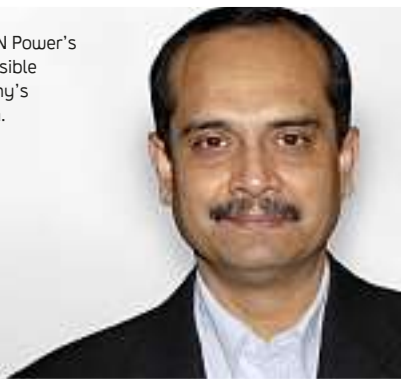
1

**HYDROPOWER PLANT
UNDER CONSTRUCTION**

ALLAIN DUHANGAN, HYDROPOWER PLANT, INDIA
GOOGLE MAPS – REPRODUCED WITH PERMISSION

Bidyut Shome is based at SN Power's office in India, and is responsible for following up the company's hydropower projects in Asia.

**Bidyut Shome,
Project director,
SN Power**



A milestone was reached with the construction of the world's first osmotic power plant. Stein Erik Skilhagen is managing the project. He is one of Statkraft's dedicated innovators.

Stein Erik Skilhagen,
Project manager



MARINE ENERGY

The sea is a huge source of potential energy. Marine energy is the collective name given to energy sources such as wave power and tidal power. Statkraft is involved in several R&D projects in both these areas.



OSMOTIC POWER

Over the past decade Statkraft has been performing research into ways of generating electricity from the fusion of fresh water and salt water – osmotic power. In 2008 we built the world's first prototype osmotic power plant. Calculations show that the technology could generate around 1 600 TWh of electricity worldwide – 13 times more than Norway's hydropower plants produce each year.



SOLAR POWER

Statkraft aims to play an important role in the field of solar power in Italy, Spain and Southeast Europe. Solar power has a major potential, and the market is growing fast. In 2008 Statkraft entered into partnership with Norsk Solkraft to construct two solar farms in Italy, both with a 3.3 MW capacity.



Tidal power



Osmotic power



Wave energy



Solar power

INNOVATION

WE LEVERAGE THE POWER OF

STATKRAFT INVESTS HEAVILY IN RESEARCH AND DEVELOPMENT THROUGHOUT THE VALUE CHAIN, WITH AN EMPHASIS ON NEW TECHNOLOGIES USED TO GENERATE AND DISTRIBUTE ENVIRONMENTALLY FRIENDLY ENERGY. AMONG THE TECHNOLOGIES AND ENERGY SOURCES WE ARE FOCUSING ON ARE TIDAL, WAVE AND OSMOTIC POWER, WHICH ALL HAVE THE POTENTIAL TO MAKE A SIGNIFICANT CONTRIBUTION TO SUSTAINABLE FUTURE ENERGY SUPPLIES.

THE **1ST** prototype osmotic power plant

3 R&D programmes

Strong focus on marine energy

Report from the Board of Directors

2008 was an eventful year for Statkraft. The agreement with E.ON AG to swap Statkraft's shares in E.ON Sverige AB for assets and shares in E.ON AG that was implemented at the end of the year made Statkraft Europe's largest generator of renewable energy, while the industrial agreements entered into with Boliden Odda confirm Statkraft's role as the largest and most important power supplier to power-intensive industry in Norway. The agreement to increase the company's shareholding in SN Power supports Statkraft's ambitions to develop its role as a global niche player within hydropower and other forms of renewable energy. In addition to the significant profit recognised on the swap deal with E.ON AG, Statkraft posted a strong profit on underlying operations. The high profit is attributable to higher electricity prices, increased generation, efficient operation and excellent results from hedging activities, and not least with significant contributions from the company's employees.



ARVID GRUNDEKJØN

Chairman of the Board and Chair of Statkraft's Compensation Committee, board member since 2004

BORN: 1955

POSITION: Self-employed, real estate development and private equity consultant

EDUCATION: Lawyer and MSc in Economics and Business Administration

OTHER DIRECTORSHIPS: Chair of Anders Wilhelmsen & Co AS, Creati AS and Pluss Bank; Director of Royal Caribbean Cruises Ltd. and Romania Invest

IMPORTANT EVENTS

Statkraft implemented a swap deal with E.ON AG on 31 December 2008 under the terms of which E.ON AG acquired Statkraft's 44.6% shareholding in E.ON Sverige AB and one hydropower plant in Sweden in exchange for 40 hydropower plants and five district heating plants in Sweden, two gas-fired power plants and 11 hydropower plants in Germany, three hydropower plants in the United Kingdom, along with a gas storage contract and a power supply agreement. Statkraft also acquired 4.17% of the shares in E.ON AG. The transaction had a total value of around NOK 44 billion, and resulted in Statkraft recognising a profit of NOK 25 591 million in the fourth quarter. The transaction had a limited effect on liquidity.

Statkraft AS and Norfund agreed a new ownership structure for SN Power in November which saw Statkraft increase its shareholding to 60% with effect from 13 January 2009.

The shareholder agreement was also re-negotiated, with Statkraft acquiring an option to purchase up to a total of 67% of SN Power's shares at market price by no later than 2015. Norfund was granted an option to sell all or some of its shares during the same period. A separate company was also established to focus on initiatives in Africa and Central America, in which Norfund participates as a direct owner alongside SN Power.

Statkraft and Agder Energi entered into an agreement in August to establish the company Statkraft Agder Energi Vind DA. The two parties

will use the newly established company to implement a joint initiative within onshore wind power in Norway.

In October Statkraft and Boliden Odda signed two long-term, commercial industrial power contracts that will run from 2009 to 2030. The agreement for the supply of around 20 TWh is the largest industrial power agreement Statkraft has entered into since 1998. As part of the agreement Statkraft acquired the shares in AS Tyssefaldene held by Boliden Odda, thus increasing its shareholding to 60.17%. The agreement will enter into force as soon as a number of issues including tax-related matters have been clarified.

Leirfossene Power Plant in Trondheim was opened in October. The new hydropower plant replaces two old power plants, increasing annual output from 150 GWh to 193 GWh.

Commercial operation of Knapsack gas-fired power plant in Germany, which has an installed capacity of 800 MW, commenced on 16 January 2008.

Statkraft and its partner Catamount Energy Corporation decided in March 2008, to construct Blaengwen Wind Farm in Wales, which will have an installed capacity of 23 MW. Construction work started in autumn 2008 and is expected to be completed in early 2010. Statkraft acquired Catamount's shareholding in March 2009, thus becoming the sole owner of the project.

Together with one of its partners in the United Kingdom, Statkraft was in June granted a licence to construct Carraig Gheal Wind Farm near Oban on the west coast of Scotland. The new wind farm's 20 turbines will have an installed capacity of between 46 MW and 60 MW.

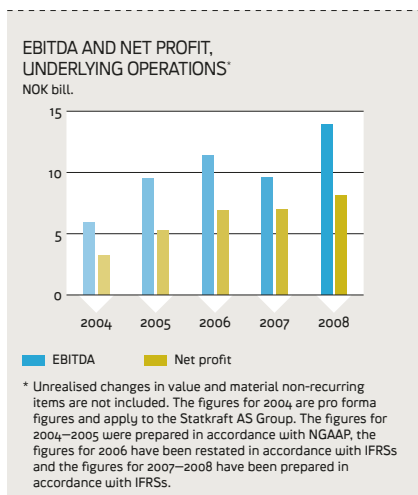
Statkraft and the Austrian energy group EVN signed a licence agreement in December to construct hydropower capacity in Albania. The construction of three power plants with a combined installed capacity of 340 MW and an expected annual output of around 1 TWh is planned through a joint-venture. The project is expected to be implemented by 2016.

To be able to implement Statkraft's strategy for continued profitable growth within environmentally friendly and flexible power generation, in February 2009 Statkraft's board submitted a proposal to the state as owner to increase the equity by NOK 8 billion and adjust the dividend policy to lie between 50% and 75%.

FINANCIAL PERFORMANCE ¹

In order to facilitate better understanding of Statkraft's underlying operations, unrealised changes in value and material non-recurring items in the Group and associates are excluded from the financial review of the Group and the segments. Further information on these items can be found in the section "Items not included in the underlying profit".

Annual profit In 2008 the Group posted respective pre- and post-tax profits of NOK 11 960 million (NOK 9 307 million) and NOK 8 097 million (NOK 7 030 million). The improvement in profit is primarily attributable to higher power prices and production, though



this was offset to a certain degree by significantly higher financial expenses, lower contributions from associates and a higher tax expense.

Return on investment The Group achieved a return on average capital employed (ROACE) of 26.6% in 2008 (17.7%). The increase of 8.9%-points is primarily attributable to significantly higher operating profits as a result of higher power prices and production.

The return on equity after tax was 15.6% (14.7%), while the total return on capital after tax was 9.9% (8.3%).

Operating revenues At 44.7 EUR/MWh, the average system price in the Nordic market was EUR 16.8/MWh higher in 2008 than in 2007, and 3.8 EUR/MWh lower than the record prices seen in 2006. Precipitation was higher than normal in 2008 in Norway and consumption was also high, despite relatively warm weather. Average monthly prices for 2008 were higher for all the months compared to the previous year, with exception of December. The average spot price in Germany was also considerably higher in 2008 than in 2007, increasing by EUR 27.8/MWh to EUR 65.8/MWh. With the exception of November, prices were higher in all months of the year in 2008 than in the previous year.

The Group posted gross operating revenues of NOK 25 061 million in 2008 (NOK 17 619 million). The increase of 42% is attributable to higher prices and a rise in output from 44.9 TWh in 2007 to 53.4 TWh in 2008. Gas-fired power generation in Germany contributed 4.1 TWh to the overall increase in output of 8.5 TWh, while the remainder of the increase primarily related to hydropower in Norway. Higher prices and increased levels of production resulted in an increase in net physical spot sales of NOK 7 199 million, which represents a 132% rise. High prices also impacted revenues from end-user activities, which increased by 27% to NOK 4 305 million. At NOK 1 221 million, revenues from hedging activities were slightly lower than the historically strong results witnessed in 2007.

Statutory-priced power sales to industry totalled 8.3 TWh, generating revenues estimated to be NOK 1 438 billion lower than they would have been had the same volume of electricity been sold at spot prices.

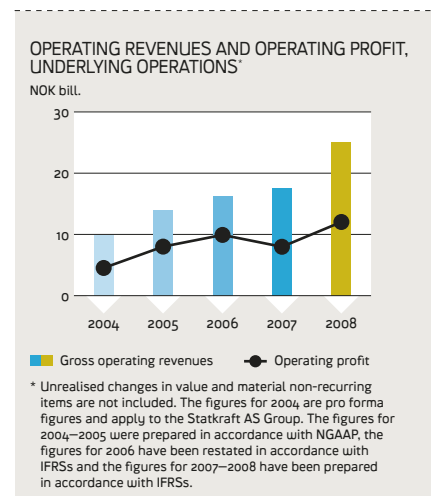
Other operating revenues totalled NOK 856 million in 2008 (NOK 1 075 million). The

decrease is attributable to the recognition of insurance settlements for Svartisen in 2007 and fines relating to the delayed completion of the gas-fired power plants.

Energy purchases amounted to NOK 4 416 million in 2008 (NOK 2 680 million). The increase is primarily attributable to the purchase of gas for the Group's gas-fired power plants.

Costs associated with the transmission of power totalled NOK 1 326 million (NOK 939 million), where the increase is attributable to a rise in the variable portions of the transmission tariff as a result of higher transmission volumes and prices.

Net operating revenues totalled NOK 19 319 million (NOK 14 000 million).



Operating expenses Operating expenses amounted to NOK 7 290 million in 2008 (NOK 6 019 million), which represents a 21% increase against 2007.

Salaries and payroll costs rose by NOK 250 million to NOK 1 854 million. The increase is primarily connected to increased activity levels, normal salary development and increased provisions for pension liabilities.

The increase in depreciation, amortisation and impairments of NOK 220 million primarily relates to the gas-fired power plant at Knap-sack. Total depreciation, amortisation and impairments amounted to NOK 1 860 million in 2008.

Property tax and licence fees increased by NOK 94 million, primarily as a result of an

¹ Comparative figures for 2007 are shown in brackets.

increased calculation basis for property tax in Norway and Sweden. In total property tax and licence fees amounted to NOK 1 077 million.

Other operating expenses totalled NOK 2 500 million. The increase of NOK 707 million is primarily attributable to the gas-fired power plants, which contributed NOK 350 million. The remainder of the increase relates to other new business, project development and a general increase in activity levels.

Operating profit Operating profit totalled NOK 12 029 million (NOK 7 981 million), which represents an improvement of 51% against 2007.

Share of profit from associates The share of profit from the Group's associates was NOK 2 153 million in 2008 (NOK 2 643 million), which corresponds to a decrease of 19%.

NOK 284 million of the above mentioned decrease relates to E.ON Sverige in connection with the swap deal with E.ON AG. The share of profit from E.ON Sverige was not recognised in the period between the Statkraft board's decision to proceed with the swap deal on 18 June 2008 and the time the deal was implemented on 31 December 2008. The share of the profit not recognised is included in the profit that was reported on the implementation of the sale as of 31 December 2008.

Telenor Cinclus has posted weaker results than expected and Skagerak Energi recognised a loss share of NOK 239 million in respect of the company for 2008. As a result of the marked negative performance, extensive work is being performed to reorganise the company together with the majority shareholder Telenor. The board emphasises that involvement in the business, which lies in the periphery of the Group's core business, has proven challenging.

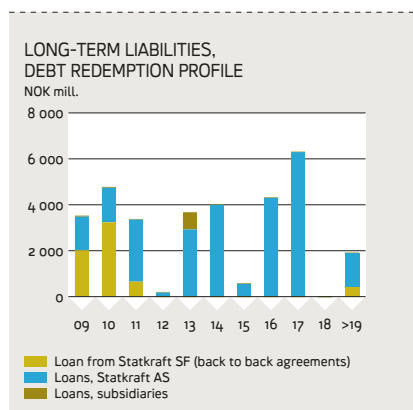
Financial items Net financial items totalled NOK -2 222 million in 2008 (NOK -1 318 million).

Year-on-year financial expenses rose by 1 349 million in 2008. The increase primarily relates to the net loss realised on foreign currency contracts previously entered into as well as increased interest expenses on liabilities due to higher market interest rates and higher average liabilities.

Financial income increased by NOK 444 million compared with 2007. Average liquidity was lower than in 2007, while higher market interest rates generated an increased yield from the portfolio.

The repayment of state-guaranteed loans by Statkraft SF also resulted in a reduction in the guarantee premium payable to the Norwegian state, which totalled NOK 65 million in 2008.

The Group has three loan portfolios denoted in NOK, SEK and EUR respectively. The portfolios are exposed to both variable and fixed interest rates, where the exposure to variable interest rates is 76%. The average current interest rates for the year on loans denoted in NOK, SEK and EUR were 6.7%, 4.9% and 5.3% respectively.



Statkraft entered into several currency and interest rate hedging relationships that reduced volatility reported in the income statement in 2008. The investment in E.ON Sverige was hedged against changes in SEK, loans in EUR were hedged against changes in market interest rates and a major contract in EUR was hedged against changes in foreign exchange rates (cash flow hedging).

Access to capital has been reduced in the wake of the financial crisis, and access to liquidity is limited through both the securities

market and loans from banks. Although Statkraft has benefitted from good access to capital through the certificate market during the crisis, the company is nonetheless aware of the major uncertainty currently pervading the market. Over the last year Statkraft has increased its drawdown facilities by NOK 3 billion and now has a total of NOK 8 billion in unused drawdown facilities.

Statkraft has entered into agreements with financial counterparties for the settlement of changes in value of interest rates and foreign currencies that limit counterparty risk resulting from derivative contracts to one week's changes in value.

Statkraft places significant amounts in banks at times, particularly ahead of major payments. Counterparties are continually followed up to reduce the risk of losses.

Items not included in the underlying profit

Total unrealised changes in value and material non-recurring items after tax for the year amounted to NOK 25 165 million (NOK -398 million).

Unrealised changes in the value of energy contracts totalled NOK 4 283 million in 2008 (NOK -739 million). The Group's contracts are indexed against a number of items including various raw materials and foreign currencies. At the end of the year unrealised changes in the value of contracts were in particular impacted by the appreciation of the USD.

Unrealised changes in value in associates and joint ventures amounted to NOK -753 million in 2008 (NOK 279 million).

Unrealised changes in the value of currency and interest rates during the year amounted to NOK -3 102 million (NOK 227 million). The changes in value were attributable to both unrealised foreign currency effects on liabilities denoted in SEK and EUR and currency effects on internal loans, and unrealised effects of foreign currency hedging of future

ITEMS EXCLUDED FROM UNDERLYING OPERATIONS

Statkraft Group		
FIGURES IN NOK MILLION	2008	2007
Unrealised changes in value energy contracts	4 283	-739
Unrealised changes, associates and joint ventures	-753	279
Unrealised changes in value currency and interest contracts	-3 102	227
Unrealised changes	428	-233
Material non-recurring items	25 433	-309
Unrealised changes and material non-recurring items after tax	25 165	-398

cash flows denominated in EUR. This is due to depreciation of the Norwegian krone against the Swedish krona and the euro by 6.4% and 22.5% respectively in 2008. However, the change in the value of interest rate derivatives contributed positively here.

Non-recurring items excluded from the calculation of the underlying profit amounted to NOK 25 433 million in 2008 (NOK -309 million). The entire above item in 2007 and an amount of NOK -68 million in 2008 relate to repair costs incurred in E.ON Sverige in connection with storm damage in January 2007 and January/February 2008 respectively.

The figures for 2005 include write-downs recognised for the Smøla and Hitra wind farms. These were reversed in the fourth quarter of 2008, resulting in the recognition of non-recurring income of NOK 307 million. The write-downs were reversed on the basis of updated price assumptions, a broader experience basis for estimating production, and a slight extension in the wind farms' projected lifetimes.

The investment in Naturkraft was written down by NOK 397 million in the fourth quarter of 2008 following the significant reduction in carbon quotas allocated to Kårstø gas-fired power plant for the period 2008-2012.

In connection with the swap deal with E.ON AG Statkraft recognised a profit of NOK 25 591 million in the fourth quarter of 2008, which has been excluded from the underlying result.

Taxes Taxes on the underlying profit comprised NOK 3 863 million (NOK 2 277 million), which equates to an effective tax rate of 32.3% (24.5%). The effect of unrealised changes in value and non-recurring items on the tax expense in 2008 was NOK 696 million (NOK -144 million).

The tax expense recognised in 2008 totalled NOK 4 558 million (NOK 2 133 million).

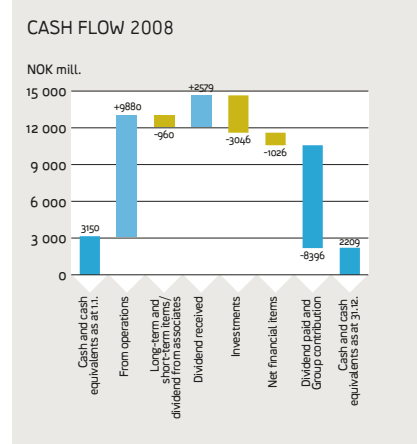
In 2008 resource rent tax amounted to NOK 1 883 million (NOK 758 million), which equates to 41.3% of the Group's total tax expense (35.5%). The increase in resource rent tax as a share of the Group's total tax expense is attributable to higher production and area prices.

The tax expense for 2007 was impacted by changes in the regulatory framework for

resource rent taxation, which resulted in a positive net effect in the form of a reduced recognised tax expense of NOK 525 million. This was primarily due to more power plants being taxable than previously. Combined with an increased tax rate, this generated higher negative resource rent carryforwards and thus an increase in recognised deferred tax assets.

Cash flow and equity Operating activities generated a cash flow of NOK 9 880 million in 2008 (NOK 5 993 million). Changes in short-term and long-term tied capital generated a negative liquidity effect of NOK 960 million (NOK 308 million), while dividends from associates totalled NOK 2 579 million (NOK 1 419 million). The net cash flow from operations thus amounted to NOK 11 499 million (NOK 7 720 million).

Investments totalled NOK 3 046 million (NOK 4 002 million) and primarily related to maintenance, increases in capacity and investment in other companies. The largest items comprised capital payments into SN Power and Energy Future Invest AS of NOK 200 million and NOK 137 million respectively, and investments of NOK 105 million in Leirfossene Power Plant and purchases of shares worth NOK 73 million in the Swedish wind company Arise AB.



New borrowings totalled NOK 6 525 million, including NOK 5 570 million in certificate loans, while debt amounting to NOK 7 551 million was repaid in liabilities. A further NOK 8 396 million was paid in dividends and Group contributions.

There was a negative change in net liquidity of NOK 969 million, and at the end of the



ELLEN STENSURD

Deputy chair,
board member
since 2007

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



HALVOR STENSTADVOLD

Chair of Statkraft's
Audit Committee,
board member
since 2003

BORN: 1944
POSITION: Consultant
EDUCATION: Master of Political Science
OTHER DIRECTORSHIPS: Chair of Borregaard Skoger AS,
Director of Storebrand ASA

**AUD MORK**

Member of Statkraft's
Compensation Committee,
board member since 2004

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
OTHER DIRECTORSHIPS: Director of Romsdalsmuseet AS,
Molde flyplassutvikling; Deputy Chair of Møreaksen
AS; member of KLP's Control Committee

year the Group's cash and cash equivalents totalled NOK 2 209 million, compared with NOK 3 150 million at the start of the year.

At the end of the reporting period interest-bearing liabilities totalled NOK 40 791 million, compared with NOK 37 284 million at the end of the previous year. The net increase is attributable to a marked depreciation of the Norwegian krone towards the end of 2008. The interest-bearing debt ratio was 36.1%, against 45.6% at the end of 2007. The decrease of 9.5%-points is due to the fact that recognised equity increased as a result of the significant increase in value of Statkraft's shares in E.ON Sverige realised following the swap deal with E.ON AG. The share of debt denominated in EUR increased in 2008, while the share of debt denominated in SEK was reduced by a corresponding amount. This measure was taken in order to align the liabilities with increased investments in EUR in connection with the swap agreement with E.ON AG.

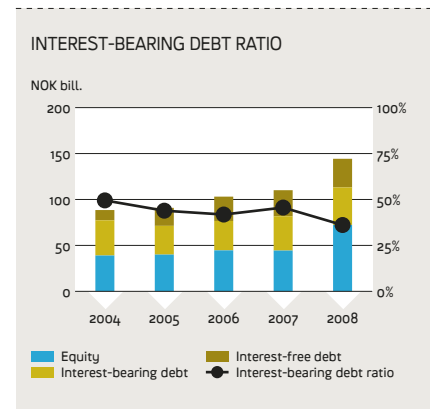
At the end of the year the loan from Statkraft SF totalled NOK 6.5 billion, compared with NOK 11.4 billion at the end of 2007.

An overarching aim for Statkraft's financing is to establish and maintain financial flexibility and secure an even allocation of debt maturities. The maturity profile is now balanced. Significant debts are, however, due to mature in the coming years.

At the end of the reporting period current assets, excluding cash and cash equivalents, totalled NOK 25 500 million, while short-term interest-free liabilities amounted to NOK 19 857 million. Of these amounts derivatives comprised NOK 12 806 million and NOK 11 299 million respectively, compared with respective amounts of NOK 8 326 million and NOK 12 454 million 12 months previously.

At the end of 2008 Statkraft had equity of NOK 72 324 million (NOK 44 418 million). This corresponds to 50.1% of total capital. The increase of 9.7%-points since the start of the year is attributable to a rise in equity following the swap deal with E.ON AG.

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 was the 14th largest electricity generator in Europe, but Europe's largest generator of renewable energy in 2007. The Group generates and develops hydropower, wind power, gas power and district heating and is a major player on the European energy exchanges with specialist expertise within physical and financial power trading. Statkraft also focuses strongly on innovation and development of solar power, marine energy, osmotic power and other new environmentally friendly energy solutions. The Group supplies electricity and heat to around 600 000 customers, has around 270 000 distribution grid customers, and is the largest supplier of power to the Norwegian processing industry. Outside Europe Statkraft engages in power generation and development of new generating capacity through its subsidiary SN Power. The Group also has shareholdings in other energy companies in both Norway and the Nordic region, as well as a 4.17% shareholding in the German energy company E.ON AG.

In order to secure an effective structure for continued growth and profitability, the Statkraft Group's operational structure was reorganised with effect from 1 July 2008. In connection with the introduction of the new management structure, Statkraft decided to implement IFRS 8 before the mandatory deadline of 1 January 2009. IFRS 8 classifies the segments in accordance with the organisation of the business for internal management purposes, which is essentially based on the premise that the information that management uses to make decisions internally should also be reflected in segment reporting. The new organisational structure was chosen to accommodate the major changes that will ensue in the wake of increased growth and internationalisation.

**ODD VANVIK**

Employee-elected board
member, member of
Statkraft's Compensation
Committee, board member
since 1993

BORN: 1952

POSITION: Employee representative for the Statkraft
Group
EDUCATION: Master craftsman

The aim is to achieve a more flexible and dynamic organisation where new prioritisations and growth areas can be highlighted and made visible as separate business units with clear results responsibilities. At the same time we are establishing a basis for an efficient management and control structure.

Statkraft's business is now organised into six segments – Generation and Markets, Wind Power, Emerging Markets, Skagerak Energi, Customers and Industrial Ownership. There is also the Other segment, which includes Southeast Europe Hydro, Solar Power, Small-Scale Hydro, Innovation and Growth, and the investment in E.ON Sverige AB, Group functions and eliminations. The shareholding in E.ON Sverige was sold to E.ON AG on 31 December 2008. The 4.17% shareholding in E.ON AG has been included in the Other segment since 31 December 2008.

Generation and Markets is the largest segment and is responsible for the operation and maintenance of hydropower plants in the Nordic region, gas-fired power plants in Europe, and physical and financial trading in Europe. These business units are organised into one segment due to the close integration between operations, maintenance and energy optimisation. In particular initiatives relating to the development, construction and ownership follow-up of wind power, and development of new growth markets in areas outside Europe, will be followed up by management and be reported and displayed as separate segments in the respective Wind Power and Emerging Markets areas. Activities in Skagerak Energi are followed up as a joint activity by management and reported as a separate segment. The Customers segment covers distribution grid, district heating and power sales activities owned by Trondheim Energi whilst Industrial Ownership includes the shareholdings in BKK, Agder Energi and Fjordkraft.

Strategy and vision

Vision Statkraft updated its vision in 2008.

As Europe's leader in renewables we will meet the world's need for pure energy.

We wish to leverage our expertise and experience to help satisfy global climate and energy challenges.

Strategy In 2008 Statkraft prepared a new strategy for the period leading up to 2015.

The strategy paves the way for continued profitable growth within environmentally friendly and flexible power production both nationally and internationally.

The strategy states three main directions for further development.

Industrial developer in Norway Statkraft is the most important player in the efforts to supply clean energy to consumers and businesses in Norway. The company shall be a driving force behind developments in the Norwegian power industry, and through this create profitable workplaces and help meet the world's need for clean energy.

The major values connected to the hydropower plants shall be managed in a responsible manner. The ambitions are to generate further growth by developing new hydro and wind power and meeting industry's need for long-term power agreements. New growth areas shall be developed, while activities within distribution grid, power sales and district heating and shareholdings in other power companies shall also be developed.

European flexible producer Statkraft shall further develop integrated market operations by establishing a strong position within flexible assets in Western Europe.

Existing power plants shall be expanded and upgraded, and the power plants' inherent flexibility shall be leveraged to supply the market with environmentally friendly energy when fluctuations in demand and prices make this attractive. Specialist expertise within market analysis, energy optimisation, trading in energy products and operation and maintenance shall be leveraged and further developed.

Green global developer The world needs to develop much more renewable energy to counter global energy and climate challenges. To benefit from the commercial opportunities presented by these developments, Statkraft is endeavouring to establish a strong niche position within international hydropower and renewable energy sources in Europe.

We will generate growth within hydropower in Southeast Europe and in selected countries in Asia, South America and Africa, and step up our focus within shore and offshore wind power and establish a basis for growth within solar power and marine energy.

BERIT RØDSETH

Member of Statkraft's
Audit Committee,
board member
since 2007



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

**THORBjørn HOLØS**

Employee-elected
board member,
board member
since 2002

BORN: 1957

POSITION: Senior union representative, Skagerak Energi
EDUCATION: Energy technician

**ASTRI BOTTEN LARSEN**

Employee-elected
board member,
member of Statkraft's
Audit Committee,
board member
since 2002

BORN: 1964

POSITION: Senior Engineer, Statkraft
EDUCATION: Master of Science in Mechanical
Engineering, Diploma in Business Studies

Corporate governance Statkraft's principles for corporate governance regulate the relationship between its owner, board of directors and management. To the extent that it is applicable to Statkraft's organisation and ownership, the company complies with the Norwegian Code of Practice for Corporate Governance. Recommendations relating to non-discrimination of shareholders, tradability of shares and the general meeting are not relevant for Statkraft as the company is not listed and the state is the sole owner.

Statkraft has an Audit Committee that performs preparatory work in respect of the board's deliberations and decisions regarding the company's financial reporting, internal control and auditing. The company also has a Compensation Committee, which makes recommendations to the board with regard to the salary and other benefits paid to the President and CEO as well as on matters of principle related to salary levels, incentive schemes and pension terms for the company's employees.

The work of the Board of Directors There were no changes in the composition of the board of directors in 2008. The chair and board members of Statkraft AS are identical to the chair and board members of Statkraft SF. The board met 11 times during the year. In 2008 the board carried out a review of the company's strategy.

In addition to monitoring ongoing operations, the board dedicated much of its time in 2008 to the swap deal with E.ON AG and the agreement with Norfund on a new ownership structure for SN Power.

Risk and internal control Statkraft's key risk factors are connected to market operations, financial management, operating activities and framework conditions. Risk management at Statkraft is important for value creation and represents an integrated part of all business activities. This is followed up within the respective units using procedures for the monitoring and mitigation of risk.

Significant volume and price risk attaches to power production and trading. Precipitation levels and winter temperatures are of great significance in the Nordic market and result in considerable fluctuations in both prices and output volumes. Power prices are also impacted by gas, coal and oil prices, and carbon quota prices. Gas-fired power generation is directly exposed to gas, oil and carbon

quotas. Statkraft manages this market risk by trading physical and financial instruments in several markets. Closer integration of the energy markets is having a significant impact on business models and risk management. Consequently, significant emphasis is placed on the interrelationship between the various markets. Internal mandates and frameworks are established for all trading activities and followed up on an ongoing basis.

The Group's central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity. Forward currency contracts, interest rate swaps and forward interest rate agreements are the most important instruments used. Foreign exchange and interest rate risk are regulated through mandates. Limits have also been established for liquidity and counterparty risk. Market risk and other financial risk, as well as exposure connected to the issued mandates, are followed up by independent middle office functions, and are regularly reported to Group management and the board.

Operational risk is largely managed using detailed procedures, contingency plans and insurance. A comprehensive system for registering and reporting hazardous conditions, undesired incidents and damage and injuries has also been established, and these are analysed on an ongoing basis.

Other risk is primarily associated with general framework conditions and political decisions. Climate changes can present both threats and opportunities, and are of importance for all the risks described above. Statkraft therefore closely monitors consequences relating to climate changes.

The board attaches importance to further strengthening internal controls within the Group. To this end a management system has been established that gathers all governing documents and facilitates more efficient, systematic and uniform management of the Group incorporating adequate formalisation, documentation and compliance. An internal control system that will comprise risk assessment, control measures and monitoring of compliance is being prepared. The system is scheduled to be completed by the end of 2009. The status of compliance with the management system is included as a part of management's review in accordance with ISO 9000 and ISO 14000 certification.

The financial crisis that started in the second half of 2008 is having a direct impact on Statkraft's financial risk profile and is also indirectly affecting prices and structural changes in the company's key markets. The resulting increased risks are managed within the framework of financial risk, though are now being accorded greater attention and followed up more closely than in the past.

Business principles 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. Safeguarding life and health
2. Safeguarding the environment
3. Safeguarding against the loss of trust of the market and society
4. Safeguarding against financial loss
5. Safeguarding critical business systems

These business principles are guiding for the Statkraft Group's 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 who are business partners of the Group.

SUSTAINABLE VALUE CREATION

Ethical business operation The Group emphasises the importance of sound business practice, and the company's ethical guidelines apply to employees and everyone who acts on behalf of the Group. Statkraft encourages employees to notify censurable conditions. The Group's Corporate audit department is an independent notification channel with the right and obligation to report to the board. The guidelines that describe the employer's duties on receiving such notification were prepared in 2008.

Initiatives within ethics were strengthened as a result of Statkraft establishing itself in new markets. This increased focus covers a number of factors, including the establishment of an ethics programme that covers the revision of principles and guidelines relating to ethics, training programmes for all employees along with the reinforcement of the subject of ethics in the Group's management training programme.

Corporate social responsibility Statkraft focuses on renewable energy and climate challenges, and works to develop new pro-

duction capacity that can contribute to long-term, reliable energy supplies, including into the future. The Group places great emphasis on operational safety and contingency measures in relation to any serious unplanned incidents.

Statkraft generated a total added value of NOK 43 566 million in 2008. NOK 10 000 million of this amount was returned to the company's owner as dividends and Group contributions. Central and local government taxes totalled NOK 5 524 million. Statkraft's total investments in 2008 amounted to NOK 2 573 million (excluding loans granted). NOK 1 758 million of which were made in Norway and NOK 815 million outside Norway. 46% of these investments related to the expansion of production capacity.

Environmental matters One serious environmental non-compliance was recorded in the Group in 2008. On 27 July a stretch of the Surna river experienced strongly reduced rates of water flow for 3.5 hours after an unforeseen breakdown at Trollheim Power Plant. The incident resulted in the stranding of around 20 000 salmon and sea trout alevin. Statkraft has contributed to the establishment of two funds intended to reinforce and maintain salmon and sea trout populations in the Surna river. Statkraft had previously decided to install a bypass valve at Trollheim Power Plant. The valve is scheduled to be installed and enter operation in spring 2010. This will significantly reduce the risk of undesired downtime and reduced water flow in Surna river.

A further 27 less serious environmental non-compliances were recorded in 2008. Most of these related to brief violations of minimum water flow requirements and minor oil emissions.

In 2008 Statkraft's greenhouse gas emissions totalled 1 605 000 tonnes. This represents an increase of 292 000 tonnes compared with 2007. This increase is primarily attributable to the fact that 2008 was the first full year that CO₂ emissions from the gas-fired power plant at Knapsack in Germany were included in the sustainability statement.

The Group will purchase carbon quotas on the voluntary carbon market to offset greenhouse gas emissions from fuel consumption, business travel and accidental emissions in 2008 for the part of the business that is not subject to quota schemes.



EGIL NORDVIK

Board member
since 2007

BORN: 1944
POSITION: Consultant
EDUCATION: Master of Science in Geotechnology
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

In 2008 electricity consumption at Statkraft totalled 828 GWh. All the Group's electricity consumption is certified as renewable in accordance with RECS (Renewable Energy Certificate System). In 2008 Statkraft generated 34 300 tonnes of hazardous waste which was treated in line with the applicable regulations. The recycling rate (material and heat recycling) of other waste produced in the Generation and Markets segment was 82% in 2008.

The subsidiaries Statkraft Energi AS and Statkraft Development AS are certified according to the ISO 14001:2004 environmental standard. A project intended to develop a Group-wide environmental management system is now in its final phase, and the new system will be implemented across the Group in 2009.

A SAFE AND HEALTHY CORPORATE CULTURE

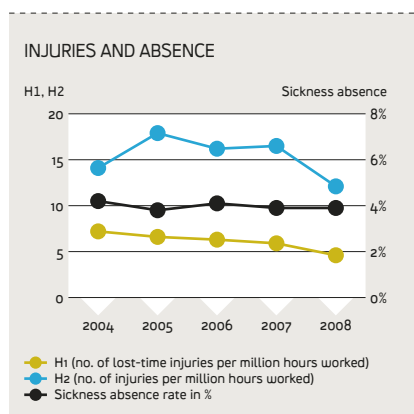
Organisation The Statkraft Group was reorganised in 2008 to cater for the strong international growth currently being experienced by the business. At the end of 2008 the Group employed 2 633 full-time equivalents, which represents an increase of 346 compared with at the end of 2007. 217 employees (183 full-time equivalents) were transferred from E.ON to Statkraft in connection with the swap deal with E.ON AG. These are included in the company's headcount as of 31 December 2008 but not in other key figures. The average age of employees in the Statkraft Group is 45, and the average length of service is 14 years. Excluding retirement, Statkraft had a staff turnover rate of 4.0% in 2008.

The company's sickness absence rate was 3.9% in 2008 (3.9%). The company aims to have a sickness absence rate of less than 4%. All the Group's Norwegian companies participate in the government's Inclusive Working Life (IA) scheme, which involves the active follow-up of those on sick leave and close cooperation with the company's health service.

Statkraft is endeavouring to achieve a better gender balance within the Group and a higher proportion of women in management positions. In 2008 24% of the Group's employees were women (24%). The percentage of women in management positions was 21% in 2008 (24%), while the number of women on the board was 44%. The board follows up work to secure balanced gender distribution, including ensuring compliance with statutory

requirements relating to gender balance on the boards of subsidiaries and companies in which Statkraft holds major shareholdings.

Statkraft embraces workforce diversity and pursues a policy of non-discrimination with regard to recruitment and personnel issues. The Group employs staff in more than 20 countries.



Safety Statkraft aims to avoid injuries and health problems in connection with the Group's activities. Health and safety aspects shall be identified and evaluated ahead of all operating and maintenance activities. All injuries, near misses and hazardous conditions are registered, analysed and followed up in a systematic manner.

A Group-wide management system for health, safety and the environment is being prepared. The work includes the establishment of Group-wide requirements for categorisation, analysis and follow-up of HSE non-compliances, and revision of the Group's HSE requirements for partners and suppliers.

In 2008 the H1 absence indicator was 4.6 (5.9), while the H2 injury indicator was 12.1 (16.5). The improvement is generally accredited to an increased focus on reporting and analysis of incidents, near misses and hazardous conditions, along with more stringent requirements concerning examination of hazardous conditions. The Group has expressed a desire to learn from all injuries, near misses and hazardous conditions. 4 524 hazardous conditions were recorded in the Group in 2008.

There were nine fatalities at SN Power in 2008 and three to date in 2009. Six of the fatalities occurred on the Allain Duhangan construction project in India, in which

SN Power has a 43% shareholding. A total of 13 people have died since the start of construction on the Allain Duhangan project. Most of the fatalities were connected to transportation activities, landslides or avalanches. Statkraft and SN Power regard the situation as very serious and have implemented a series of measures; including the engagement of international experts and new HSE management, and ongoing monitoring. Statkraft will further strengthen its efforts to improve safety following its increased shareholding in SN Power.

Statkraft works continuously to increase understanding of, and compliance with safety requirements on all development projects in which the Group is involved. Health and safety work and performance are directly followed up on the projects and by the respective boards.

FRAMEWORK CONDITIONS

Statkraft's existing activities in Norway are impacted by a number of framework conditions including tax regulations, changes in the regime for grid rental charges, revisions of minimum water flow rates and other instructions from the Norwegian Water Resources and Energy Directorate (NVE), as well as restrictions in the transmission grid, general support schemes and regulations for industry. The framework conditions can impact Statkraft's production, revenues and profitability. Statkraft is similarly exposed to framework conditions and regulations through its activities within the EU and in international growth markets.

The EU's recently adopted Renewables Directive will have major impact on Statkraft in the years to come. The Directive establishes a binding target that 20% of energy consumption shall be generated from renewable energy by 2020. European power prices in themselves are not sufficiently high to render new renewable technologies commercially viable. Most countries therefore have support systems to secure growth within these technologies. The support systems are national and vary significantly in both their form and support levels. There are two main types of support systems: feed-in tariffs and green certificates. Statkraft is exposed to support schemes connected to the development of clean energy in a number of markets. Both established technologies such as onshore wind power and new technologies including offshore wind, wave and tidal power will require financial support if they are to be

realised. Uncertainty attaching to the future scope and size of various countries' support systems is accorded significant importance in investment decisions and will be critical in the long-term to be able to develop new technologies.

The financial crisis could result in some countries questioning whether to spend money on expensive support schemes for a period. However, there is also evidence to suggest that an economic downturn could result in increased support for renewable energy. It could be proposed that funds be specifically channelled into activities within environmentally friendly energy in order to stimulate economic activity levels.

ALLOCATION OF PROFIT FOR THE YEAR

In its national budget for 2009 the Norwegian government requires Statkraft to pay the Norwegian state a dividend of NOK 10 billion. The dividend will be paid from Statkraft SF. To enable Statkraft SF to pay this dividend the board proposes the following allocation of the profit for the year in Statkraft AS.

AMOUNT IN NOK MILL	
Net profit as per Statkraft AS's financial statements	29 721
Allocation of profit for the year:	
Group contribution from Statkraft AS to Statkraft SF	10 000
Transferred to other equity	19 721

At the end of the year the parent company's unrestricted equity was 19 830 million.

OUTLOOK

High reservoir levels at the start of 2009 and higher than normal precipitation levels have resulted in a robust resource situation in the Nordic region. The average system price was significantly higher in 2008 than in 2007, but forward prices indicate that prices will be lower in the future. Together with the increase in generating capacity facilitated by the swap deal with E.ON, this will form the basis for a relatively high level of power generation during 2009 and increases in revenues from ongoing power sales. However, major uncertainty attaches to the further development of power prices and the hydrological resource situation. It is expected that prices and demand for power could fall in the short and medium-term as a result of the financial crisis. The long-term consequences are more uncertain.

At the end of the year the Group presented an enhanced strategy for the period 2009 to 2015. The new strategy states three main directions for further development – Industrial developer in Norway, European flexible producer and green global developer. The former involves Statkraft being a driving force behind developments in the Norwegian power industry, and through this creating profitable workplaces and helping meet the world's need for clean energy. As a European flexible producer, Statkraft will generate growth within flexible power production in Western Europe

and further develop its market positions. As a green global developer Statkraft wishes to establish a strong niche position within international hydropower and renewable energy sources in Europe.

The strategy accommodates investments in the region of NOK 80 billion–NOK 100 billion in this period. 85% of these investments are expected to relate to renewable energy, while the remainder will relate to maintenance, gas and other environment-enhancing measures. Just under half of the total investments are planned for Norway. Overall Statkraft's strategy is based on a growth rate in the period leading up to 2015 similar to the Group's average growth rate over the last five years. In order to be able to implement Statkraft's strategy of continued profitable growth within environmentally friendly and flexible power generation, Statkraft's board has proposed to the state that it should increase the equity by NOK 8 billion and adjust its dividend policy. The board estimates that the overall requirement for equity will be met through a combination of new equity and an average dividend level in the period leading up to 2015 of between 50% and 75%.

The Board of Directors of Statkraft AS
Oslo, 18 March 2009

Arvid Grundekjøn
Chair

Ellen Stensrud
Deputy chair

Berit Rødseth

Halvor Stenstadvold

Aud Mork

Egil Nordvik

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
President and CEO

**RESPONSIBILITY
STATEMENT**

We confirm to the best of our knowledge that the consolidated financial statements for 2008 have been prepared in accordance with IFRS as adopted by the EU, as well as additional information requirements in accordance with the Norwegian Accounting Act, and that the financial statements for the parent company for 2008 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements gives a true and fair view of the Company's and Group's assets, liabilities, financial position and result for the period viewed in their entirety, and that the Board of Directors' report gives a true and fair view of the development, performance and financial position of the Company and Group, and includes a description of the principle risks and uncertainties.


The Board of Directors of Statkraft AS
Oslo, 18 March 2009



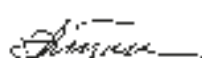
Arvid Grundekjøn
Chair



Ellen Stensrud
Deputy chair



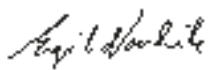
Berit Rødseth



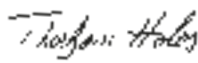
Halvor Stenstadvold



Aud Mork



Egil Nordvik



Thorbjørn Holøs



Astri Botten Larsen



Odd Vanvik



Bård Mikkelsen
President and CEO

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→ Market and business conditions

- Group strategy
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Market and business conditions

The political framework conditions for investments in renewable energy are improving in both Norway and the EU and look set to continue. The financial crisis that swept large parts of the world in autumn 2008 dampened the record-high energy prices and investment levels that characterised the energy sector earlier in the year. However, Statkraft expects the markets to normalise in the long-term. The downturn in the global economy could create investment opportunities in the form of lower prices for acquisitions, projects and technology.

→ **Dramatic falls in commodity, power and CO₂ prices**

→ **Continuing good framework conditions for investments in renewable energy**

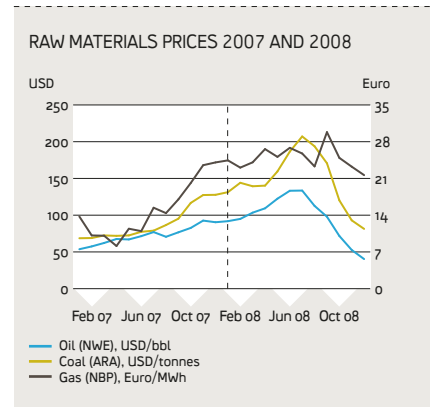
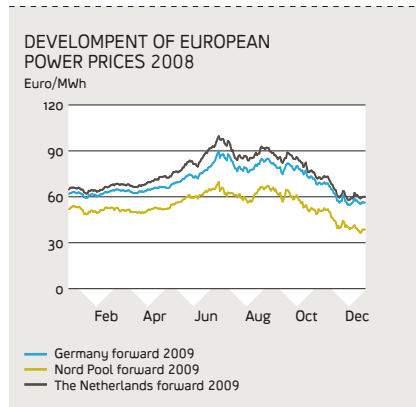
→ **The EU's third energy package is resulting in greater deregulation of the power markets**

Energy prices have been high for a number of years. In the last three months of 2008 the average spot price for power on Nord Pool fell from EUR 67.5/MWh in September to EUR 44.5/MWh in December, which represents a decrease of 34%. Spot prices on the other European power exchanges and oil and coal commodity prices also suffered dramatic falls, while gas prices proved more resilient. Along with falling commodity and CO₂ prices, the main factors affecting European power prices at the end of the year were the downturn in German steel and car production, generally lower consumption levels and unusually high levels of wind power generation. Year-on-year power consumption in the Nordic region fell by 1.6% in 2008, while consumption in Norway rose by 1.0%.

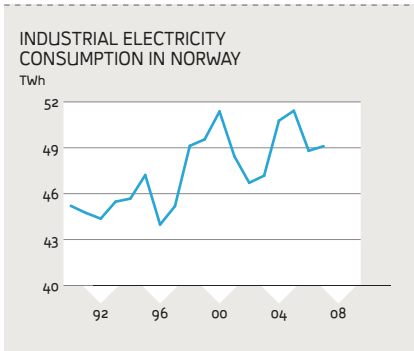
FUTURE PROSPECTS

The financial crisis has resulted in significant falls in prices, demand and investments. Although significant uncertainty surrounds both the duration and likely consequences of the current financial crisis, Statkraft expects the markets to normalise in the long term. Lower prices are impacting the Group's earnings in the short term. At the same time a number of excellent investment opportunities are arising as a result of significant falls in values of companies and new projects and limited access to risk capital.

Statkraft manages market development risk using scenarios. The company has developed four scenarios, where the uncertainty surrounding the policy instruments the EU will adopt for cuts in carbon emissions and technology development is regarded as the most

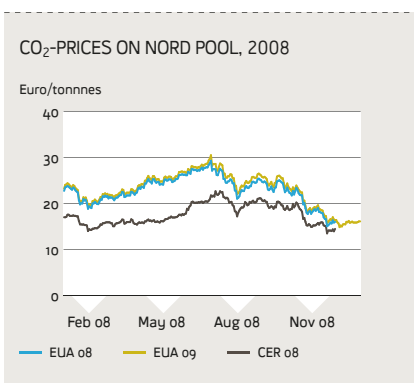


important driving force in the power market. This will help provide a base for Statkraft's long price paths and provide an excellent basis for making robust investment decisions.



NORWEGIAN CLIMATE AGREEMENT

In January 2008 the Storting (Norwegian Parliament) implemented its new climate agreement measures. The target for reductions in greenhouse gas emissions was raised to between 15 and 17 million tonnes of CO₂ by 2020, of which two thirds is to be achieved in Norway. It was further resolved that Norway should be carbon-neutral by 2030. This means that Norway will have to secure emission cuts in other countries equal to emissions in Norway by 2030. According to the agreement Norway will have to exceed the Kyoto Protocol requirements by 10%, and a greenhouse gas budget will be presented as part of the annual Norwegian state budget.



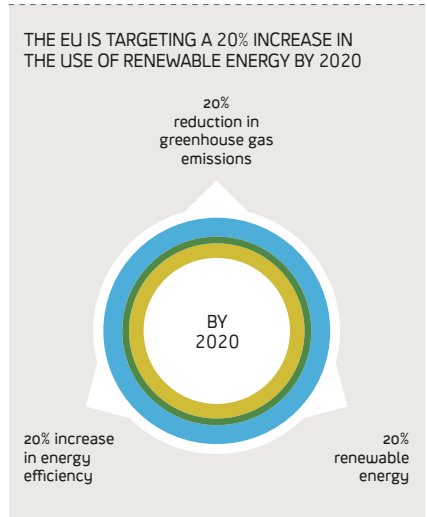
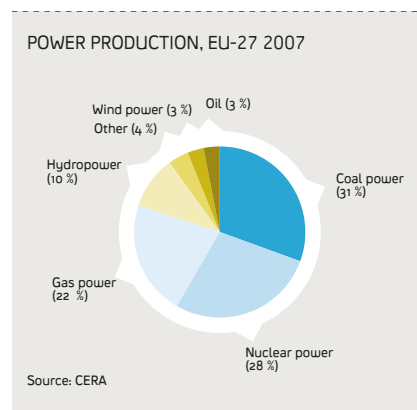
Support for research into renewable energy is to be escalated by NOK 70 million in 2008, NOK 300 million in 2009 and at least NOK 600 million in 2010. A total of NOK 150 million has been earmarked for a demonstration offshore wind turbine programme and other emerging technologies. Initiatives relating to emission-free power for the petroleum indus-

try will be stepped up. The Norwegian government has resumed negotiations with Sweden on issuing green certificates for renewable power production. If these negotiations do not succeed, an alternative scheme will be launched to facilitate the development of the same volume of renewable energy that would have been achieved under a green certificate scheme. It is expected that Norway, through the EEA agreement, will be bound by the EU's directive. In connection with the financial crisis, the Norwegian government has proposed a crisis package providing further support for renewable energy. The package was presented in January 2009.

REVERSION TO STATE OWNERSHIP IN NORWAY

In June 2007 the EFTA Court ruled that the Norwegian model for reversion to state ownership contravenes the EEA regulatory framework. Consequently on 26 September 2008 the Storting made changes to the Norwegian Industrial Licensing Act, which will result in the enforcement of the intention that "The country's hydropower resources belong to and shall be managed for the benefit of the general public" (§ 1).

Private companies currently own around 12% of constructed hydropower production in Norway. Following the amendment to the legislation, private players can continue to utilise plants that were constructed without a licence; however, these cannot be transferred to other private companies. Power plants that are constructed with limited licence terms can be operated in the same way as before during the licence period, but cannot be transferred to other private companies. However, power plants or waterfall rights can be transferred to publically owned companies, who will then have the option of owning the licence in perpetuity.



STRONG EU FOCUS

Climate challenges and security of supply are high on the European energy policy agenda. The EU has established targets for 2020 of 20% of energy being generated from renewable sources, total energy consumption being reduced by 20% and greenhouse gas emissions being cut by 20% in comparison with 1990 levels. In order to achieve the energy targets, the percentage of energy generated from renewable sources will have to increase by more than 30%. This sends an important signal regarding the targets for 2020, although national implementation measures are yet to be established.

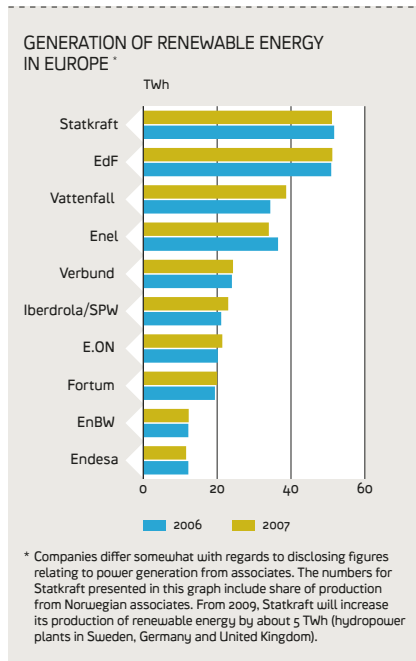
DIFFERING SUPPORT SCHEMES

Subsidies for increased development of renewable power production are key tools in the drive to reduce greenhouse gas emissions. Statkraft expects strong support schemes that promote the establishment of new renewable energy to remain in place, particularly within wind power and solar power. A total of 30 different renewable energy support systems are currently in operation throughout Europe. The United Kingdom, Sweden, Belgium, Italy, Poland and Romania run systems based on green certificates, while most other countries operate variants of guaranteed minimum prices. Germany and Spain have set extremely ambitious targets for new renewable energy and have stimulated significant growth through high subsidy rates. Together, the two countries currently account for more than 60% of installed European wind power capacity in 2007 (European Wind Energy Association (EWEA)), while Germany can also lay claim to more than 42% of the total installed global solar power capacity

→ Market and business conditions

Group strategy
Financial performance
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(European Photovoltaic Industry Association, 2007).

**NEW CAPACITY**

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. It is assumed that wind power will account for as much as half of this growth, split evenly between offshore and onshore wind power. Bioenergy (mass, gas, fuel), hydropower and marine 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.

In 2008 more wind power technology was installed in the EU than any other power technology. According to statistics from the EWEA, 43% of all capacity that was installed in the EU was wind energy. At the end of 2008 a total of 64 949 MW of wind power was in operation in the EU, which represents an increase of 15% compared with 2007. If the EU is to achieve its targets, this could require the development of more than 100 000 MW of wind power in the period leading up to 2020. The major energy compa-

nies are currently positioning themselves to participate in this growth. In particular the development of offshore wind power is 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 announced extensive investment plans for renewable energy.

The significant volume of non-flexible power generation in the EU is boosting the value of forms of flexible production such as hydropower and gas power. In parallel with this, increased demand, the phasing out of old power plants and a focus on security of supply could increase the future importance of coal-fired power plants and nuclear power, provided that carbon emissions from coal fired power plants can be captured and stored (Carbon Capture and Storage – CCS).

In recent years there has been strong growth in the number of companies that develop new energy solutions. In 2008 osmotic power and other ocean-based renewable energy sources were included in the new EU Renewables Directive, meaning that future investments and production in this form of power can qualify for subsidies. Statkraft is currently constructing the world's first prototype osmotic power plant at Tofte in Hurum and believes that osmotic power offers considerable worldwide potential.

INCREASED DEREGULATION

Deregulation of the European power markets is well underway. Statkraft expects this process to continue, and be accompanied by steadily improving market access. The EU's third energy market package places further pressure on the players to ensure de facto market deregulation in parallel with efficiently functioning power markets. The establishment of ENTSO-E and ACER (European organisation for distribution grid managers and regulators) signals that the EU intends to support the development and efficient utilisation of transfer capacity between countries, and demand even clearer demarcation of the role of system operators and power producers in order to ensure transparency and competition in the market.

MORE STRINGENT EMISSION REQUIREMENTS

The European quota market for carbon emission rights is the most important tool for achieving the ambitious target of a 20% reduction in greenhouse gas emissions by 2020 compared with 1990. The target could

be raised to 30% should a global agreement be reached on emission cuts. The EU/EAA quota market covers around half of total greenhouse gas emissions, of which power industry emissions account for around 60%.

The European quota market is currently in its second phase (2008–2012), which coincides with the Kyoto Protocol obligation period. The reduction requirements have been raised in relation to the previous period (2005–2007), while the allocation of free quotas for the power industry has been cut. This situation resulted in relatively high quota prices in 2008, along with lower levels of volatility than were witnessed between 2005 and 2007, even though the international financial crisis and lower activity levels in parts of the industrial sector sent quota prices tumbling towards the end of 2008.

The resolution to reduce greenhouse gas emissions by 20% by 2020 is based on EU members' Kyoto Protocol obligations of achieving an 8% reduction by 2012. The EU has recently established the frameworks for the next period of the quota trading system, which will run from 2013 to 2020, when quota trading will be expanded slightly to include air travel from 2012 and aluminium production from 2013. There will also be a significant general reduction in total quota volumes, and with a few exceptions, the power sector will not receive free quotas. This will provide increased predictability with regard to new investments in the power sector, even though uncertainty will continue to attach to quota price development.

SECURITY OF SUPPLY

In line with the increased focus on security of supply, the EU is aiming to diversify Europe's energy supply and hence reduce dependency on Russia. The recent conflict between Russia and the Ukraine concerning gas supplies has further highlighted this issue. One of the consequences of the above has been a more positive attitude towards coal power and nuclear power. The EU aims to support the development of 12 CCS plants that are due to be constructed by 2020. Significant renewable energy initiatives accompanied by energy optimisation measures will also reduce the dependency on imports and thereby increase security of supply.

The EU regards market liberalisation and integration as effective tools for increasing security of supply. Emphasis is being placed on improving transfer capacity in the distribu-

tion grid, establishing facilities for receiving liquefied natural gas (LNG) in a number of countries and securing import capacity for gas resources outside Russia. Large-scale development of coal power or nuclear power could help stimulate lower power prices in the long term (after 2020), and could also weaken the status of gas power in Europe.

CLOSER MARKET INTEGRATION

The traditional scenario in which power prices in the Nordic region have followed weather conditions with major variations between dry years and wet years is changing. A new cable connection between the Nordic region and the Continent (NorNed) means that power prices in the Nordic region are now more closely linked to continental power prices. Although lengthy cable (Oslo fjord connection) and transformer breakdowns resulted in significant price differences between Southern and Central Norway during much of 2008, in the bigger picture prices are primarily being affected by developments in the CO₂ and fuel markets. Coal typically determines the price for base load hours, while gas tends to set the price for peak load hours.

The energy markets are in flux and Statkraft is increasingly being exposed to new products and markets, including through gas operations and contracts exposed to prices for global commodities such as coal and LNG. Future CO₂ regimes in other countries and on other continents will also impact European quota prices.

In overall terms this means that, under normal operating conditions, the continental and the Nordic markets are now more closely integrated than in the past. Prices on the Nordic market will continue to develop independently of the continental market in years with high precipitation and resulting high inflows. Nordic prices will also to some extent be directly impacted by CO₂, coal and gas prices through thermal production in the Nordic region, and by power exchange with the continental system.

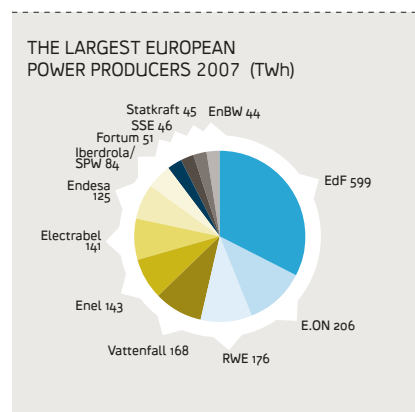
CHANGES IN TRADING STRUCTURE

Trading on the continental power exchanges is increasing, although liquidity continues to be lower than on Nord Pool. Initiatives are currently underway to connect different market areas in Northwest Europe (Belgium, the Netherlands, Germany, the Nordic region and France) in order to make sure that capacity on borders between exchanges is optimised by ensuring that electricity always flows from low to high price areas. For example the

German EEX and the French PNX exchanges were merged in 2008. This type of connection requires liquidity in the markets that are being connected. Statkraft expects liquidity levels to continue to increase in the future due to the significant growth potential offered by European power trading.

CONSOLIDATION OF MAJOR COMPANIES

The power industry has undergone a period of consolidation, where the large energy companies in particular have strengthened their position. National energy companies are generating growth by merging both nationally and internationally. An increased focus on security of supply means that the EU and national competition authorities are increasingly accepting the need for the establishment of strong companies. Statkraft expects the high levels of mergers and acquisitions to continue.



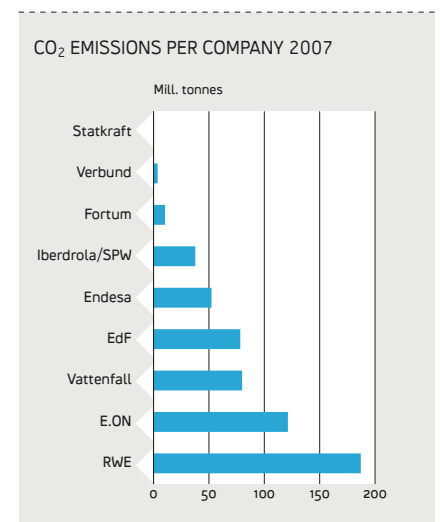
THE GAS MARKET IS OPENING UP

The continental European gas market continues to be dominated by major players with long term customer gas contracts indexed to oil. The EU has wished to create markets in continental Europe in line with the model in the United Kingdom, where gas is traded as an independent commodity. The Netherlands and Belgium are the leading the way in this respect; however, Germany is also continuing to migrate towards an independent gas market. Following pressure from the German market regulator, German transmission companies established a predictable balancing regime as one of the elements that needs to be in place to allow the establishment of new players.

The EU continues to pursue ambitions to deregulate the gas market, but there is major uncertainty with regard to the timetable for developments. The players seem particularly

reluctant to separate the role of operator and infrastructure owner.

The potential for increased utilisation of gas in Europe primarily relates to growth in gas power. The power sector will be obliged to make significant investments in the years to come as older power plants are phased out. Gas-fired power plants are particularly suited to such investment in combination with renewable wind power.



Market and business conditions

→ Group strategy

- Financial performance
- Risk management and internal control
- Business management
- Segments
- Sustainable value creation

Group strategy

Statkraft plans to invest NOK 80 billion–NOK 100 billion in the period leading up to 2015. The strategy paves the way for continued profitable growth within environmentally friendly and flexible power generation both nationally and internationally. Statkraft intends to maintain its position as Europe's leading generator of renewable energy whilst adopting new positions in selected markets outside Europe.

→ Statkraft aims to be a driving force behind developments in the Norwegian energy industry and through this create profitable workplaces and help meet the world's need for more pure energy.

→ Statkraft wishes to generate growth within flexible power generation in Western Europe and further expand its trading activities in energy and CO₂-quotas.

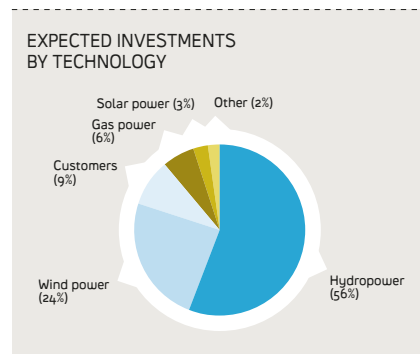
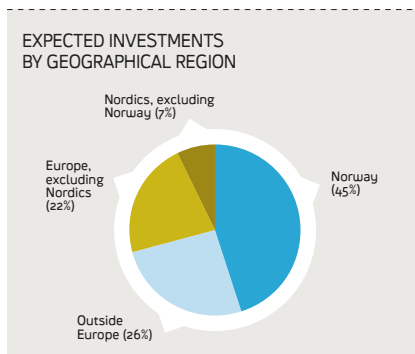
→ Statkraft wishes to establish a strong position within international hydro-power and within new renewable energy sources in Europe.

Statkraft is a Norwegian company with an international presence. The company has achieved its current position as Europe's largest generator of renewable energy on the basis of Norwegian resources and expertise accumulated over many years. Specialist expertise relating to the operation of flexible power plants, market analysis and energy trading is leveraged to develop profitable activities in new geographical areas. Over the last two years the Group has significantly reinforced its position through the establishment of gas-fired power plants in Germany, implementation of a swap deal with E.ON and increased shareholding in SN Power. The company's strong financial results and position in Norway combined with successful international establishments have created a solid platform for further profitable growth.

The development of Europe's climate and energy policy is increasingly highlighting

Statkraft's advantages within environmentally friendly and flexible power generation. Factors such as the further development of an integrated European energy market, the European carbon quota trading system and the EU's target of achieving 20% renewable energy consumption by 2020 will play a pivotal role in this area. Increased wind power and other non-flexible power generation capacity are resulting in a greater need for flexible production capacity. Outside Europe, steadily increasing standards of living and climate challenges are stimulating demand for more clean energy. In overall terms these developments are providing sound commercial opportunities for Statkraft.

In December 2008 Statkraft's board reviewed the Group's strategic platform. A growth strategy that facilitates growth on par with the Group's average growth rate over the last five years is being prepared for the period leading up to 2015.



All prioritisations are embedded in Statkraft's new vision:

As Europe's leader in renewables, we will meet the world's need for pure energy.

The company strategy identifies three main strategic directions:

1. Industrial developer in Norway
2. European flexible power producer
3. Green global developer

INDUSTRIAL DEVELOPER IN NORWAY

Statkraft will be a driving force behind developments in the Norwegian power industry. The significant values connected to the Norwegian hydropower plants will be efficiently managed while activities within distribution grid operations, power sales and district heating, and shareholdings within other regional power companies will be further developed. Statkraft also wishes to generate further growth by upgrading and developing further hydro and wind power capacity and new growth areas.

To develop operations in Norway Statkraft will:

- Increase hydropower production, including small-scale hydro by 2–2,5 TWh, wind power production by 1–1,5 TWh and district heating production by 0,5–1 TWh by 2015.
- Intensify its focus on innovation and R&D work to support profitable growth and contribute to energy optimisation. Statkraft will also expand its collaboration with Norwegian and foreign universities within innovation and R&D.
- Help satisfy industry's requirements for stable and long term power supplies on commercial terms and enter into collaborations on energy recycling.
- Actively participate in consolidation of distribution grid activities in Norway and improve the profitability of the Group's power sales activities.
- Develop shareholdings in the partly owned companies Agder Energi and BKK.

EUROPEAN FLEXIBLE POWER PRODUCER

Statkraft has built up extensive expertise within the operation and optimisation of flexible power plants and European power trading over a number of years. A combination of flexible hydropower in Norway, flexible gas power in Germany and significant European trading operations will enable Statkraft to assume the role of a European flexible power producer. This in turn will allow the company, thanks to its flexible production and market understanding, to supply the market with

environmentally friendly power in periods of high consumption or reduced production by non-flexible power plants. Statkraft will therefore position itself for a more integrated European power market and enhance integrated market operations and increase flexible production capacity in Western Europe.

In order to strengthen its position as a European flexible power producer Statkraft will:

- Expand its operational and market activities connected to new power plants.
- Increase its business within trading and origination in order to be able to offer new project constructors more long-term power agreements and expand the company's carbon trading activities.
- Tender for the French hydropower licences that are due to be renewed in the next few years.
- Expand operations in the United Kingdom by establishing market operations within market analysis, trading and origination.
- Develop new gas-fired power plant capacity by 2015 to cater for the increased demand for flexible power production in Western Europe, where Germany and the Benelux countries will be prioritised. Operations in the United Kingdom and France will also be assessed in the light of increased activity levels in these countries.
- Evaluate the development of new foreign cables as a base from which to boost value creation from Norwegian hydropower plants.

To play a role as a European flexible power producer, Statkraft will have to continually develop expertise, systems and models relating to energy optimisation and fundamental analyses of the European energy system. Initiatives to upgrade and expand existing power plants in order to be able to utilise the outstanding flexibility offered by the company's Norwegian hydropower plants more efficiently will continue.

GREEN GLOBAL DEVELOPER

The world needs to develop much more renewable energy to counter global climate challenges, while increasingly stringent demands are expected to be made of sustainable energy solutions. To leverage the opportunities presented by these developments, Statkraft will therefore establish a strong niche position within international hydropower and new renewable energy sources in Europe.

The most important tools in this context are the shareholding in SN Power, the company's focus on hydropower in Southeast Europe

and wind power in the Nordic region, the United Kingdom and the North Sea Basin, solar power initiatives and R&D work connected to new energy technologies such as osmotic power, offshore wind power, wave power and tidal power.

To fulfil its role as a green global developer Statkraft will:

- Generate further growth through SN Power. The aim is to have 4 000 MW of installed capacity in operation or ready for investment in selected countries in South America and Southeast Asia, and 700 MW of installed capacity in Africa and Central America by 2015.
- Reinforce initiatives within wind power. Statkraft shall become a leading player within onshore wind power in the Nordic region and the United Kingdom, and a major player within offshore wind power in the North Sea Basin. The Group will develop 1100–1500 MW of onshore and offshore wind power by 2015.
- Develop hydropower in Southeast Europe, with Albania, Turkey and Montenegro as prioritised markets. Statkraft aims to have projects with a capacity of 1–1.5 TWh ready for investment by 2015.
- Generate growth within solar power through the development, construction and operation of solar power plants. Prioritised geographical areas include Italy, Spain and Southeast Europe, where the company aims to develop a total solar power capacity of 75 MW by 2012.
- Establish expertise and growth opportunities within osmotic power and marine energy sources such as tidal and wave power.

In 2008 the Group was reorganised to support the growth ambitions laid down in the new Strategic Platform.

The new organisational structure comprises separate business units with clearly delineated areas of responsibility, and provides a challenging environment in which new priorities and growth areas are evaluated and fostered.

The reorganisation is intended to promote profitable growth and flexibility, identify the next generation of managers, and stimulate uniform development and utilisation of expertise and resources.

Market and business conditions
Group strategy

→ **Financial performance**

Risk management and internal control
Business management
Segments
Sustainable value creation

Financial performance

Statkraft has posted extremely positive financial results in recent years. The combination of significant flexibility and an extensive and deliberate focus on analysis and market expertise, helped Statkraft extract added value from the market. The Group's unique expertise within power plant operation, energy optimisation and energy trading represent the Group's most important competitive advantages.

- **Improved results and higher return on invested capital**
- **Solid balance sheet with significantly increased equity ratio**
- **Requirement for reinforced equity in order to realise growth ambitions**

The Group's profits have increased significantly in recent years, with gross operating revenues and underlying profit after tax increasing from NOK 9.8 billion and NOK 3.2 billion respectively in 2004 to NOK 25.1 billion and NOK 8.1 billion respectively in 2008. NOK 7.4 billion of the increase in sales and NOK 1.1 billion of the rise in profits relate to 2008.

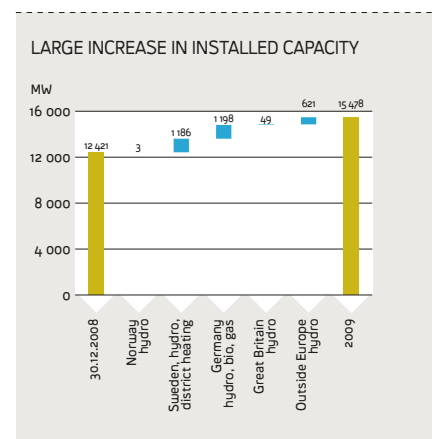
Statkraft's balance sheet value has risen significantly in recent years. From the start of 2004 to the end of 2008 the balance sheet total climbed from NOK 88.5 billion to NOK 144.3 billion, which represents a rise of NOK 55.8 billion. NOK 34.2 billion of this increase in value relates to 2008 and is primarily attributable to the swap deal with E.ON AG. The fair value of the Group's assets are believed to significantly exceed the values recognised in the Group's balance sheet.

The Group generates solid cash flow streams and cash flows from operating activities increased from NOK 4.0 billion in 2004 to NOK 11.5 billion in 2008. NOK 3.8 billion of this increase relates to 2008.

STATKRAFT'S REVENUES

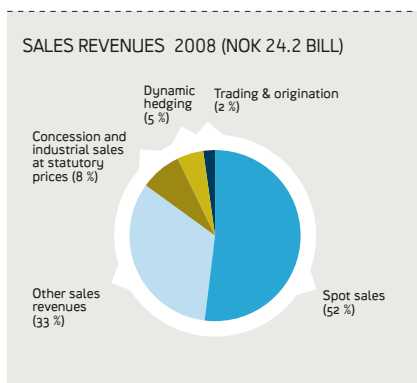
Statkraft's revenues are generated from spot sales (the sale of the company's own production on the spot market), contract sales to industry, financial trading, distribution grid activities, as well as power sales to end-users and district heating. Statkraft's revenues fundamentally derive from power prices and production.

Electricity prices The single most important factor affecting Statkraft's profitability is the electricity price on the Nordic and German power markets. Electricity prices are driven by a number of factors including hydrological conditions, commodity and CO₂ prices, along with exchange rates and the relationship between supply and demand. The power market functions in such a way that the marginal cost of the most recently produced unit sets the market price at any time. Power prices therefore vary depending on which energy carriers need to be connected to produce the required volume that is demanded. Given the dominance of hydropower in Statkraft's production portfolio, the company's profitability is positively affected by the difference between the company's own costs and the marginal costs of the energy carriers that



determine the market price at any given time. In 2008 high fuel prices contributed to a strong increase in power prices, high revenues and a solid profit.

Production Statkraft's production is influenced by capacity, access to resources (hydrological balance, wind and gas) and energy optimisation. In 2008 the Group's generation capacity increased significantly as a result of the commissioning of the new gas-fired power plants around the end of 2007. Capacity will increase further in 2009 as a result of the swap deal with E.ON AG and the consolidation of SN Power as a subsidiary. Although access to resources is an area that Statkraft cannot influence to any significant degree, it nonetheless represents an important factor in energy optimisation, where the objective is to maximise revenues in the short and long term by utilising water resources in an optimal manner. The demand for power varies both during the day and throughout the year. These fluctuations in demand mean that the power markets are dependent on capacity that can be regulated around the clock. Statkraft's high proportion of flexible generation capacity, combined with the company's analytical apparatus, represent an advantage that helps ensure that Statkraft consistently manages to achieve solid price margins and results.



Sales revenues Statkraft's power trading is essentially based on physical power production from its own power plants. In addition to supplying power on statutory terms (concessionary power and industrial power), power production is primarily sold on the spot market and through long-term contracts. Ongoing hydropower production is optimised in line with the licence terms and the plants' flexibility. The company endeavours to generate as much power as possible through its energy optimisation activities whenever it is expected that the highest prices on the market can be

achieved. Contractual obligations are continuously covered through the company's own production or by purchasing in the market if the latter is more profitable. Statkraft's gas-fired power plants generate power when electricity and gas prices make this profitable, while wind farm generation is governed by wind conditions.

Concessionary and industrial power sales at statutory prices Statkraft is obliged to donate a percentage of its power generation to the districts in which power plants are located ("concessionary power"). This power is sold at a price corresponding to the average production cost, which is significantly lower than the market price.

Statkraft is a major supplier of electricity to power-intensive industry, and some of this power is sold on terms determined by the authorities. The average price for such contracts is substantially lower than the market price, which means that cash flows and results are lower than if the power had been sold on the open market. Current statutory-priced contracts expire successively in the period leading up to 2011. Statkraft's portfolio of commercial contracts with power-intensive industry is gradually being expanded as these expire. The state subsidy provisions of the EEA agreement place strict limitations on new agreements with power-intensive industry, as well as on special Norwegian arrangements that provide this industry with significant advantages.

Dynamic hedging Dynamic hedging of production revenues is performed through financial power trading in order to mitigate the risk connected to uncertainty regarding future prices and production volumes and to increase long-term revenues. As power prices are impacted by other commodity prices such as coal, oil, gas and CO₂, and because these prices can be included as an input factor in the company's gas power production (gas and CO₂) and as a price adjustment factor in the company's contract prices, the company also engages in financial trading in these commodities.

Statkraft's analysis activities play a pivotal role in all the company's trading operations. The company's analysis work is based on the collection and processing of hydrological and other market data, which is used to estimate market prices and optimise flexible production. High levels of expertise and sound analysis tools in this area have provided Statkraft with

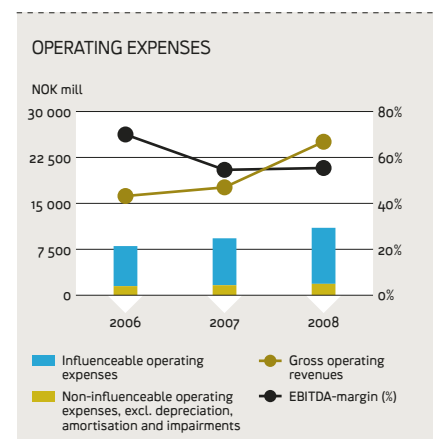
a competitive advantage that has consistently translated into excellent financial results.

Dynamic hedging has posted an average annual profit of just over NOK 1 billion over the past four years. The excellent results are attributable to a number of factors including solid analytical expertise.

Trading and origination Statkraft also engages in financial trading independent of production activities. This type of trading involves the taking up of relatively short-term positions using standard financial contracts (trading) and trading in structured products and customised agreements for industry and commerce (origination). With an average profit of around NOK 500 million per annum, the results from this business have been relatively stable in recent years.

STATKRAFT'S COSTS

Statkraft attaches significant importance to optimisation and cost control. Scorecard systems are used to continuously monitor costs connected with the operation of power plants and other parts of the value chain. This involves both the monitoring of internal scorecards and systematic comparisons with other energy companies. Significant attention is paid to realising cost synergies, not least in the integration of new business into the Group. Trondheim Energi's distribution grid activities, which have been measured as being among Norway's most efficient, provide one example of such cost-effective operations. The scorecard systems also incorporate monitoring of costs connected to administrative operations. Operating expenses, excluding depreciation, amortisation and impairments, correspond to just over 20% of gross operating revenues.



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Influenceable operating expenses

Salaries and payroll costs Salaries and payroll costs have increased in recent years as a result of higher activity levels in the Group. Around 30% of the year-on-year increase of NOK 249 million in 2008 relates to new business – primarily gas power – around 30% to rises in salaries, while about 15% is a result of higher provisions for pension obligations. The remainder of the increase primarily relates to increased staffing levels in existing business. Statkraft's salaries and payroll costs account for just under 10% of gross operating revenues.

Other operating expenses In the same way as salaries and payroll costs, other operating expenses have increased in line with activity levels in recent years. Here, about 90% of the increase of NOK 707 million compared with 2007 relates to new business, where gas power accounts for around half of the increase. Other operating expenses are relatively low in relation to revenues, and equate to around 10% of gross operating revenues.

Non-influenceable operating expenses

Property tax and licence fees 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 calculation basis for property tax for power plants is based on an average of the results for the power plant over the last five years, which means that high power prices will impact the tax expense. Although Statkraft's licence fees are relatively stable, property tax has increased in recent years due to an increase in the calculation basis.

Depreciation, amortisation and impairments Hydropower plants generally have long technical lifetimes. With appropriate maintenance investments and the absence of major technological changes, the Group's plants are also deemed to have long residual lifetimes. The increase in this item in recent years is attributable to Kjøllefjord Wind Farm and Knapsack gas-fired power plant which were both commissioned at the end of 2007. Wind and gas-fired power plants have significantly shorter lifetimes than hydropower plants. At the end of 2008 wind and gas power accounted for 2% and 14% respectively of the Group's total installed capacity.

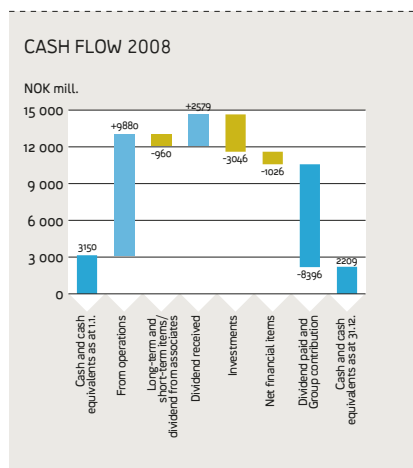
EBITDA MARGIN

Statkraft has historically posted very strong EBITDA margins due to the low operating

expenses associated with hydropower production. This means that power prices can be very low before the EBITDA margin for hydropower production is critically affected. In addition to lower prices, the fall in the EBITDA margin from 2006 to 2007 is attributable to the fact that a larger proportion of revenues were derived from end-user activities following the consolidation of Fjordkraft, which generates significantly lower margins than hydropower production. In 2008 higher power prices were offset by increased activity levels within gas power, which also returns lower margins than hydropower production.

CASH FLOW

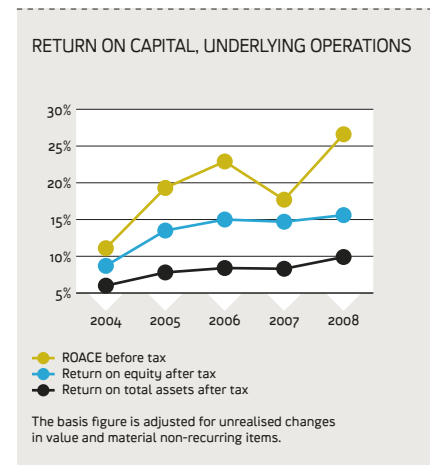
Statkraft generates solid cash flows streams from its operating activities, although these are to a large extent consumed by the high dividend level. Statkraft's ability to make significant investments and pay off borrowings despite this is attributable to the fact that the dividend from a particular year's results is not paid until July the following year. This means there is a cash flow delay in the payment of dividends. Statkraft's year-on-year results have improved strongly over recent years, meaning that the dividend for a particular year is paid from a much stronger cash flow in the following year.



RETURN ON INVESTED CAPITAL

The company's return on invested capital has generally been high in recent years, and also improved in 2008 compared with 2007. ROACE (operating profit as a percentage of average capital employed) varies in line with the company's operating profit and rose from 17.7% in 2007 to 26.6% in 2008. This is significantly higher than Statkraft's own target of 16%.

The return on equity increased from 14.7% in 2007 to 15.6% in 2008, while the return on total equity climbed from 8.3% to 9.9% during the same period.



FINANCING CAPACITY

The Group currently has a solid balance sheet. Recognised equity increased from NOK 44.4 billion at the end of 2007 to NOK 72.3 billion at the end of 2008. This is attributable to the realisation of the significant increase in value of Statkraft's shares in E.ON Sverige following the swap deal with E.ON AG. Equity will further increase in 2009 due to the consolidation of SN Power as a subsidiary. The increase in balance sheet assets as a result of these two transactions involves a revaluation only and does not involve any injection of equity.

INCREASE IN VALUE IN THE GROUP AND REVALUATION POTENTIAL

Under the terms of the swap deal that Statkraft and E.ON AG implemented in 2008, E.ON AG acquired Statkraft's 44.6% shareholding in E.ON Sverige AB in exchange for assets and shares in E.ON AG. E.ON Sverige has an annual mean production of around 32 TWh along with around one million electricity and distribution grid customers. The shareholding was recognised at NOK 17.9 billion and was exchanged for assets with a value of NOK 17.1 billion and shares in E.ON AG worth NOK 23.1 billion, which corresponds to a shareholding of 4.17%.

The Norwegian hydropower plants reported under the Generation and Markets segment have a mean production of 34.9 TWh. The total value of these plants is recognised at NOK 27.4 billion.

THE GROUP'S POWER AND DISTRICT HEATING PLANTS

	SMALL-SCALE HYDRO		HYDRO		WIND		GAS		DISTRICT HEATING AND BIO		TOTAL	
	NUMBER	INSTALLED CAPACITY	NUMBER	INSTALLED CAPACITY	NUMBER	INSTALLED CAPACITY	NUMBER	INSTALLED CAPACITY	NUMBER	INSTALLED CAPACITY	NUMBER	INSTALLED CAPACITY
Norway	12	35	137	10 246	3	245	1	210	6	330	159	11 066
Sweden			58	1 267					5	211	63	1 478
Finland			4	66							4	66
UK			3	49							3	49
Germany			11	262			4	1 920	2	16	17	2 198
Outside Europe			18	621							18	621
Total	12	35	231	12 511	3	245	5	2 130	13	557	264	15 478

In connection with Statkraft increasing its shareholding in SN Power from 50% to 60% as of 13 January 2009, operating assets worth around NOK 9 billion from the subsidiary SN Power have been included in the scope of consolidation since January 2009. At the end of 2008 the company was recognised at a value of NOK 2.5 billion.

The above factors would appear to indicate that the Group's balance sheet contains significant values in excess of those recognised, even after the implementation of the swap deal with E.ON AG.

Growth ambitions Statkraft has drawn up a reference portfolio for the Group's investments for the period 2009 to 2015 totalling in the region of NOK 80 billion–NOK 100 billion. Investments in power generation are long-term in nature and a robust financial platform will be required to realise the Group's targets for future profitable growth. The key capital sources for financing growth will be provided by a combination of increased borrowings, retained earnings and higher capital injections from the owner. Statkraft's terms for obtaining external funding are primarily determined by ratings of Statkraft's long-term creditworthiness and debt/equity ratio, along with current short-term market requirements. In order to be able to achieve its growth ambitions, Statkraft has proposed to the state as owner that it increases the company's equity by NOK 8 billion and adjusts the dividend policy to an average dividend level of between 50% and 75%.

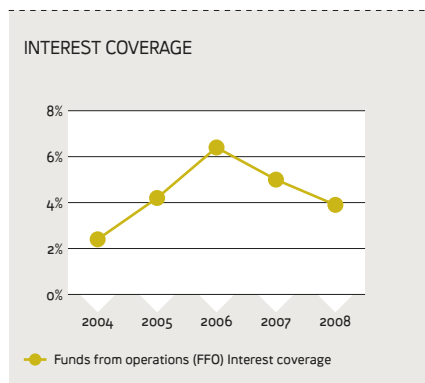
Rating The two international credit rating companies Standard & Poor's (S&P) and Moody's rate Statkraft AS's creditworthiness. Statkraft's target in the short and medium term is to achieve a minimum rating of BBB+/Baa1. There were no changes in Statkraft AS's credit rating in 2008. S&P also rates the creditworthiness of Statkraft Energi AS.

	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	

* Stated rating applies exclusively to state-guaranteed loans issued by Statkraft SF. No general rating of Statkraft SF is performed.

S&P highlights Statkraft AS'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.

Interest coverage The interest coverage ratio, which is important for Statkraft's rating, has risen significantly since 2004. The fall from the level in 2006 when income levels were high and interest rates low is attributable to higher levels of borrowing and rising interest rates in 2007. In 2008 the interest coverage ratio fell further, primarily as a result of losses on foreign currency contracts due to the depreciation of the Norwegian krone. The 2008 level is within what is regarded as necessary to maintain the current rating level.



Financial communication Statkraft focuses on maintaining open and effective communications with all stakeholders. The Group's financial reporting is 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 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 are treated equally, and information is 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.

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Risk management and internal control

Statkraft's ability to manage risk is of critical importance for value creation and represents an integrated part of the 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 area in risk management that helps secure quality and control.

RISK MANAGEMENT

Risk management is considered an integrated part of all business activities at Statkraft, and is followed up within respective units using procedures for the monitoring and mitigation of risk. Statkraft's overall risk is also monitored at Group level and is incorporated in reporting to Group management and the board. Risks have been systematically mapped across the entire organisation, and risk maps are regularly updated and followed up. Statkraft's risk committee has, over the course of several years, contributed to establishing a risk overview for the company. The committee is also responsible for coordinating the Group-wide risk profile.

Market risk in the energy markets Statkraft is exposed to significant market risk in relation to the generation and trading of power.

Revenues from power generation are exposed to volume and electricity price risk. 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 directly exposed to gas, oil and carbon quotas. Statkraft manages market risk in the energy markets by trading physical and financial instruments in several markets. Closer integration of the energy markets is having a significant impact on business models and risk management. Consequently, 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 holds trading and origination portfolios where the taking of risks is also regulated by mandates. The trading portfolio comprises limited, short-term positions within financial power derivatives. The structured products portfolio contains customised, bilateral contracts for customers with special requirements, where the agreements are hedged as far as possible using standard financial contracts.

Downstream activities are exposed to uncertainty with regard to sales prices to private

OVERARCHING RISK FACTORS	REGULATORY FRAMEWORK AND POLITICAL DECISIONS		FINANCIAL RISK	
		<ul style="list-style-type: none"> → Taxes and competition legislation → Support schemes → EU and EEA regulatory framework → Instructions from the regulatory authorities 	<ul style="list-style-type: none"> → Regulations covering reversion to state ownership and framework for industrial power → Licences → Establishment of the company's dividend 	<ul style="list-style-type: none"> → Interest rate and currency risk → Liquidity risk → Counterparty risk through investment of surplus liquidity
RISK IN THE VALUE CHAIN	DEVELOPMENT AND CONSTRUCTION	PRODUCTION	ENERGY OPTIMISATION AND TRADING	DISTRIBUTION/ RETAIL CUSTOMERS
Market risk			<ul style="list-style-type: none"> → Hydrology → Power prices, fuel prices, carbon quota prices 	<ul style="list-style-type: none"> → Power prices and fuel prices → Volume risk associated with consumption
Financial risk	<ul style="list-style-type: none"> → Counterparty and currency risk related to investments 		<ul style="list-style-type: none"> → Counterparty risk in power trading 	<ul style="list-style-type: none"> → Interest rate risk for distribution grid revenues → Counterparty risk
Operational risk	<ul style="list-style-type: none"> → Damage to property, health and the environment, delays/budget overshoots and loss of reputation 	<ul style="list-style-type: none"> → Damage to property, health or the environment, human error and system failure, fines and loss of reputation 	<ul style="list-style-type: none"> → Fines, claims for compensation, human error, system failure and loss of reputation 	<ul style="list-style-type: none"> → Damage to property, health or the environment, fines, and loss of reputation

customers and businesses 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 associates. 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 and is primarily managed through good borrowing opportunities, drawdown 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. The creditworthiness of all counterparties is evaluated before contracts are signed, and exposure to individual counterparties is limited by mandates based on their credit rating. Both market risk on the power markets and financial risk, as well as exposure connected to the issued mandates, are followed up by independent middle office functions, and are regularly reported to Group management and the board.

The turmoil in the financial markets has directly impacted Statkraft by restricting access to and increasing the cost of external borrowing, as well as heightening the risk of bad debts. These risks are managed within the framework of financial risk, though are now being accorded greater attention and followed up more closely than in the past.

The indirect consequences relate to the macroeconomic climate, for example, changes in prices on energy and supplier markets and potential structural changes in the markets in which Statkraft operates. Statkraft is aware that this can involve both threats and opportunities.

Operational risk All processes in the value chain are exposed to operational risk. The most important risk factors relate to injury to the Group's employees and damage to the environment, as well as damage and loss to production facilities and other assets belonging to the Group itself or third parties. Insurance cover has been arranged for all types of material 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 and injuries 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 measures.

Estimates relating to possible financial consequences of the overall 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. Statkraft is, for example, exposed to support schemes connected to the development of clean energy in a series of markets. Uncertainty related to the future development of these is therefore accorded significant importance in investment decisions. The Group maintains a constant watch on changes in the political landscape and places great emphasis on pursuing an open dialogue and establishing good relationships with decision-makers in all relevant arenas.

Statkraft's international focus involves both heightened country risk and partner risk. Country risk is evaluated for each country and in comparison with other countries in the same region. Partner risk is assessed at an early stage in order to confirm the integrity and management structures of all prospective

partners. Statkraft is committed to ensuring that all parts of the Group comply with Group standards within HSE and ethics.

Climate changes can present both threats and opportunities, and are of importance for all the risks described above. The establishment of new markets for carbon quotas has already affected the energy markets, while significant changes in temperatures and precipitation levels will have consequences for both electricity prices and production. In addition, 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.

INTERNAL CONTROL

Statkraft employs a series of targeted initiatives intended to strengthen internal controls within the Group. For several years work has been performed to realise the improvement potential connected with financial reporting based on the COSO model for risk management and internal control.

Ensuring an efficient control environment is a key element of internal control. Consequently, a management system has been established that gathers all governing documents and facilitates a more efficient, systematic and uniform management of the Group incorporating adequate formalisation, documentation and compliance.

Internal control over financial reporting is an ongoing process to secure reliable accounting information in monthly, quarterly and annual reporting. An internal control system comprising risk evaluation, control measures and follow-up of compliance is currently being prepared. The system is scheduled 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 performed in accordance with the relevant standards. These audits are coordinated by Statkraft's Corporate Audit function. Group management performs an annual review in accordance with ISO standards, which also includes a risk assessment.

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The Statkraft Group’s management system is a uniform system that describes the way the Group manages its business and which internal frameworks employees shall comply with in their daily work. The management system brings together all the governing documents, from the Articles of Association to the various Group policies and procedures. The management system provides an important basis for risk management, internal control procedures and improvement work within the Statkraft Group.

→ **Effective management information**

- The management system shall help:
1. Secure efficient management information
 2. Make the Group’s frameworks for management visible and easily accessible
 3. Ensure compliance with internal and external requirements

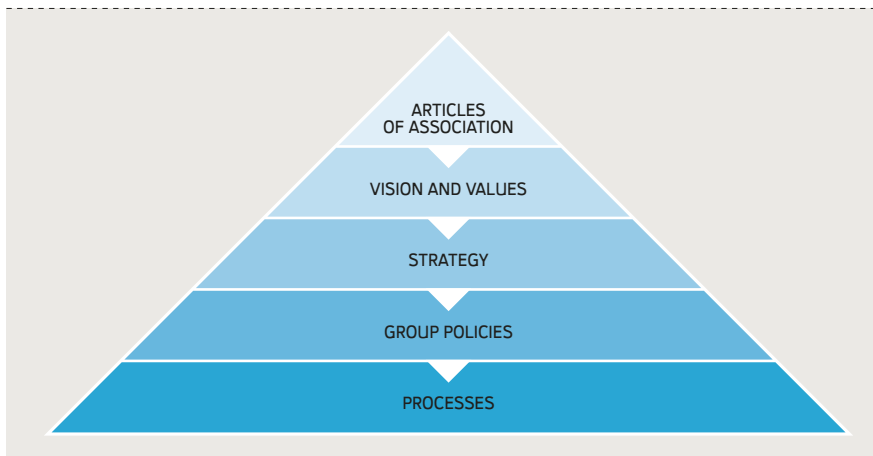
→ **Ensuring that the Group’s frameworks for management are visible and easily accessible**

→ **Compliance with internal and external requirements**

By establishing an appropriate structure of governing documents, the Group has provided a basis for a culture that contributes to quality and efficiency in daily operations, as well as in reporting to the company’s management, the board and capital markets.

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 states: “As Europe’s leader in renewables, we will meet the world’s need for pure energy”. Statkraft’s core values competence, responsibility and innovation govern the company’s actions as a business and provide guidelines for employees’ activities. The business principles serve as a guide for the company’s overarching decisions and performance of activities. The principles cover sustainable value creation, ethical business practice, a safe and healthy business culture and continuous improvement. The policy for corporate governance establishes 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 for employees

to follow in their daily work. The Group policies are 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 are prepared in accordance with the Group policies. Employees are expected to comply with the relevant governing documents in implementing their work processes.

CORPORATE GOVERNANCE

Corporate governance at Statkraft shall contribute to sustainable and permanent value creation in the Group. Efficient and transparent management and control of business will form the basis for creating long-term values for the owner, employees, other stakeholders and society in general, and shall help engender confidence among stakeholders through predictability and credibility. Open and accessible communications shall ensure that the company has a good relationship with society in general and the stakeholders who are affected by the company's business in particular.

Statkraft's policy for corporate governance establishes the relationship between the company's owner, board of directors and management.

Statkraft complies with the Norwegian Code of Practice for Corporate Governance in accordance with the company's organisation and ownership structure. 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, dividends and the annual general meeting. A report and follow up of the Code of Practice's recommendations are outlined below.

Statkraft also complies with the Norwegian state's ten principles for efficient corporate governance. The principles are based on how the state will act as an owner as well as what the state expects from the companies it owns.

CODE OF PRACTICE FOR CORPORATE GOVERNANCE	
RECOMMENDATION POINT	COMMENTS AND REFERENCES
Corporate governance report	Annual report, Business management section, Page 44
The business	Articles of Association, vision, values, business principles, ethical guidelines and corporate governance principles – see www.statkraft.com . For more details on ethical business operations – see Page 58 Group strategy – see separate section, Page 36
Share capital and dividends	Business management section, Page 45 and Note 35
Equal treatment of shareholders and related-party transactions	Business management section, Page 45 For related parties – see Note 38
Tradability of shares	Not applicable – only one owner, non-tradable shares
General meeting	Business management section, Page 46
Election Committee	Determined by the State as owner
Corporate assembly and composition and independence of board	Business management section, Page 46
Work of the board of directors	Business management section, Page 46 and the report of the board of directors, Page 26
Risk management and internal control	Risk management and internal control section, Page 42 Risk matters in Notes 32, 33 and 34
Remuneration paid to the board	See Note 36
Remuneration paid to executive employees	See Note 36
Information and communications	Business management section, Page 47
Company takeover	Not applicable – 100% state-owned
Auditors	Business management section, Page 47

The business Statkraft's Articles of Association state that: "The object of the Company is, alone, or through participation in or cooperation with other companies, to plan, design, construct and operate energy production facilities, undertake financial and physical energy trading, and operate businesses which are naturally associated with the same".

Statkraft AS is registered in Norway and its management structure is based on Norwegian company law. Statkraft is also subject to the Norwegian Securities Trading Act and stock exchange regulations associated with the company's debt obligations. In addition, the company's Articles of Association, vision, values, business principles, corporate governance policies and ethical guidelines are guiding for the company's business. A summary of these can be viewed at www.statkraft.com.

Share capital and dividends Statkraft AS has a share capital of NOK 20 billion, divided into 200 000 000 shares, each with a par value of NOK 100. At the end of 2008 total equity amounted to 72.3 billion, which corresponds to an equity ratio of 50.1%.

In its Ownership Report (Report no. 13 to the Storting (2006-2007)), the Norwegian government states that the dividend from

Statkraft shall normally lie in the upper quartile. The government further states that it does not believe it necessary to introduce the Norwegian Companies' Act's normal regulations for state-owned companies, i.e. that company dividends should be kept within the limits recommended by such companies' boards. Statkraft AS will pursue a dividend policy that balances the payout ratio to its owner with the company's need for a dividend level that is predictable and that enables it to retain a reasonable share of the value created for further development of the company. In February 2009 Statkraft's board submitted a proposal to the state as owner to adjust its dividend policy to normally lie between 50% and 75%.

Shareholder information All the shares in Statkraft AS are owned by the state-owned enterprise Statkraft SF, which in turn is wholly owned by the Ministry of Trade and Industry. The Articles of Association of Statkraft SF and Statkraft AS ensure that transactions of material importance with respect to the objectives of the company or the nature of its business are referred to the state-owned enterprise, as the parent company. The current Norwegian government has resolved that Statkraft shall continue to be 100% state-owned and has expounded its principles for

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management of the state's ownership in its Ownership report.

Principles relating to shareholder rights, including equal treatment, unrestricted tradability of shares and representation on governing bodies are of little relevance for Statkraft AS, as the company has only one owner.

General meeting The shareholder exercises supreme authority over Statkraft AS through the annual general meeting. The annual general meeting reviews and resolves business matters in accordance with Norwegian law, including approval of the annual financial statements and directors' report, distribution of dividends, selection of an auditor and approval of auditor's fees. In addition, the annual general meeting appoints shareholder-elected members to the board and adopts amendments to the Articles of Association. In accordance with the Articles of Association the ordinary general meeting is held once a year by the end of June.

As the owner of all the shares, Statkraft SF will constitute the annual general meeting of Statkraft AS. In accordance with the Articles of Association of Statkraft SF, the corporate meeting of the enterprise, i.e. the Ministry of Trade and Industry, shall grant the authority to appear and vote at the annual general meeting of Statkraft AS.

Corporate assembly and board Statkraft AS has entered into an agreement with its employees' trade unions stipulating that the company will not have a corporate assembly, pursuant to the exception provisions of the Norwegian Companies' Act.

The board consists of seven to nine members, as determined by the annual general meeting, and the term of office is two years. Two or

three members are elected by and from among the company's employees in accordance with the regulations of the Norwegian Companies' Act. The other members are elected by the annual general meeting. The sitting board has nine members. Of these members, three members have been elected by the employees based on the agreement that the company will not have a corporate assembly.

The composition and competence of the board is evaluated by the Ministry of Trade and Industry through the scheme of identical boards for Statkraft AS and Statkraft SF. The goal is to ensure diversity on the board in terms of geographical representation, gender (at least 40% of each gender), industrial understanding and professional background. Continuity is also sought on the board.

The board members are evaluated on the basis of their competence and independence, which excludes, for example, employees of the owner ministry or individuals with commercial interests in the industry from being board members. The board shall further be independent of the company's management. The current challenges facing the company are taken into consideration in establishing the composition of the board.

Work of the Board of Directors The board has established rules of procedure for Statkraft AS that lay down guidelines for the board's work and decision-making procedures. The board's tasks are described in general by Norwegian company law and the company's Articles of Association. The rules of procedure also define the tasks and obligations of the President and CEO in relation to the board. The board evaluates both the President and CEO's and its own performance and competence once a year.

The board's Audit Committee comprises three of the board's members. The Committee shall perform preparatory work in respect of the board's administration and supervision tasks in the following areas:

- Quality in external financial reporting
- Internal control in connection with financial reporting and asset management
- The external auditor's qualifications, the quality of external audits and the external auditor's independence
- The Corporate auditor's qualifications and the quality of internal audit work

At least one member of the Audit Committee shall have experience of accounts management, financial management or auditing. The committee has meetings with the external auditor to review the quarterly reporting and otherwise as required.

The board's Compensation Committee comprises the board chair and two other board members which make recommendations to the board with regard to the salary and other benefits paid to the President and CEO as well as on matters of principle related to salary levels, bonus systems and pension terms, employment contracts and similar for the company's managers. Under certain conditions this also applies to other employees at Statkraft.

Risk management and internal control 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. The management of risk is important for value creation and is an integrated part of all business activities and is followed up within the respective unit by means of procedures for the monitoring and mitigation of risk.

Statkraft's total risk is monitored at Group level and is incorporated in reporting to Group management and the board. Risk factors, risk management and internal control are discussed in a separate section in the annual report and in the Notes to the financial statements.

Remuneration paid to the board and executive employees The board's remuneration shall reflect the board's responsibility, competence, time spent on tasks and the complexity of the business. The remuneration shall not be performance-related.

The board's Compensation Committee evaluates the salary of the President and CEO and the rest of the company's management. Executive employees have individually established salary terms. The executive vice presidents have a bonus scheme that can pay up to a maximum of NOK 500 000 annually, based on defined criteria and achievement of results in their own areas of responsibility.

Actual benefits are discussed in Note 36 to the financial statements.

Information and communications Statkraft attaches importance to open and honest communications with all its stakeholders and places the greatest focus on the stakeholders who are directly affected by Statkraft's business. The information the company provides to its owner, lenders and the financial markets in general shall permit an evaluation of the company's underlying values and risk exposure. To ensure predictability, the owner and the financial markets shall be treated equally, and information shall be communicated in a timely manner. Statkraft's financial reports shall be transparent, and provide the reader with a broad, relevant and reliable overview of its strategies, targets and results, as well as its consolidated financial performance.

Auditor The annual general meeting appoints the auditor based on the board's proposal and approves the auditor's fees. The auditor serves until a new auditor is appointed. The external auditing contract is normally put out to tender at regular intervals. Deloitte AS has been Statkraft's auditor since 2004.

The board has meetings with the external auditor to review the annual financial statements and otherwise as required. The board evaluates the external auditor's independence and has established guidelines for the use of

the external auditor for consultancy purposes. In accordance with the requirement to maintain the auditor's independence, Statkraft will only make limited use of the external auditor for tasks other than statutory financial audits.

The auditor will present an annual written report to Statkraft's President and CEO as part of the ordinary audit. The board is advised of the main elements of this report.

As part of the Group's internal control system, Statkraft has established a corporate audit function to assist the board and management in making an independent and impartial evaluation of the Group's key risk management and control procedures. Corporate Audit shall also contribute to ongoing quality improvement in internal management and control systems. The Head of Corporate Audit acts as an advisor on ethical issues and notification body for unethical or illegal matters. The annual corporate audit report and auditing plan for the coming year shall be laid before the board. The Audit Committee shall monitor the Corporate Auditor's qualifications and the quality of Corporate Audit's work.

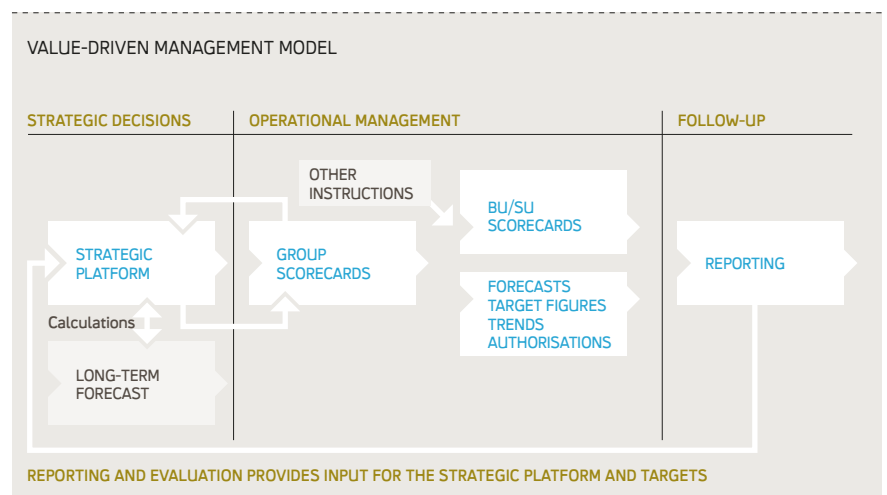
OPERATIONAL MANAGEMENT

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

The premises for operational management are embedded in the Group's strategic platform which contains priorities and targets that are communicated internally. Operational management places an emphasis on customising tools that optimally cover the three

objectives of target achievement, resource coordination and cost control. These tools are used through scorecard systems with an overarching Group scorecard and more detailed scorecards in the business and support units.

Significant emphasis is placed on ensuring that the performance indicators are balanced in terms of time horizons, trends and scope. The scorecards cover matters of financial and operational nature, as well as performance indicators relating to organisation, HSE, reputation and the environment. Financial forecasts are prepared through ongoing forecasts both for the accounting year and for rolling 12-month periods. Financial control is maintained by monitoring cost target figures and accounting history, and intervention limits are established for the cost target figures. An authorisation system ensures approval and control of individual transactions. All material investments shall also be quality-assured by being submitted for review by Statkraft's investment committee. Internal reports are prepared for the board and Group management each month.



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Segments

In order to secure an efficient structure for continued growth and profitability Statkraft reorganised the Group's operating structure with effect from 1 July 2008. Statkraft's segments were changed to reflect how the business is organised for internal management purposes. The company's business is now organised into seven segments that are presented below.

GENERATION AND MARKETS



GENERATION AND MARKETS IS RESPONSIBLE FOR THE OPERATION AND MAINTENANCE OF HYDROPOWER PLANTS AND GAS-FIRED POWER PLANTS IN EUROPE, AS WELL AS PHYSICAL AND FINANCIAL ENERGY TRADING.

The production plants are generally flexible and include 181 wholly and partly owned hydropower plants, five gas-fired power plants and two biomass plants. The segment's total installed capacity is 12 723 MW. In addition to own power production, extensive trading is performed in standardised and structured contracts for power, gas, coal, oil and carbon quotas. The segment operates in eight European countries and employs 1 208 full-time equivalents. It also owns two-thirds of the subsea cable (600 MW) between Sweden and Germany through the company Baltic Cable AB.



HYDROPOWER



GAS POWER



TRADING

12 723^{MW}

Total installed capacity

18.2^{NOK}

Billion
Gross operating revenues

FINANCIAL KEY FIGURES – UNDERLYING OPERATIONS

	UNIT	2008	2007
Gross operating revenues	NOK mill	18 251	12 041
Net operating revenues	NOK mill	14 977	10 813
EBITDA	NOK mill	11 887	8 273
Operating profit	NOK mill	10 819	7 356
Share of profit from associates and joint ventures	NOK mill	148	84
Profit before financial items and tax	NOK mill	10 966	7 331
Unrealised changes in value and non-recurring items	NOK mill	4 301	-289
Investments	NOK mill	1 083	1 745

HIGHLIGHTS

In accordance with the agreement with E.ON AG, on 31 December 2008 the segment acquired 53 hydropower plants in Sweden, Germany and the United Kingdom, together with one pump-storage plant, two gas-fired power plants and shares in two biomass facilities in Germany. As part of the swap deal E.ON acquired one hydropower plant in Sweden. The combined increase in capacity totals 2 190 MW. A gas storage contract and a power supply contract were also taken over by Statkraft. 199 employees were transferred from E.ON to Generation and Markets. Preparations for the takeover were underway during the whole of 2008, and demanded considerable attention and resources. The operational handover at the end of the year proceeded as planned, without any operational interruptions.

On 23 October Statkraft and Boliden Odda entered into two long-term commercial power supply contracts for the period 2009 to 2030. The agreement for the supply of around 20 TWh is the largest industrial power supply contract Statkraft has entered into since 1998, and confirms the company's status as the largest and most important supplier of power to the power-intensive industry in Norway. As part of the agreement, Statkraft acquired the shares in AS Tyssefaldene previously held by Boliden Odda, thereby increasing its total shareholding in the company to 60.17%. The agreement will enter into force as soon as a number of outstanding issues including tax-related matters have been clarified.

Leirfossene Power Plant in Trondheim entered operation during the fourth quarter. The new

power plant replaces the two former Øvre and Nedre Leirfoss power plants and will increase annual production from 150 GWh to 193 GWh.

2008 was the first full operating year for the Herdecke and Kårstø gas-fired power plants, which entered into operation in the fourth quarter of 2007. Knapsack gas-fired power plant started commercial operation on 16 January 2008.

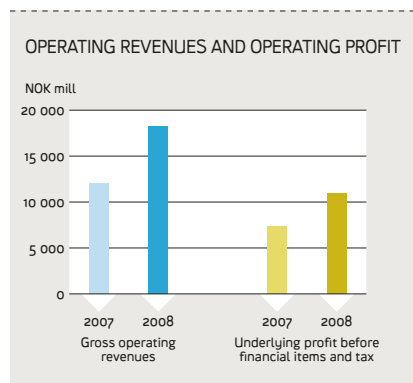
In December the carbon quota allocation for Kårstø was approved. The decision will result in a significant reduction in allocated carbon quotas to Naturkraft AS, the owner of Kårstø Power Plant, in the period 2008 to 2012. The number of quotas allocated for each year is 320 000 tonnes. This corresponds to 2 500 operating hours, which in turn represents 40% of the level of carbon quotas that the European authorities are allocating to similar types of plants. The agreements connected with the Kårstø investment were revalued in light of the lower-than-expected quota allocation and a write-down of NOK 397 million was recognised in the income statement for the fourth quarter.

The activities of Trondheim Energi Kraft AS have been included in the Generation and Markets segment since 1 July 2008. The hydropower portfolio has thus expanded by 19 power plants with a total installed capacity of 770 MW. A total of 67 Trondheim Energi Kraft AS employees were transferred to Statkraft Energi AS as of 1 January 2009 and power plant operations were integrated into other operations in Region Central Norway as of the same date.

Baltic Cable AB and the European Market Coupling Company (EMCC) have entered into an agreement to introduce market coupling of the Baltic Cable power cable. One of the consequences of the agreement will be the abolition of variable charges for power exchange in Sweden with a view to ensuring optimal flow for the cable. Market coupling between Denmark and Germany began in September, but had to be suspended due to technical problems, which are expected to be resolved in the second quarter of 2009. Market coupling in Baltic Cable is expected to start in spring 2009.

FINANCIAL PERFORMANCE

High production levels and prices in 2008 helped the segment return an operating profit of NOK 10 966 million in 2008 (NOK 7 331 million), where in particular increased production capacity from the commissioning of the new



gas-fired power plants in Germany contributed to the improvement in operating profit.

The most important changes in the profit before financial items and tax between 2007 and 2008 relate to:

An increase in gross operating revenues of NOK 6 211 million to NOK 18 251 million as a result of higher prices and production. The dynamic hedging of the Nordic hydropower portfolio posted excellent results, realising revenues of NOK 1 132 million. Energy optimisation also reported strong results and achieved prices in excess of both the relevant area prices and competitor prices. The Trading and Origination portfolios also achieved excellent results in 2008, posting revenues of NOK 583 million.

Gas purchase expenses increased by NOK 1 620 million due to the fact that 2008 was the first full year of operation for the company's gas-fired power plants.

Operating expenses rose by NOK 702 million to NOK 4 158 million. The increase primarily relates to operating expenses for the gas-fired power plants and expenses in connection with the acquisition of new assets under the E.ON agreement.

The segment posted an operating profit of NOK 10 819 million in 2008 (NOK 7 356 million).

The share of profit from associates increased by NOK 64 million to NOK 148 million.

OPERATIONS

The segment achieved stable operations and production in 2008. Total output amounted to 46.1 TWh, which represents a 7.7 TWh increase against 2007. Hydro-power production totalled 40.7 TWh, while gas power production amounted to 5.4 TWh.

NON-FINANCIAL KEY FIGURES

	UNIT	2008	2007
Full-time equivalents	Number	1 208	-
Sickness absence	%	3.2	-
Serious environmental non-compliances	Number	1	-
Installed capacity	MW	12 723	10 444
Production, actual	TWh	46.1	38.4

In 2008 utility-adjusted downtime, the percentage of installed capacity that was unavailable at the time it was needed by Statkraft, amounted to 2.7% in 2008, and was thus above the target of 2%. The share of non-planned downtime was higher than targeted, primarily due to technical faults at a number of stations. Svartisen Power Plant re-entered operation on 4 June with a new stator, having previously been out of operation since autumn 2006.

There was a serious environmental incident on 27 July following a stoppage in operations at Trollheim Power Plant. The water flow rate in Surna fell below minimum requirements for around three hours, despite the fact that Statkraft implemented measures to restore the water flow in the river downstream of the power station. The non-compliance has been followed up, and two fishing funds have been established to compensate for the damage. Statkraft has previously decided to install a bypass valve at Trollheim Power Plant from spring 2010 which will prevent a similar situation arising in the future.

Statkraft was fined NOK 100 000 for a breach of the Norwegian Act on the Supervision of Electrical Plants and Electrical Equipment. The fine was imposed after an employee received an electric shock while performing assembly work at Smøla Wind Farm in October 2006. Statkraft has accepted the fine.

The segment's sickness absence rate in 2008 was 3.2%

THE FUTURE

At the start of 2009, Statkraft's reservoir levels were high and the company was well positioned, even if prices have dropped in relation to 2007. The financial crisis had a major impact in the fourth quarter of the year. Market prices fell and consumption in the Nordic region was lower in the fourth quarter of 2008 than in the corresponding prior-year period. Revenue forecasts were significantly reduced in the fourth quarter following falls

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in power and fuel prices. Market liquidity and credit exposure are being closely monitored.

Work to integrate the assets that were acquired from E.ON into the company's operations and business processes will continue in 2009.

Other focus areas include boosting trading activities in Europe and expanding carbon trading.

WIND POWER



245 MW Installed capacity

248 NOK Million Gross operating revenues

FINANCIAL KEY FIGURES – UNDERLYING OPERATIONS

	UNIT	2008	2007
Gross operating revenues	NOK mill	248	182
Net operating revenues	NOK mill	228	169
EBITDA	NOK mill	43	36
Operating loss	NOK mill	-31	-32
Share of profit/loss from associates and joint ventures	NOK mill	-38	-
Profit before financial items and tax	NOK mill	-69	-32
Unrealised changes in value and non-recurring items	NOK mill	307	-
Investments	NOK mill	217	16

WIND POWER IS RESPONSIBLE FOR DEVELOPING, CONSTRUCTING, OPERATING AND FOLLOWING UP THE OWNERSHIP OF ONSHORE AND OFFSHORE WIND FARMS IN NORWAY AND THE REST OF EUROPE AS WELL AS DEVELOPING AND COMMERCIALISING OFFSHORE WIND POWER TECHNOLOGY.

Development and construction projects are currently being implemented in Norway, Sweden, Denmark, the United Kingdom and Germany. Three wind farms are currently in operation in Norway – at Smøla, Hitra and Kjøllefjord. The total installed capacity for these plants is 245 MW.

HIGHLIGHTS

On 15 August Statkraft and Agder Energi entered into an agreement to establish the company Statkraft Agder Energi Vind DA. The two parties will use the newly established company to implement a joint initiative within onshore wind power in Norway. The company, which will be headquartered in Kristiansand will be the leading player within Norwegian wind power and aims to achieve an installed capacity of 1 500 MW. The collaboration covers all new projects relating to the development, construction, operation and maintenance of wind farms in Norway and their associated power sales. The collaboration does not cover the wind farms that are already in operation. At the time the agreement was entered into, the new company's project portfolio comprised 27 wind power projects with an expected combined installed capacity of 3 765 MW.

In March Statkraft submitted a licence application for Storheia Wind Farm (255 MW) in the Åfjord and Bjugn local authorities. At the same time, a licence application was submitted for the coordinated grid connection of four wind farms on Fosen. Statkraft has submitted licence applications for two of these (Kvennedalsfjellet and Storheia).

In June the Norwegian Water Resources and Energy Directorate (NVE) was notified of a proposed impact study for the construction of Skardsøya Wind Farm (up to 70 MW) in Aure and the expansion of Hitra Wind Farm (up to 55 MW).

Distribution grid and feasibility studies have also been performed with a view to developing new wind projects.

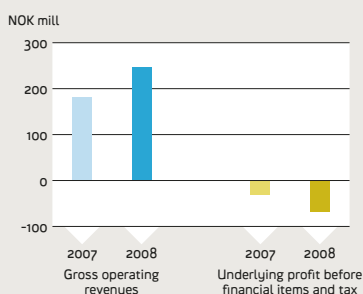
In June the NVE rejected the licence application for Fræna Wind Farm. Based on an

overall review, Statkraft has decided not to appeal this decision. In August the Norwegian Ministry of Petroleum and Energy rejected the licence application for the construction of Skallhalsen Wind Farm. In February 2009 the Norwegian Ministry of Petroleum and Energy rejected Statkraft's licence application for Selbjørn Wind Farm.

In March 2008, together with its partner Catamount Energy Corporation, Statkraft decided to construct Blaengwen Wind Farm in Wales, which will have an installed capacity of 23 MW. The construction work started in autumn 2008 and the wind farm is expected to be finished in early 2010. Statkraft acquired Catamount's shareholding in March 2009, thus becoming the sole owner of the project.

In June, together with one of its partners in the UK, Statkraft was granted a licence to construct 20 wind turbines near Oban on the west coast of Scotland. Carraig Gheal Wind Farm will have an installed capacity of between 46 MW and 60 MW.

OPERATING REVENUES AND OPERATING PROFIT



NON-FINANCIAL KEY FIGURES

	UNIT	2008	2007
Full-time equivalents	Number	-	-
Sickness absence	%	3.3	-
Serious environmental non-compliances	Number	0	-
Installed capacity	MW	245	245
Production, actual	TWh	0.6	0.7

In December Statkraft SCA Vind AB (60% shareholding) submitted a licence application for six wind farms in Sweden, with a total installed capacity of 1 144 MW. The wind farms will primarily be located in the counties of Västernorrland and Jämtland and have an expected annual production of around 2.5 TWh.

One wind farm consisting of 12 wind turbines will be constructed in Sweden through Arise Windpower AB (11.8% shareholding).

A revaluation performed in the fourth quarter resulted in the reversal of previously recognised write-downs for the Smøla and Hitra wind farms. The reversals totalled NOK 307 million and were attributable to updated price assumptions, a broader experience base to estimate production and a slight extension of the wind farms' expected lifetimes.

FINANCIAL PERFORMANCE

The underlying loss before financial items and tax was NOK 69 million (loss of NOK 32 million). The wind farms in operation reported higher revenues and better profits than in 2007. However, the result was negatively impacted by increased project activity levels and costs of NOK 31 million relating to projects implemented in associates prior to 2008.

Gross operating revenues totalled NOK 248 million (NOK 182 million). The increase is

attributable to generally higher prices in 2008, which helped compensate for lower production levels.

Transmission costs associated with the transport of power increased to NOK 20 million (NOK 13 million) as a result of higher prices.

Net operating revenues thus amounted to NOK 229 million (NOK 169 million).

Operating expenses totalled NOK 259 million (NOK 201 million). The increase is primarily the result of higher construction project activity levels.

The segment posted an operating loss of NOK 31 million (loss of NOK 32 million).

The share of the loss from associates in 2008 was NOK 38 million, compared with a break-even result in 2007.

OPERATIONS

Total production for the wind farms in 2008 amounted to 0.6 TWh, compared with 0.7 TWh in 2007.

In January there was a fire in the cable that connects Smøla Wind Farm to the central distribution grid. The damage was so extensive that the wind farm could not supply the central distribution grid for 11 days. The expected

production loss was around 13 GWh. Some of the lost revenue was covered by the Group's business interruption insurance.

A contract was entered into to install lifts in all wind turbines during the year. Half of the lifts had been installed by the end of the year.

In 2008 ten sea eagles died following collisions with wind turbines. Nine of these were found at Smøla and one at Hitra. Statkraft is devoting considerable resources to research which can prevent collisions between sea eagles and wind turbines.

The segment's sickness absence rate in 2008 was 3.3%.

THE FUTURE

Statkraft aims to be a leading player within onshore wind power in the Nordic region and to be well placed within offshore wind power. In Norway, the company aims to achieve this target via Statkraft Agder Energi Vind DA, while outside Norway Statkraft intends to realise its ambitions independently or together with partners.

EMERGING MARKETS



EMERGING MARKETS MANAGES AND DEVELOPS OWNERSHIP POSITIONS OUTSIDE EUROPE, AND CURRENTLY INCLUDES THE GROUP'S SHAREHOLDINGS IN SN POWER (50% SHAREHOLDING UNTIL 13 JANUARY 2009, AFTER WHICH IT INCREASED TO 60%).



HYDROPOWER



VIND POWER

621 MW
Installed capacity

SN | POWER

FINANCIAL KEY FIGURES - UNDERLYING OPERATIONS

	UNIT	2008	2007
Share of profit from associates and joint ventures	NOK mill	87	158
Profit before financial items and tax	NOK mill	86	158
Investments	NOK mill	200	1 200

The segment also manages a 20% shareholding in Theun Hinboun Power Company (THPC) on behalf of Statkraft SF, which is not included in the financial reporting for the segment.

At the end of the year SN Power owned shareholdings in 17 hydropower plants and one gas-fired power plant in Latin America and Asia. The power plants have a combined installed capacity of 966 MW, where SN Power's share is 621 MW. Together with its partners, SN Power is also currently

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constructing and refurbishing 641 MW of capacity. THPC owns one hydropower plant with an installed capacity of 210 MW and has two further hydropower plants with a total installed capacity of 280 MW under construction in Laos.

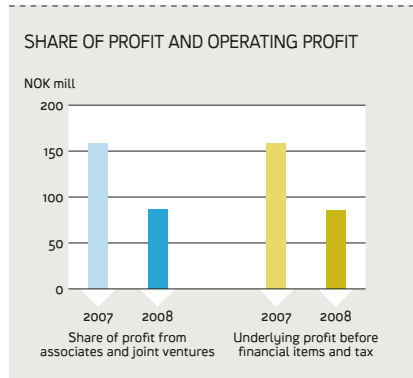
HIGHLIGHTS

There were a total of nine fatalities in connection with SN Power's activities in 2008, six of which occurred on the Allain Duhangan construction project in India (43% indirect shareholding). The La Higuera (50% shareholding) and La Confluencia (50% shareholding) construction projects in Chile experienced one fatality each in 2008. A ten-year-old boy was also killed as he attempted to retrieve a football from the intake duct at a smaller power plant owned by SN Power in Peru. There have been two further deaths in relation to the Allain Duhangan project and one further death in Peru in 2009. SN Power has worked systematically to raise HSE standards at their sites. In December 2008, with the help of SN Power, a group of international experts, including a new HSE manager, was appointed to the Allain Duhangan project. This initiative, together with a number of other measures, represents an important step towards securing effective implementation of the necessary improvement measures at the site.

In November 2008 Norfund and Statkraft reached agreement on the restructuring of ownership of SN Power. Statkraft increased its shareholding in SN Power from 50% to 60% by purchasing 578 363 shares from Norfund and implementing a private placement in Statkraft's favour in the amount of NOK 2 billion. The shareholder agreement was also renegotiated and Statkraft was granted the option to increase its shareholding to 67% at market price by no later than 2015. Norfund was granted the option to sell all or some of its shares in the same period. A subsidiary was also established to focus on Africa and Central America in which SN Power (51% shareholding) participates as owner together with Norfund. The agreement entered into force as of 13 January 2009.

In June 2008 Norfund and Statkraft each made capital injections of NOK 200 million into SN Power. The funds will be used for project development and acquisitions in Nepal and the Philippines.

SN Power, together with its local partner Aboitiz, took over the Binga (50%) and Ambuklao (50%) hydropower plants in the



Philippines with a combined installed capacity of 175 MW during 2008, and a large-scale refurbishment project was implemented in the smaller of these plants in the autumn.

SN Power began construction of Totoral Wind Farm (80% shareholding) in Chile in the autumn of 2008, which will have a total installed capacity of 46 MW.

In 2008 the decision was taken to increase THPC's capacity from 210 MW to 500 MW through the upgrading of existing plants and the construction of two new power plants. A new licence agreement has been entered into with the Laotian authorities. Power sales agreements were also signed with Electricity Generating Authority of Thailand and Electricite du Laos, which will involve a total supply of 2.8 TWh per annum. The agreements will expire 27 years after the construction has been completed.

FINANCIAL PERFORMANCE

Statkraft's share of SN Power's profit for the year amounted to NOK 87 million, which represents a decrease of NOK 71 million compared with 2007. The reduction is primarily attributable to depreciation of the Philippine Peso which resulted in a currency loss, and the recognition of a loss provision as a result of delays in the construction of the La Higuera hydropower plant in Chile. Prices have been generally higher than expected in Peru and India, whereas downtime in the distribution grid contributed to somewhat lower average prices in the Philippines.

OPERATIONS

At between 95% and just under 100%, availability in the segment's power plants in Peru, India, Nepal, Sri Lanka and the Philippines was generally high. No major interruptions were experienced and SN Power's share of production for the year was 2.5 TWh.

NON-FINANCIAL KEY FIGURES

	UNIT	2008	2007
Installed capacity	MW	621	560
Production, actual	TWh	2.5	1.5

Delays and cost overruns have been experienced on the Allain Duhangan construction site in India and La Higuera construction site in Chile. Completion of the La Confluencia plant in Chile has also been delayed as a result of severe damage caused to the main road in the area by a storm in May. SN Power is working closely with the contractor to make up for the delay. The refurbishment and expansion of the Ambuklao hydropower plant (50% shareholding) in the Philippines started in autumn 2008 and is progressing in line with plans. Totoral Wind Farm in Chile, is expected to be completed towards the end of 2009 as planned.

THE FUTURE

In autumn 2008 Statkraft and Norfund entered into a new shareholder agreement regarding the ownership and strategic development of SN Power in the period leading up to 2015. The aim is to increase SN Power's power plant portfolio from its current relative share of 942 MW to 4 000 MW in operation or ready for investment by 2015 through acquisitions, refurbishment and construction of hydropower plants in selected countries in Latin America and Asia. On 13 January SN Power (51%) and Norfund (49%) also established a separate company under the name of SN Power Africa AS, which will focus in particular on hydropower development in Africa and Central America. The company aims to produce 500 MW and 200 MW of renewable energy in Africa and in Central America respectively by 2015.

SKAGERAK ENERGI



1 313 MW
Installed capacity

3 234 NOK Million
Gross operating revenues

FINANCIAL KEY FIGURES – UNDERLYING OPERATIONS

	UNIT	2008	2007
Gross operating revenues	NOK mill	3 234	2 209
Net operating revenues	NOK mill	3 128	2 170
EBITDA	NOK mill	2 076	1 302
Operating profit	NOK mill	1 596	869
Share of loss from associates and joint ventures	NOK mill	-247	-108
Profit before financial items and tax	NOK mill	1 349	761
Unrealised changes in value and non-recurring items	NOK mill	34	-42
Investments	NOK mill	442	499

THE BUSINESS FOCUSES ON PRODUCTION AND SALE OF POWER AND DISTRICT HEATING, AND DISTRIBUTION GRID ACTIVITIES IN SKAGERAK ENERGI. OTHER BUSINESS COVERS FIBRE AND CONTRACTOR ACTIVITIES.

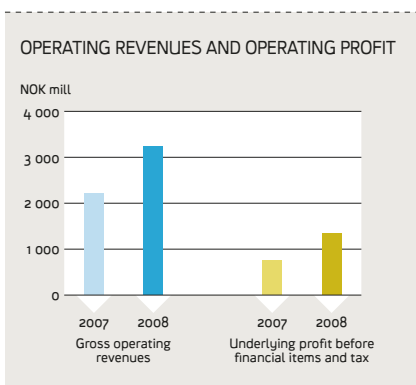
The company is owned by Statkraft (66.6% shareholding) and the local authorities in Skien (15.2%), Porsgrunn (14.8%) and Bamble (3.4%). The production plants include 45 wholly and partly owned hydropower plants with a total installed capacity of 1 313 MW. The company has around 177 000 distribution grid customers.

HIGHLIGHTS

In September the boards of Skagerak Energi and Trondheim Energi approved a merger of the settlement companies Nota (Skagerak Energi) and Enita (Trondheim Energi). The new company, Metor AS, will become a leading player within metering, settlement, invoicing and collection on the Nordic energy market. Skagerak Energi and Trondheim Energi own respective shareholdings in the merged company of 60% and 40%. The merger had accounting effect from 1 January 2009.

The refurbishment of the Grønvollfoss, Toklev and Vafos hydropower plants is progressing as planned. The changes will increase the current annual output of these plants by 23 GWh to 213 GWh.

In May the Norwegian Water Resources and Energy Directorate (NVE) renewed Skagerak Varme's licence for the construction of a district heating plant at Jarlsø in Tønsberg, and granted a further licence for the construction of a district heating plant at Horten. The construction work is expected to be completed in 2012 and will result in annual heat production of more than 100 GWh. In January Skagerak Varme and Agder Energi established the



company Viking Varme to construct shared district heating capacity. In 2008 the company submitted licence applications for Kongsberg and Larvik.

In November Skagerak Elektro won a four-year contract with Hafslund in Asker and Bærum outside Oslo, worth NOK 50 million. The contract means that all customer-initiated assignments relating to Hafslund's distribution grid in Asker and Bærum will be performed by Skagerak Elektro. Skagerak already has similar assignments in six local authority areas in Akershus and Østfold.

The new CEO of Skagerak Energi, Knut Barland, took up his position in August.

FINANCIAL PERFORMANCE

The underlying profit for the year before financial items and tax in 2008 was NOK 1 349 million (NOK 761 million).

Gross operating revenues amounted to NOK 3 234 million (NOK 2 209 million). The increase is primarily attributable to higher electricity prices and production volumes.

NON-FINANCIAL KEY FIGURES

	UNIT	2008	2007
Full-time equivalents	Number	756	-
Sickness absence	%	4.4	-
Serious environmental non-compliances	Number	0	-
Power generation			
Installed capacity	MW	1 313	1 325
Production, actual	TWh	6.5	5.7
Distribution grid business			
Number of customers	1000	178	177
Delivered volume	GWh	6 508	6 421
Distribution grid capital (NVE capital)	NOK mill	2 772	2 800
District heating			
Number of customers	1000	0.5	0.4
Delivered volume	GWh	26	24

Operating expenses totalled NOK 1 532 million (NOK 1 301 million). The increase primarily relates to the fibre initiative.

The operating profit for the year was NOK 1 596 million (NOK 869 million).

The share of profit from associates was NOK -247 million (NOK -108 million). The change is primarily attributable to the company Telenor Cinclus, in which Skagerak Energi and Telenor hold respective shareholdings of 34% and 66%.

OPERATIONS

The power business experienced stable operations and production in 2008 and output totalled 6.5 TWh, which represents an increase of 0.8 TWh compared with 2007. The volume produced in 2008 was 25% higher than mean annual output.

The distribution grid business generally experienced normal operations in the fourth

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quarter. However, storms in January and October 2008 led to interruptions to the power supply and to significant damage to distribution grid plants in some parts. Contingency plans were implemented and functioned satisfactorily. No claims for compensation were registered for interruptions lasting more than twelve hours.

The sickness absence rate in 2008 was 4.4%.

THE FUTURE

2009 will be a critical year with regard to Skagerak Energi's gas-related plans. The Skanled gas pipes project, which will have a decisive impact on the progress of the plans for a gas-fired power plant in Grenland, will be clarified during the year.

The distribution grid business will continue its initiatives to restructure the distribution grid sector in the region.

In district heating work to develop new projects and obtain further licences will continue.

CUSTOMERS

HYDROPOWER



DISTRICT HEATING



GRID

81 000

Retail customers

95 000

Grid customers

1 731 NOK Million

Gross operating revenues



FINANCIAL KEY FIGURES - UNDERLYING OPERATIONS

	UNIT	2008	2007
Gross operating revenues	NOK mill	1 731	1 482
Net operating revenues	NOK mill	759	693
EBITDA	NOK mill	336	327
Operating profit	NOK mill	181	184
Share of profit from associates and joint ventures	NOK mill	9	2
Profit before financial items and tax	NOK mill	190	191
Unrealised changes in value and non-recurring items	NOK mill	-10	-
Investments	NOK mill	169	277

CUSTOMERS COMPRISES THE DISTRIBUTION GRID, DISTRICT HEATING AND POWER SALES ACTIVITIES THAT ARE OWNED BY TRONDHEIM ENERGI. THE SEGMENT HAS AROUND 95 000 DISTRIBUTION GRID CUSTOMERS AND 81 000 RETAIL CUSTOMERS.

The district heating system in Trondheim and Klæbu has a total installed capacity of 297 MW, and supplies 550 business customers and 6 000 households with district heating. In Sweden the segment has an installed district heating capacity of 211 MW and supplies around 1 300 customers. The segment also covers property management.

HIGHLIGHTS

In 2008 there was a significant focus on preparations for the incorporation of the five Swedish district heating plants acquired in connection with the E.ON transaction. The plants, which have a combined output of 300 GWh and an installed capacity of 211 MW have been managed and run by Trondheim Energi Fjernvarme since 1 January 2009.

Trondheim Energi Fjernvarme and Skagerak Varme are working to establish a joint district heating company within the Group based on an overarching business model for district heating.

The new Hesttrø transformer station in Klæbu entered operation on 27 August 2008. The new transformer station improves security of supply to distribution grid customers in the supply area and has been designed to cover an expected rise in consumption in Klæbu in the coming years.

FINANCIAL PERFORMANCE

The segment's underlying profit before financial items and tax in 2008 was 190 million (NOK 191 million).

Gross operating revenues totalled NOK 1 731 million (NOK 1 482 million). The increase is primarily attributable to increased revenues from power sales and district heating as a result of higher volumes and prices.

Energy purchases and transmission costs amounted to NOK 972 million (NOK 789 million). Distribution grid revenues increased by NOK 18 million, primarily on the back of increased prices. Income from power sales rose by NOK 172 million due to higher purchase prices for electricity, while district heating revenues fell by NOK 10 million due to the fact that the share of waste energy increased following the commissioning of a new line.

Operating expenses totalled NOK 578 million (NOK 509 million). The increase is primarily attributable to increased depreciation, amortisation and impairments and expenses in connection with new district heating plants, and costs in connection with legal cases relating to the construction of Heimdal heating centre.

The segment posted an operating profit of NOK 181 million (NOK 184 million).

OPERATIONS

The segment's business units experienced stable operations and production levels in 2008.

Trondheim Energi Nett continued to improve its figures for return on distribution grid capital and NVE efficiency measurements.

The power sales portfolio experienced greater changes in 2008 compared with previous years, primarily due to major differences in area prices in 2008. The number of customers fell by just over 2 000 to around 81 000, while the number of distribution grid customers rose from slightly over 94 000 to just under 95 000.

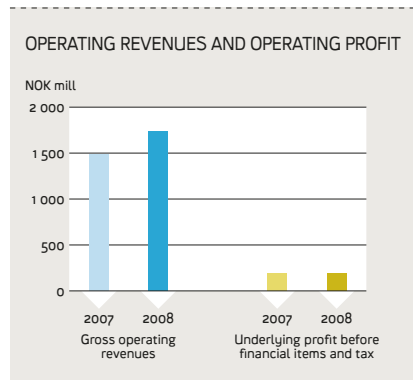
District heating operations were stable in 2008 despite generating slightly lower growth than had been expected, both in terms of refuse received and volumes delivered to customers. The delivered energy volume was 447 GWh.

In 2008, the district heating business focused on the development of a number of projects and preparations for the takeover of the district heating plants in Sweden.

In 2008 the segment's sickness absence rate was 5.7%.

THE FUTURE

Statkraft is a major player within distribution grid, district heating and power sales operations and the segment is well positioned to leverage further development and growth opportunities, both within and outside Norway. Statkraft will develop national business and growth models within the segment, whilst maintaining a geographical presence and



cultivating expertise. Statkraft expects significant gains to be made in connection with the consolidation and professionalisation of activities within the Customer segment and aims to expand its customer base within distribution grid, district heating and power sales operations, either alone or in partnership with others.

NON-FINANCIAL KEY FIGURES

	UNIT	2008	2007
Full-time equivalents	Number	263	-
Sickness absence	%	5.7	-
Serious environmental non-compliances	Number	0	-
Power sales			
Number of customers	1 000	81	83
Delivered volume	GWh	1 948	2 155
Distribution grid business			
Number of customers	1 000	95	94
Delivered volume	GWh	2 616	2 681
Distribution grid capital (NVE capital)	NOK mill	842	857
District heating			
Number of customers	1000	7.8	3
Delivered volume	GWh	447	444

INDUSTRIAL OWNERSHIP



INDUSTRIAL OWNERSHIP MANAGES STATKRAFT'S SHAREHOLDINGS IN BKK (49.9%) AND AGDER ENERGI (45.5%) AND STATKRAFT'S DIRECT SHAREHOLDING IN FJORDKRAFT.

The segment aims to achieve long-term profitability by pursuing solid industrial development in the various business areas. Skagerak Energi is reported as a separate segment.

HIGHLIGHTS

In November Agder Energi AS started operation of the new Hunsfoss Øst power plant, the first major hydropower construction in the

HYDROPOWER
 WIND POWER
 GRID
 3 510 NOK Million Gross operating revenues
 Fjordkraft
 agder energi
 BKK

FINANCIAL KEY FIGURES – UNDERLYING OPERATIONS

	UNIT	2008	2007	
Gross operating revenues	NOK mill	3 510	2 758	
Profit before financial items and tax	NOK mill	861	921	
Investments	NOK mill	-	-	
<hr/>				
	UNIT	Fjordkraft	BKK	Agder Energi
Gross operating revenues	NOK mill	3 510	4 121	7 211
Operating profit/loss	NOK mill	-18	2 379	1 701
Profit after tax	NOK mill	40	762	514
Total assets	NOK mill	1 384	18 567	15 425

south of Norway in ten years. The power plant replaces an older power plant and will increase production by 65 GWh. Further development of the company's hydropower portfolio is underway and new investments connected to wind power, distribution grid reinforcement and district heating are planned.

BKK is working to secure the power supply in the region and has prenotified a new 300 kilovolt cable that will run from Modalen to Mongstad in Western Norway. This represents the final stage in work to secure the power supply in the region. The cable is not expected to enter operation before 2016.

FINANCIAL PERFORMANCE

The underlying profit before financial items and tax in 2008 was NOK 861 million (NOK 921 million). The decline in profit primarily relates to the end-user company Fjordkraft. The associates BKK and Agder Energi reported a small improvement and small decline in underlying results respectively.

OPERATIONS

The companies connected to the segment generally experienced stable operations in 2008.

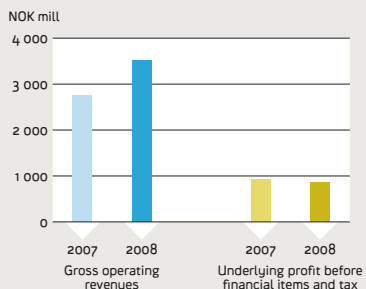
Agder Energi is working to further develop the company's hydropower portfolio and a

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OPERATING REVENUES AND OPERATING PROFIT



number of new investments relating to wind, distribution grid reinforcements and district heating are planned.

Both BKK and Agder Energi are planning to implement line reinforcements in order to realise the significant potential offered by small-scale hydropower production in the regions where suitable financial framework conditions are in place.

NON-FINANCIAL KEY FIGURES

	UNIT	FJORDKRAFT	BKK	AGDER ENERGI
Full-time equivalents	Number	88	1 056	1 455
Sickness absence	%	4.3	4.9	4.0
Serious environmental non-compliances	Number	0	0	0
Power generation				
Installed capacity	MW	-	1 682	1 770
Production, actual	TWh	-	7.2	9.5
Power sales				
Number of customers	1 000	318	-	153
Delivered volume	TWh	9.5	-	6.8
Distribution grid business				
Number of customers	1 000	-	177	167
Delivered volume	GWh	-	7 621	5 210
Distribution grid capital (NVE capital)	NOK mill	-	3 035	2 574

In 2008 40% of Fjordkraft AS' volume was sold to the commercial market as "guaranteed hydropower", compared with 15% in 2007.

THE FUTURE

Industrial Ownership focuses on the industrial coordination of similar business areas across the Group. The segment aims to help

coordinate ownership between Skagerak Varme and district heating activities in Trondheim, and to merge Fjordkraft and Trondheim Energi Kraftsalg. Initiatives to develop the ownership positions will continue.

OTHER



OTHER INCLUDES THE SOUTHEAST EUROPE HYDRO, SOLAR POWER, SMALL-SCALE HYDRO, INNOVATION AND GROWTH BUSINESS UNITS, ALONG WITH THE INVESTMENT IN E.ON SVERIGE AB (44.6%) AND GROUP FUNCTIONS AND ELIMINATIONS.

The shareholding in E.ON Sverige AB was sold to E.ON AG on 31 December 2008 as part of a deal which saw Statkraft acquire a 4.17% shareholding in E.ON AG, which will be reported in this segment from 1 January 2009.



HYDROPOWER



SOLAR POWER



OSMOTIC POWER



MARINE ENERGY



INNOVATION

FINANCIAL KEY FIGURES - UNDERLYING OPERATIONS

	UNIT	2008	ELIMINATIONS 2008	2007	ELIMINATIONS 2007
Gross operating revenues	NOK mill	495	-88	426	-69
Profit before financial items and tax	NOK mill	435	-69	1 184	-86
Investments	NOK mill	462		77	

SOUTHEAST EUROPE HYDRO

The business unit is responsible for all hydropower activities in Southeast Europe, which includes acquisitions and refurbishment of existing plants, and the development and construction of new hydropower plants. The unit has offices in Serbia, Albania, Romania and Montenegro.

On 19 December Statkraft and the Austrian energy group EVN, signed a licence agreement for hydropower construction with the Albanian authorities. The two companies are to develop a hydropower project in the Devoll river by establishing a 50/50 joint venture.

The construction is one of the largest hydropower projects in Europe and will increase Albania's total hydropower production by 20%. The three hydropower plants will have a total capacity of around 340 MW and an expected annual output of around 1 TWh. The project is expected to be implemented by 2016.

The greatest potential for new European hydropower development is offered by the countries of Southeast Europe. Economic growth suggests an increased demand for power in the years to come. Statkraft is therefore adopting a long-term view with

regard to hydropower development in the region, and will develop a capacity of between 1 TWh and 1.5 TWh by 2015.

SOLAR POWER

The business unit is responsible for Statkraft's initiatives within solar power. The target is to develop solar power plants in Europe, focusing on Spain, Italy and Southeast Europe, where the aim is to establish a combined production capacity of 75 MW by the end of 2012. The projects are being developed in collaboration with local partners. The need to enter into new strategic partnerships in order to increase market access, participate in other parts of the value chain and secure access to new technology is continually assessed.

SMALL-SCALE HYDRO

The business unit is responsible for ownership follow-up of power plants and activities within the area of Small-Scale Hydro including Småkraft AS (hydropower plants with an installed capacity of between 1 MW and 10 MW).

In 2008 Småkraft AS¹ was awarded nine new licences. A total of 13 power plants are under construction while a further 11 projects have licences and are expected to be initiated during 2009 and 2010. Småkraft has a further 63 projects with an expected annual output of 860 GWh currently being reviewed by the Norwegian Water Resources and Energy Directorate (NVE). At the end of the year, the company had 12 power plants in operation with a combined annual output of 129 GWh.

Significant gains can be realised in terms of cost, time and quality by constructing relatively standardised, small-scale hydropower plants. The main challenges facing the company relate to the NVE's capacity for reviewing licences, competition for waterfall rights and restricted grid capacity in some areas of Norway.

INNOVATION AND GROWTH

The business unit is responsible for developing new business areas, products and services and for coordinating and initiating research and development activities.

In autumn 2007 the business unit established an ocean energy programme in collaboration with the Norwegian University of Science and Technology (NTNU), Uppsala University in Sweden and the Technical University of Denmark. The aim is to become Europe's leading expertise and training network in the

areas of offshore wind power, wave power and tidal power. Separate hydropower and customers programmes are being planned in line with the Group's R&D strategy.

In the fourth quarter Statkraft submitted a licence application for Sauda Energigjenvinning, an energy efficiency project that the company is implementing in collaboration with Eramet Sauda. Negotiations are ongoing with a number of industrial businesses regarding collaboration initiatives on energy efficiency in the industry. The Group also adopted a strategy regarding positioning within marine energy. The strategy prioritises tidal power ahead of wave power, because its technology is regarded as the most mature and access to suitable areas for tidal power is limited.

In 2008 Statkraft started construction of the world's first prototype osmotic power plant, in Hurum southwest of Oslo. Work is also continually ongoing in collaboration with a number of external partners to further develop membranes for osmotic power plants.

In December Statkraft established THETIS Energy (51% shareholding) together with two local partners. The company plans to develop a tidal water site at Torr Head in Northern Ireland.

Statkraft invested NOK 162 million in the Energy Future Invest AS (EFI) venture fund in 2008.

In the area of innovation Statkraft has started a new R&D programme for hydro-power technology, which, together with the Ocean Energy Programme, shall contribute to value creation within the Group.

Within carbon capture in the fourth quarter Statkraft decided to participate in the first phase of the SOLVit programme, an eight-year R&D programme to develop improved chemicals for carbon capture. Statkraft has also entered into an agreement with Siemens to design a requirement specification for a potential cleaning plant for a peak-load-based gas-fired power plant.

FINANCIAL PERFORMANCE

In 2008 the Other segment's underlying profit before financial items and tax, including the share of profit from E.ON Sverige, Group functions and eliminations, amounted to NOK 366 million (NOK 1 098 million). The decrease in profit is primarily attributable to

higher staffing levels as a result of increased activity levels and project development and the fact that the share of profit from E.ON Sverige was not recognised in the income statement in the period between the Statkraft's board decision to proceed with the swap deal on 18 June 2008 and the time the deal was implemented on 31 December 2008. The share of the profit not recognised in the income statement is included in the profit that was reported on the implementation of the sale as of 31 December 2008.

¹ Småkraft AS is jointly owned by Statkraft, Trondheim Energi, Skagerak Energi, BKK and Agder Energi, which each have a 20% shareholding.

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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. Around 90% of the energy the Group generates is renewable and has little negative impact on the climate. The Group's environmental management system is under development and will be expanded to cover further units. One serious environmental non-compliance occurred when the water flow in the Surna river was reduced significantly following an operational shutdown. A series of fatalities at associates highlighted the challenges involved in maintaining health and safety standards in international operations.

→ **The Statkraft Group is currently experiencing strong, international growth. This is presenting the organisation with new challenges, not least with regard to safety and ethical conduct.**

→ **Production of environmentally friendly energy is Statkraft's most important contribution to the environment. Concern for the environment and systematic management of environmental issues shall also characterise all Group activities.**

MANAGEMENT AND ORGANISATION

The concept of corporate responsibility covers a range of areas, including ethics, health, safety and the environment and organisational matters. All these areas are covered by the Group's management system. The Group staff functions for the various areas are responsible for Group-wide processes and tools, while the individual business units are responsible for daily operations, follow-up and reporting.

The Group policies and procedures for the individual corporate responsibility areas are displayed on the Group's website.

guidance on difficult evaluations and promote awareness of ethical issues. The guidelines apply to all employees and anyone acting on behalf of the Group.

ETHICAL CONDUCT

Statkraft's international growth and entry into new markets is placing new demands on the organisation with regard to ethical conduct. Many of the business units that develop projects in new markets therefore underwent ethical dilemma training in 2008. It was also decided that an ethics programme should be established. The programme will comprise a review of the Group's policies and guidelines for ethics, development of an online training programme for all employees and development of a course on ethics and corporate social responsibility for managers and other employees.

ETHICS

Ethics programme in

2009



- INCREASED FOCUS ON ETHICAL ISSUES
 - ETHICS PROGRAMME TO BE DEVELOPED AND IMPLEMENTED IN 2009
- REVISED ROUTINES FOR NOTIFICATION

ETHICAL GUIDELINES

The Group's ethical guidelines clearly define the frameworks for ethical conduct, provide

NOTIFICATION

Statkraft urges its employees to notify all censurable issues. Corporate audit constitutes an independent notification channel with the right and duty to report to the board. The guidelines outlining the employer's duties with regard to notification were drawn up in 2008. One notification issue was registered in 2008. The case in question was followed up in accordance with the Group guidelines and has now been concluded.

ORGANISATION

Statkraft established a support unit for corporate social responsibility during 2008.

The unit is responsible for the facilitation of ethical management across ordinary line work in the Group.

Group management has a reference group which it can consult on ethical dilemmas. The reference group comprises the Head of Corporate Audit, the SVP legal, the SVP Corporate Responsibility and the SVP HR.

SOCIETY

NOK
43 566
million in value creation



- ECONOMIC VALUE CREATION OF NOK 43 566 MILLION
- PAID TO SUPPLIERS FOR GOODS AND SERVICES, NOK 3.7 BILLION
- START OF CONSTRUCTION OF THE WORLD'S FIRST PROTOTYPE OSMOTIC POWER PLANT AT TOFTE IN HURUM

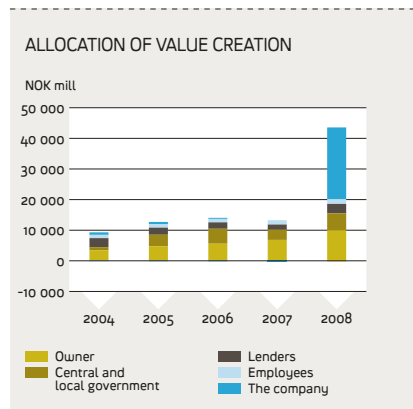
ECONOMIC VALUE CREATION

Statkraft's total economic value creation in 2008 amounted to NOK 43 566 million, of which NOK 10 000 million was repaid to the owner in dividends and Group contributions. Taxes paid to the Norwegian state and local authorities amounted to NOK 5 524 million, of which NOK 1 408 million was paid to Norwegian local authorities. The ten local authorities that received the largest tax incomes (46%) received a total of NOK 653 million. The local authority that received the highest tax income from Statkraft's businesses, Vinje local authority, received NOK 91 million.

Statkraft's total investments in 2008 amounted to NOK 2 573 million; NOK 1 758 in Norway and NOK 815 million outside Norway.

SUPPLIER CHAIN

During the year the Group (excluding Fjordkraft, Småkraft, Baltic Cable and Statkraft Markets) purchased goods and services worth approximately NOK 3.7 billion from around 7 500 suppliers. Statkraft follows detailed procurement procedures in order to secure structured and traceable interaction and equal treatment of suppliers.



Statkraft prefers to use suppliers that have been approved under Sellihca, the common qualification system of the Nordic energy sector, which covers around 2 000 approved suppliers. All Statkraft's suppliers are made aware of the Group's ethical guidelines.

Particular attention is paid to monitoring especially important and vulnerable supplies by following up contracts through several supplier stages, including by performing pre-arranged site visits and unannounced inspections. This approach was applied in connection with the production of a new turbine for Svartisen Power Plant in 2008, which will be supplied by a Norwegian contracting party and manufactured by subcontractors in China.

Growth and increasing international business are highlighting the importance of issues connected to health, safety and the environment and ethical business operations throughout the supplier chain. In 2008 the Group launched a project to reinforce systematic methodology through the relevant selection, contract and delivery phases in collaboration with suppliers.

INTERNATIONAL ACTIVITIES

Statkraft wishes to contribute to the development of profitable power plants that provide lasting economic, social and environmental contributions to the societies in which these are built. All plants are planned in collaboration with local authorities and environmental, human rights and development experts. Before construction decisions are made, analyses of environmental and social consequences are performed in line with the World Bank's standards. All projects incorporate processes for risk management and programmes for social development. The International Hydropower Association's Sustainability Guidelines and Assessment Protocol are used to measure projects' sustainability performance when developing hydropower projects.

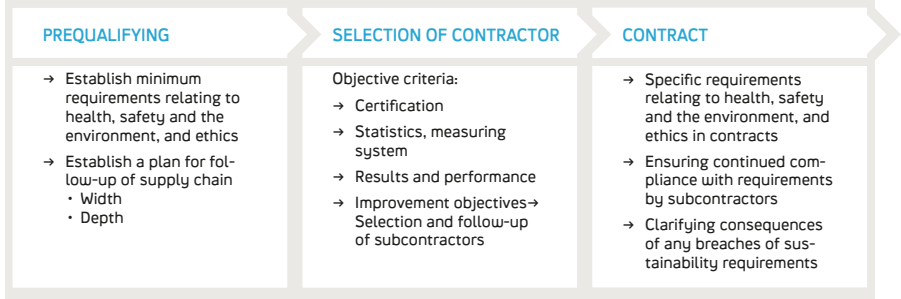
New power production outside Europe is developed through SN Power, in which Statkraft owned a 50% shareholding in 2008. Statkraft SF also owns 20% of Theun Hinboun Power Company in Laos.

In 2008 the decision was taken to invest in the expansion of Theun Hinboun hydropower plant. The expansion project has attracted a great deal of attention from international environmental organisations that are particularly interested in safeguarding the rights of the local population. A total of almost USD 50 million has been invested to ensure the project is sustainable.

There were nine fatalities in connection with the Group's international activities in 2008; for further information, see page 63.

Statkraft participates actively with regard to climate and energy policies in several international forums including the World Business Council for Sustainable Development (WBCSD),

SUSTAINABILITY CONSIDERATIONS IN THE PURCHASING PROCESS



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World Business Council for Sustainable Development



TRANSPARENCY INTERNATIONAL

the International Hydro Association (IHA) and Eurelectric. In December 2008 Statkraft, together with WBCSD and eight other energy companies, presented the 'Power to Change' report at the UN Climate Conference in Poznan, Poland. The report reviews how the power industry can contribute to reducing global greenhouse gas emissions. Statkraft's involvement in IHA has included work to secure broad support for a tool to assess the sustainability of hydropower projects (IHA Sustainability Assessment Protocol). With regard to Eurelectric the main issues in 2008 related to the development and implementation of the EU's Green Package.

Statkraft is also a member of Transparency International, an organisation that fights corruption all over the world.

INNOVATION

Statkraft's contributions to society include the raising of expertise levels through innovation. The Group's innovation activities are coordinated by the Innovation and growth business unit.

The activities cover sizeable R&D programmes within ocean energy, hydropower and the customer section, technology analyses and monitoring and contributions to R&D projects in individual business units. Statkraft works closely with a number of partners and research communities in this area.

The budget for Statkraft's innovation initiative in the period 2007–2009 is NOK 230 million.

A number of important milestones were reached in several projects during 2008. These included the start of construction of the world's first prototype osmotic power plant at Tofte in Hurum and, together with partners, the establishment of Thetis Ltd to develop tidal power in Northern Ireland. A strategy for increased focus on marine energy (tidal power and wave power) was also prepared in 2008.

REPUTATION AND BRANDS

Statkraft is undertaking a series of measures to further strengthen its reputation and promote the Statkraft brand. The Group ran two profile-raising advertising campaigns in Norway in 2008.

Surveys performed in Norway show that the Group enjoys a good reputation among decision-makers and financial bodies. Awareness of Statkraft among the general public is increasing, while the percentage of people with a good or very good impression of Statkraft rose from 45% to 47% during the year.

SPONSORSHIP AGREEMENTS

Statkraft supports a number of local cultural and sporting causes. The company currently has ongoing sponsorship agreements with the Norwegian Biathlon Association, Det Norske Teatret, the Oslo Jazz Festival, the Nobel Peace Prize Concert, the Hardanger Music Festival, Odd Grenland Football Club, Larvik Handball Club, Selbu Handball Club and MODO Ice Hockey. The Group paid out a total of NOK 18.75 million in sponsorship and support activities in 2008.

THE STATKRAFT FUND

The Statkraft Fund was set up to support worthy causes. The fund of NOK 5 million is allocated to individuals, organisations and projects that have demonstrated an ability to think innovatively, develop opportunities and create solutions. In 2008 the Statkraft Fund was awarded to the Ny-Ålesund Symposium at Svalbard (NOK 2 million), Vitensenteret i Trondheim (the Trondheim Knowledge Centre) and Technichus i Härnösand (the Technology Centre in Härnösand in Sweden) (NOK 1.5 million each). The two science institutions collaborate on an educational programme intended to stimulate the next generation's interest in the energy solutions of the future.

The Fund statuettes will be redesigned in 2009 to reinforce the link with the Group strategy and reflect more of the dimensions of the Group's development projects.

ENVIRONMENT

15 478^{MW}
installed capacity



- EXPANSION OF THE GROUP'S ENVIRONMENTAL MANAGEMENT SYSTEM
- PRODUCTION OF 48 TWH OF RENEWABLE ENERGY IN 2008
- ONE SERIOUS ENVIRONMENTAL NON-COMPLIANCE – SIGNIFICANTLY REDUCED WATER FLOW IN THE SURNA RIVER FOLLOWING A BREAKDOWN AT TROLLHEIM POWER PLANT

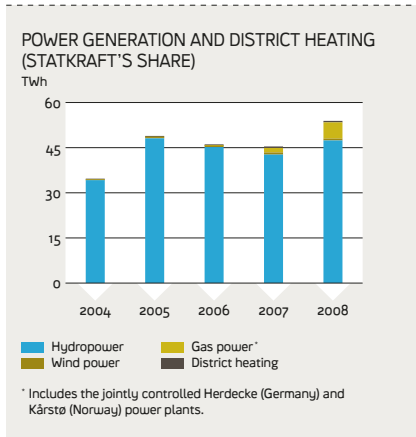
ENVIRONMENTALLY FRIENDLY ENERGY

Production of environmentally friendly energy represents Statkraft's most important contribution to the environment. 89.7% of Statkraft's energy production in 2008 was based on renewable sources. The incorporation of 63 new power plants and district heating plants as of 31 December 2008 has made Statkraft Europe's largest producer of renewable energy. The percentage of renewable power, measured in terms of installed capacity, is now 86%.

Neither hydropower nor wind power production involve emissions of hazardous substances, CO₂ or other greenhouse gases. While the company's gas-fired power plants generate greenhouse gas emissions, these still represent an environment-friendly alternative in comparison with other carbon-based energy sources. District heating is produced using various energy sources, including a relatively small proportion of oil and non-renewable waste. In 2008 82% of district heating produced was based on non-fossil fuel.

Efficiency improvement projects raised the production capacity at Statkraft's hydropower plants by 45 GWh in 2008.

Energy efficiency improvements in collaboration with industry represent a new and prioritised focus area for Statkraft. In 2008 a Letter of Intent was entered into with the industrial company Eramet Norway to recycle the energy from the surplus gas at Eramet's smelting plants in Sauda. The project will be able to generate 110 GWh of new electricity per annum from 2011.



Statkraft trades in EUAs (carbon quotas for emission reduction units on the European market) and CERs (Certified Emission Reductions). Statkraft directly participates in projects under the Clean Development Mechanism (CDM) and Joint Implementation Mechanism (JI) of the Kyoto Protocol. Statkraft also offers RECS (Renewable Energy Certificate System) certificates, a scheme whereby customers can pay a premium to purchase guaranteed renewable energy.

ENVIRONMENTAL MANAGEMENT

The subsidiaries Statkraft Energi AS and Statkraft Development AS are certified in accordance with the requirements of the environmental management system ISO 14001:2004. A project designed to develop a uniform environmental management system is now in its final phase, and the system will be implemented across the company in 2009. The environmental management system will include a process map and clear descriptions of main activities such as environmental review, compliance assessments and management review.

ENVIRONMENTAL NON-COMPLIANCES AND ENVIRONMENTAL INCIDENTS

Environmental non-compliances and incidents are systematically recorded and reported to Group management and the board each month.

One serious environmental non-compliance was recorded in 2008. There were no serious environmental incidents during the year. On 27 July a stretch of the Surna river experienced strongly reduced rates of water flow for around 3.5 hours after an unforeseen breakdown at Trollheim Power Plant. Following discussions with the Norwegian Directorate for Nature Management Statkraft engaged the Norwegian Institute for Nature Research (NINA) to evaluate

ENVIRONMENTAL NON-COMPLIANCES AND INCIDENTS

	UNIT OF MEASUREMENT	2008	2007	2006
Serious environmental non-compliances	Number	1	1	0
Serious environmental incidents	Number	0	0	1
Less serious environmental non-compliances	Number	27	32	18

CATEGORY	DESCRIPTION
SERIOUS ENVIRONMENTAL NON-COMPLIANCES	Violations of licence conditions, water flow regulations, legislation, environmental plans and self-imposed requirements that have serious consequences for the environment or the company's reputation.
SERIOUS ENVIRONMENTAL INCIDENTS	Incidents that have serious or potentially serious consequences for the environment or the company's reputation that are not covered by the definition of environmental non-compliances.
LESS SERIOUS ENVIRONMENTAL NON-COMPLIANCES	Violations of licence conditions, water flow regulations, legislation, environmental plans and self-imposed requirements that have moderate or minimal consequences for the environment or the company's reputation.

the biological consequences of the incident for fish. The evaluation revealed that around 20 000 salmon and sea trout alevin could have been stranded. This corresponds to around 3 000 migrating smolt, which in turn represents around 3% of smolt production downstream from the power plant. Statkraft has contributed to the establishment of two funds intended to reinforce and maintain salmon and sea trout populations in the Surna river. In 2007 the company decided to construct a by-pass valve at Trollheim Power Plant to safeguard water flow in the Surna river in the event of any unexpected stoppages in power production. The by-pass valve is scheduled to enter operation at the end of 2009.

27 less serious environmental non-compliances were recorded in 2008. Most of these related to brief violations of minimum water flow requirements.

Ten sea eagles were found dead after having collided with wind turbines in 2008. Nine of the eagles were found at Smøla and one at Hitra. This is the highest number of dead sea eagles found since the Smøla Wind Farm entered operation in 2002. Statkraft has, since 2003, contributed to a research project that aims to identify measures to reduce the risk of birds flying into turbines.

GREENHOUSE GAS EMISSIONS

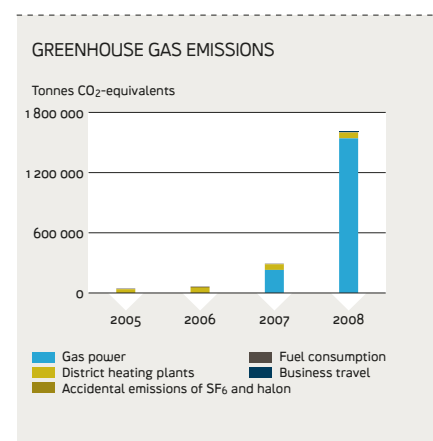
Statkraft's greenhouse gas emissions totalled 1 605 000 tonnes in 2008. This represents an increase from 292 000 tonnes in 2007. This increase is primarily attributable to the fact that 2008 was the first full year that CO₂ emissions from the gas-fired power plant at Knapsack in Germany have been included in the sustainability statement.

The sources of emissions of greenhouse gases in 2008 were gas-fired power plants, district heating plants, transportation (fuel consumption in own activities and business journeys by car or plane) and accidental emissions (halon and SF₆ emissions).

Actual emissions of CO₂ from the Knapsack's gas-fired power plant in 2008 amounted to 1 541 300 tonnes. Incineration in district-heating plants resulted in emissions of 56 400 tonnes of fossile CO₂, while transportation and accidental emissions contributed 7 000 tonnes of CO₂-equivalents.

Two further gas-fired power plants have been incorporated into Statkraft's portfolio since 31 December 2008. This will result in an increase in the Group's overall CO₂ emissions.

The Group will purchase carbon quotas on the voluntary carbon market to offset greenhouse gas emissions from fuel consumption, business journeys and accidental emissions



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in 2008, for the part of the business not subject to quota schemes.

The Group's policies for procuring vehicles and business travel were revised in 2008 in order to more accurately reflect the Group's environmental and safety requirements.

Since 2003 Statkraft has been involved in research into emissions of greenhouse gases from dammed reservoirs. Particular emphasis is being placed on establishing an internationally recognised measuring methodology. In 2008 Statkraft and SN Power established the SN Power Statkraft GHG Initiative, a project where results from measurements in Norwegian reservoirs can be compared with studies carried out on reservoirs in Laos and the Philippines.

WATERCOURSE MANAGEMENT

Environmentally friendly operation of power plants is a key feature of watercourse management, which also involves measures such as river adjustments, the stocking of suitable spawning and growth substrates, restocking, the construction of fish ladders and improvement of thresholds and migration barriers. The reintroduction of salmon to the Rena and Røssåga watercourses following treatment for gyrodactylid infection is one of the successful measures that Statkraft has helped implement together with the administrative authorities and local players. Statkraft operates seven fish hatcheries, and is a large producer of fish for restocking in Norway. In 2008 the Group released 732 000 salmon, sea trout, char and inland trout stocking fish and planted close to 1.8 million eggs. Statkraft also performs extensive monitoring of the fish population, implements biological surveys on fish and operates two of Norway's three salmon gene banks.

Statkraft aims to use the Riverbank project, which has a budget of NOK 15 million and will run from 2007 to 2012, to produce better

CONSUMPTION				
	UNIT OF MEASUREMENT	2008	2007	2006
Electricity*	Gwh	828	843	213
Of which pumped-storage power	Gwh	595	598	-
Of which electric boilers for district heating plants	Gwh	118	107	-
Of which other operations	Gwh	115	-	-
Of which certified renewable (RECS)	%	100	100	100
Fossil fuels				
Natural gas, gas-fired power plants	Mill. Nm ³	767.4	116.1	-
Fuel gas, district heating plants	Tonnes	5 100	5 500	-
Fuel oil	Tonnes	800	2 200	-
Engine oil**	Tonnes	1 000	900	1 300
Other fuel				
Waste for district heating plants	Tonnes	163 800	138 500	-
Biofuel	Tonnes	5 700	5 200	-
Transformer and lubricating oils	Litres	4 700	6 800	10 388

* Does not include energy losses at transformer stations and power lines. Electric boilers are included from 2007.
** Includes consumption of fuel for own equipment and machinery.

conditions for fish and outdoor interests in several of the Norwegian watercourses where Statkraft is the regulator. The project comprises over 50 measures, including the restocking of large sea trout at Totak in Telemark to improve fishing opportunities and the restoration of a stone cottage at Hardangervidda so that this can be used for overnight stays.

USE OF ENERGY AND RESOURCES

In 2008 power consumption at Statkraft, excluding energy losses at transformer stations and along power lines, totalled 828 GWh. This figure includes energy consumption of 713 GWh connected to pumped-storage power and electric boilers. All the Group's electricity consumption is certified as renewable in accordance with RECS.

The Power Generation business unit has established a target of reducing its own power consumption (excluding pump-power) by 10% compared with 2005/2006 by 2010. All power plants have now identified and implemented energy efficiency measures, one example measure is replacement of light sources and installation of light control systems in all Norwegian plants.

WASTE MANAGEMENT

In 2008 Statkraft generated 34 300 tonnes of hazardous waste, of which the majority (33 800 tonnes) comprised slag, filter dust and filter cake from the district heating plant in Trondheim. All hazardous waste is disposed of in line with applicable regulations. The percentage of recycling (material and heat recycling) of other waste produced in the Generation and Markets segment was 81% in 2008. Statkraft Energi has now entered into a framework agreement with a waste management company which will help ensure that all waste is managed in a more uniform and environment-friendly manner. Most light fittings containing PCB condensers have now been replaced. The remainder will be phased out during 2009, in line with a phasing out plan approved by the Norwegian Pollution Control Authority.

Waste management for heavy maintenance work, refurbishment and construction projects is followed up through separate environmental plans.

LOCAL POLLUTION

The company's activities can result in some accidental emissions of gases, primarily halon and SF₆. There is also a possible risk of oil spillages from vehicles, construction machinery and production equipment.

Noise can occur locally in connection with transportation and the operation of plants. The operation of gas-fired power plants will, in addition to CO₂ emissions, result in emissions of NO_x.

WASTE				
TYPE OF WASTE	UNIT OF MEASUREMENT	2008	2007	2006
Hazardous waste	Tonnes	34 287	26 765	-
Of which from waste incineration*	Tonnes	33 811	26 393	-
Of which other hazardous waste	Tonnes	476	372	267
Other waste	Tonnes	1 640	1 268	2 154
Percentage of other waste recycled**	%	81	86	74
Of which material recycling	%	67	-	-
Of which energy recycling	%	14	-	-

* Consists of slag, filter dust and filter cake. Reported since 2007.
** Only includes the Generation and Markets segment.

HEALTH AND SAFETY

4.6

H1 for 2008



- NINE FATALITIES AT ASSOCIATES
- 20 LOST-TIME INJURIES IN THE GROUP IN 2008, COMPARED WITH 25 IN 2007
- STABLE, LOW SICKNESS ABSENCE RATE AT 3.9%

HEALTH AND SAFETY MANAGEMENT

Health and safety considerations characterise all activities in the Statkraft Group, and the Group aims to experience zero injuries. Health and safety aspects shall be identified and assessed ahead of all operational and maintenance activities. Consideration of health and safety also represents an important element of project development and selection of partners and suppliers. All injuries and hazardous conditions are recorded, analysed and followed up in a systematic manner.

A Group-wide management system for health and safety that satisfies the requirements of OHSAS 18001 is being prepared. This work comprises a number of initiatives including the establishment of shared requirements for categorisation, analysis and follow-up of HSE non-compliances in the Group, along with revision of the Group's HSE requirements for partners and suppliers.

Health and safety matters are reported to Group management and the board each month through the Group scorecard.

FATALITIES AT ASSOCIATES

The Norwegian company SN Power has an indirect ownership share of 43% in the Allain Duhangan construction project (192 MW hydropower) in India. In 2008 Statkraft and Norfund each owned 50% of SN Power, while Statkraft's shareholding increased to 60% from 13 January 2009.

As of the middle of March 2009, a total of 13 people had died at the Allain Duhangan site since the start of construction in 2006. Six of the fatalities occurred in 2008. Most of the fatalities were connected to transportation activities, landslides and avalanches. The plant is located in difficult and rugged terrain.

Both Statkraft and SN Power have made it clear to the Allain Duhangan project that this situation is unacceptable, and SN Power has stepped up its initiatives to improve safety and environmental management on the project. In 2008, with the support of Statkraft, SN Power carried out two audits of HSE conditions on the project which resulted in the implementation of a series of measures, including the engagement of experts from Norway's Geotechnical Institute to assist in securing areas at risk of landslides. An HSE manager has also been appointed to the project in order to continuously follow up the project's HSE performance.

In addition to the fatalities at the Allain Duhangan project, two fatalities occurred at the La Higuera (155 MW hydropower) and La Confluencia (158 MW hydropower) construction projects in Chile. Both fatalities occurred in connection with the transportation of personnel. A ten-year old was also killed whilst attempting to retrieve a football from the inlet duct at a smaller power plant owned by SN Power in Peru.

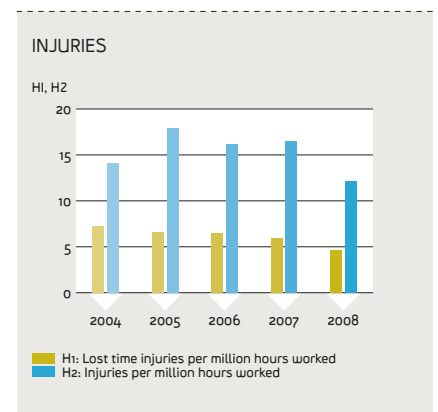
Statkraft is continuously working to increase understanding of and compliance with safety requirements on all development projects in which the Group is involved. Health and safety work and performance is followed up directly on the projects and by the respective boards.

INJURIES AND HAZARDOUS CONDITIONS

Statkraft has a goal of zero injuries in connection with the Group's activities. The H1 indicator (number of lost-time injuries per million working hours) was 4.6 (5.9), while the H2 indicator (number of injuries per million working hours) was 12.1 (16.5). The improvement is generally accredited to an increased focus on reporting and analysis of incidents and hazardous conditions, along with more stringent requirements regarding examination of hazardous conditions. Despite this, the results remain unsatisfactory. A total of 53 injuries were recorded in 2008, of which 20 were lost-time injuries. A further five lost-time injuries were recorded among the Group's suppliers.

The Group has expressed a desire to learn from injuries and hazardous conditions. Consequently, significant attention is awarded to establishing a safety culture characterised by openness, collaboration and compliance. 4 524 hazardous conditions were recorded in the Group in 2008.

In 2008 Statkraft was fined NOK 100 000 after an apprentice was seriously injured whilst working at Smøla in 2006. Statkraft has accepted the fine and agrees with the police's conclusion that the work had not been planned in a responsible manner.



SICKNESS ABSENCE

The sickness absence rate in the Statkraft Group has been stable in recent years and was 3.9% in both 2008 and 2007. Statkraft aims to achieve a sickness absence rate of less than 4%. All the Group's Norwegian companies participate in the government's Inclusive Working Life (IA) scheme, which involves the active follow-up of those on sick leave and close collaboration with the company's health service.

Statkraft wishes to promote good health among all its employees, and against this background continued the "Energy for life" project in 2008. The project aims to promote better health through higher levels of physical activity.

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ORGANISATION

15.1%

growth in number of full-time equivalents from 31.12.07 to 31.12.08



- **SIGNIFICANT GROWTH – 2 633 FULL-TIME EQUIVALENTS AS OF 31 DEC 2008 (2 287 AS OF 31 DEC 2007)**
- **EXTENSIVE ORGANISATIONAL CHANGE 1 JULY 2008**
- **NORWAY'S THIRD-BEST WORKPLACE IN THE "GREAT PLACE TO WORK" SURVEY**

GROWTH AND CHANGE

The Statkraft Group is currently experiencing strong international growth. During 2008 the number of full-time equivalents increased from 2 287 to 2 633, including 183 full-time equivalents acquired through the E.ON agreement. As of 31 December 2008 the Group employed staff in 15 countries which together represented 35 different nationalities. The Group was reorganised as of 1 July 2008 to cater for Statkraft's international focus, while the Group's HR support unit was restructured to accommodate the new business structure. All business and support units now have their own HR partner and new departments have been established for strategic HR, recruitment and induction.

EQUALITY AND DIVERSITY

With a percentage of female employees of 24% (the same figure as in 2007), gender distribution at Statkraft is on a par with the rest of the Norwegian energy sector. The proportion of women among new employees was 26%. 21% of management positions are filled by women. One of the six members of the Group management team is a woman. The percentage of women on the board is 44, while three of six shareholder representatives and one of three employee representatives are women. The average salary for women is 93% of the average salary for men. This

reflects the fact that Statkraft employs more men than women in more senior positions.

Statkraft's life-phase principles for employees over 62 provide the Group with increased flexibility and encourage employees to remain in their positions for longer.

COMPETENCE

The range of expertise at Statkraft's disposal is well suited to the Group's activities. Around 38% of the employees have college or university level training and around 31% are skilled technicians. The average age of Statkraft's employees is 45. The average service time is 14 years, while staff turnover in 2008 was 4.0%.

The Group's international growth is creating demand for new types of expertise, and Statkraft has stepped up its focus on competence development to cater for this development. 2009 will see the development and implementation of the "Statkraft University" concept, which will offer courses of varying durations covering a number of different areas. Arrangements for closer follow-up of individual employees' expertise and training requirements will also be put in place.

Securing adequate recruitment of skilled workers for the Group's power plants is expected to prove a challenge over the long term. Statkraft has been running a number of apprentice schemes for many years to meet this challenge, and employed 48 apprentices in 2008.

Statkraft aims to be among the top ten preferred companies for recent graduates from key recruitment courses at universities and colleges in Norway. In a survey of around 10 000 final-year students carried out by Universum Graduate Survey in 2008 Statkraft was ranked 35th among business students and 10th among technology students. Statkraft's two-year trainee programme is an attractive offering, and a total of 35 trainees worked in various parts of the Group in 2008.

In 2008 Statkraft was voted Norway's third-best workplace among companies employing more than 250 staff. The survey was performed by the Great Place to Work Institute Norway, and Statkraft scored particularly highly in the areas of respect, care, good welfare schemes and flexible working hours.



ORGANISATION AND LEADERSHIP EVALUATION

Statkraft performs an annual survey of its organisation and managers covering a number of areas including strategy, targets, expertise, organisational matters and the working environment. The overall result is reported to Group management and board via the Group scorecard.

The survey was carried out for the whole Group for the first time in 2008 and returned very good results – 4.1 on a scale from 1 to 5. At 87%, the response rate was very high.

MANAGEMENT DEVELOPMENT

A total of 55 managers participated in one of the Group's three manager programmes (Just, Next and Reflexion) tailored to suit different management levels, in 2008. These programmes are continually enhanced and adapted to meet new challenges, including those presented by international growth. 301 employees participated in Group project management training in 2008.

A more systematic and comprehensive follow-up and evaluation of managers in respect of both performance and behaviour is currently under development. A pilot programme on management assessment was carried out in 2008 and further implementation is being scheduled.

INCENTIVE SCHEMES

Statkraft operates a Group-wide collective variable salary scheme for all employees with the exception of employees at Fjordkraft, who have a separate agreement. In 2008 the scheme was based on an operational index and an index for recording non-compliances and improvement proposals. Each of the indices can result in a maximum payment of NOK 15 000 per annum per employee.

PREFERRED EMPLOYER RANKING IN NORWAY

PREFERRED EMPLOYER AMONG	UNIT OF MEASUREMENT	TARGET	2008	2007	2006
Business students, total	Ranking	-	43	53	33
Business students, selected courses*	Ranking	10	35	-	-
Technology students, total	Ranking	-	15	28	41
Technology students, selected courses*	Ranking	10	10	-	-

* Courses identified as especially relevant for Statkraft.

Source: Universum Graduate Survey

NOK 5 000–28 000 was paid out in collective variable salaries in the various companies in 2008.

Individual collective variable salaries are based on performance and compliance with Statkraft's vision and values. An average of 3.5% of companies' total basic salary expenses can be paid as individual bonuses for the years 2006, 2007 and 2008, subject to a 10% salary ceiling for each individual employee.

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Income Statement

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NOK million	NOTE	2008	2007
Sales revenues	7	24 205	16 544
Other operating revenues	8	856	1 075
Gross operating revenues		25 061	17 619
Energy purchases	9	-4 416	-2 680
Transmission costs		-1 326	-939
Unrealised changes in value of energy contracts	10	4 282	-739
Net operating revenues		23 601	13 261
Salaries and payroll costs	11	-1 853	-1 604
Depreciation, amortisation and impairments	17, 18	-1 553	-1 639
Property tax and licence fees	13	-1 077	-983
Other operating expenses	14	-2 500	-1 793
Operating expenses		-6 983	-6 019
Operating profit		16 618	7 242
Share of profit from associates and joint ventures	19	935	2 613
Financial income	15	26 435	400
Financial expenses	15	-3 066	-1 717
Unrealised changes in value currency and interest contracts	15	-3 102	227
Net financial items		20 267	-1 090
Profit before tax		37 820	8 765
Taxes	16	-4 558	-2 133
Net profit		33 262	6 632
Of which minority interest		250	166
Of which majority interest		33 012	6 466

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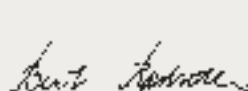
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Balance Sheet

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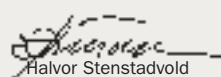
NOK million	NOTE	31.12.08	31.12.07
ASSETS			
Intangible assets	17	2 481	1 589
Property, plant and equipment	18	74 553	56 228
Investments in associates and joint ventures	19	14 387	32 131
Other non-current financial assets	20	25 169	2 944
Non-current assets		116 590	92 892
Inventories	21	699	303
Receivables	22	11 646	5 094
Short-term financial investments	23	349	347
Derivatives	24	12 806	8 326
Cash and cash equivalents	25	2 209	3 150
Current assets		27 709	17 220
Assets		144 299	110 112
EQUITY AND LIABILITIES			
Paid-in capital		31 569	31 569
Retained earnings		37 983	10 032
Minority interests		2 772	2 817
Equity		72 324	44 418
Provisions	26	11 327	10 831
Long-term interest-bearing liabilities	27	30 639	30 361
Long-term liabilities		41 966	41 192
Short-term interest-bearing liabilities	28	10 152	6 923
Taxes payable	16	2 735	1 583
Other interest-free liabilities	28	5 823	3 542
Derivatives	24	11 299	12 454
Current liabilities		30 009	24 502
Equity and liabilities		144 299	110 112

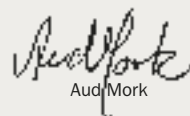
The Board of Directors of Statkraft AS
Oslo, 18 March 2009


Berit Rødseth

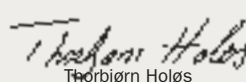

Arvid Gundeckjøn
Chair


Ellen Stensrud
Deputy chair



Halvor Stenstadvoid


Aud Mork


Egil Nordvik


Thorbjørn Holøs


Astri Botten Larsen


Odd Vanvik


Bård Mikkelsen
President and CEO

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NOK million	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	37 820	8 765
Profit/loss on sale of non-current assets	-12	-9
Depreciation, amortisation and impairments	1 553	1 639
Profit from the sale of shares	-25 591	-
Share of profit from associates and joint ventures	-935	-2 613
Unrealised changes in value	-1 180	512
Taxes	-1 775	-2 301
Cash flow from operating activities	9 880	5 993
Change in long-term items	2 159	-370
Changes in short-term items	-3 119	678
Dividend from associates	2 579	1 419
Net cash flow from operating activities	A	7 720
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment, maintenance	-796	-571
Investments in property, plant and equipment, new capacity	-1 196	-1 443
Proceeds from sale of non-current assets	13	25
Loans to third parties	-486	-212
Investments in other companies	-581	-1 800
Net cash flow from investing activities	B	-4 001
CASH FLOW FROM FINANCING ACTIVITIES		
New debt	6 525	11 786
Repayment of debt	-7 551	-6 236
Capital increase	-	24
Dividend and Group contribution paid	-8 396	-7 895
Net cash flow from financing activities	C	-2 321
Net change in cash and cash equivalents during the year	A+B+C	1 398
Currency effect on cash flows	28	-6
Cash and cash equivalents 01.01	3 150	1 758
Cash and cash equivalents 31.12	2 209	3 150
Unused committed credit lines	8 000	5 000
Unused overdrafts facilities	400	400

The swap agreement with E.ON AG was settled without cash consideration in 2008.

Statement of Changes in Equity

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NOK million	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED TRANSLATION DIFFERENCES	TOTAL MAJORITY	MINORITY INTEREST	TOTAL EQUITY
Equity 01.01.07	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 deviations pensions	-	-118	-	-118	-39	-157
Equity holdings in associates	-	-357	-	-357	-	-357
Dividend and Group contribution paid	-	-5 598	-	-5 598	-417	-6 015
Changed Group contribution previous years	-	404	-	404	-	404
Capital increases	-	-	-	-	24	24
Change as a result of acquisitions	-	-2	-	-2	161	159
Equity 31.12.07	31 569	10 078	-46	41 601	2 817	44 418
Net profit for the period	-	33 012	-	33 012	250	33 262
Change in translation differences on investments	-	-	3 364	3 364	-18	3 346
Change in value of hedging instruments	-	-	-12	-12	-	-12
Translation differences included in profit calculations	-	-	-931	-931	-	-931
Estimate deviation pensions	-	-417	-	-417	-100	-517
Equity holdings in associates	-	-229	-	-229	-	-229
Dividend and Group contribution paid	-	-6 836	-	-6 836	-197	-7 033
Capital increases	-	-	-	-	20	20
Equity 31.12.08	31 569	35 608	2 375	69 552	2 772	72 324

At the board meeting of 18 March 2009 it was proposed that an amount of NOK 10 000 million be distributed to the parent company Statkraft SF as a Group contribution.

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ACCOUNTING POLICIES

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.

Basis of preparation of the financial statements Statkraft's consolidated financial statements for 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as approved by the EU.

Changes to accounting policies, new accounting standards and interpretations These financial statements have been prepared in accordance with all mandatory standards issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Standards adopted in 2008:

- IFRS 8 – Operating Segments. The standard requires segment allocation to be based on management reporting. The standard was effective on 1 January 2009. However, Statkraft used the opportunity to implement the standard early in connection with the internal reorganisation effective from 1 July 2008.
- International Accounting Standard (IAS) 23 – Borrowing Costs. The standard has been updated and, prescribes the mandatory capitalisation of construction-related borrowing costs effective from 1 January 2009. Statkraft is already applying this policy.

Relevant standards and interpretations issued at the time of presentation of the financial statements, however not adopted by Statkraft:

- IFRS 3 – Business Combinations. This standard has been updated and will, affect the way in which acquisitions are recognised effective from 1 July 2009. The main effects

relate to the presentation and measurement of assets and liabilities connected to acquisition transactions and the treatment of transaction costs. The standard will thus affect Statkraft's future acquisitions.

- IFRIC 12 – Service Concession Arrangements. The interpretation provides guidance on the recognition of private companies' involvement in public infrastructures.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. The interpretation has been updated and will impact how the hedging of net investments in foreign operations can be treated as hedge accounting due to the fact that the hedging instrument is a financial instrument held by the same foreign operation that is identified as a hedged item.
- IFRIC 18 – Transfers of Assets from Customers. The interpretation will impact the manner in which assets transferred from customers are recognised.
- Amendment to IAS 27 – Consolidated and Separate Financial Statements. The amendment to the standard addresses the presentation of the parent company financial statements compared with the consolidated financial statements.

The amendments to IAS 27, IFRIC 12, IFRIC 16 and IFRIC 18 have yet to be approved by the EU. It is expected that these will have consequences for Statkraft, though the exact effects have not yet been assessed.

Other new standards and interpretations are not expected to have any significant consequences for Statkraft.

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 POLICIES

Consolidation and the consolidated financial statements
The consolidated financial statements show the overall finan-

cial 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 forms the basis for determining 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 completion date. The cost price of shares in subsidiaries is eliminated against equity at the date of acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair value. Any differences 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 policies, are shown on a separate line in the consolidated income statement. Such investments are classified as non-current assets in the balance sheet and are recognised at cost price adjusted for the accumulated share of the companies' profit or loss, dividends received, currency adjustments, and equity holdings in the companies.

The accounting policies applied for the acquisition of associates and joint ventures are the same as those applied 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 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 accruals 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 fair value 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 activities 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 a revenue surplus/shortfall. Revenue surpluses and shortfalls are not recognised in the balance sheet. The size of this is disclosed in Note 41.

Dividend Dividends received from companies other than subsidiaries, associates and joint ventures are recognised in income to the extent that the distribution of the dividend has been finally declared 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 proceeds with the residual book value of the sold operating 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 depreciation and amount recognised in the balance sheet. Subsequent impairments 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 in foreign currencies are valued at the exchange rate in effect 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
Instruments compulsorily valued at fair value through profit or loss Derivatives are financial instruments that must be valued at fair value in the balance sheet. Other financial instruments held for trading purposes must also be valued 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 change in the value of hedging instruments will be offset by a corresponding change in the value of the hedging object. In the case of cash

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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 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** 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 remains the same over the entire term of the instrument.
- 3) **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 at fair value through profit or loss, or are designated as available for sale.
- 4) **Available-for-sale assets** are assets that are designated as available for sale, or which are not included in any of the above categories.
- 5) **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 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 instruments in cases where an instrument qualifies for recognition in more than one category of instruments.

Instruments compulsorily valued at fair value through profit or loss Derivatives must always be recognised in the category designated at fair value through profit or loss. Financial contracts for the purchase and sale of energy and CO₂ quotas must always be designated as derivative financial instruments. Physical contracts for the purchase and sale of energy and CO₂ 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 at fair value through profit or loss. Physical contracts for the purchase and sale of energy, CO₂ 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 voluntarily designated 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 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 within equity instruments connected to CO₂ fund investments are to be automatically designated as such. Statkraft will normally not designate financial liabilities 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 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 power exchanges 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 contracts are presented on a separate line under revenues, while changes in the value of interest rate and foreign currency contracts are presented on a separate line under financial items.

Taxes

General Group companies that are engaged in power generation in Norway are subject to the special rules for 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 year's taxable income. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the values for accounting and taxation purposes and the effect of tax losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the asset will be realised in the future. Tax related to equity transactions is 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 tax can be carried forward with interest to subsequent years, and is recorded as prepaid tax.

Resource rent tax Resource rent tax is a profit-dependent tax that 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 a tax-free allowance are deducted from the calculated revenue in order to arrive at the net resource rent revenue tax base. The tax-free allowance is set each year on the basis of the taxable value of the power plant's operating assets, multiplied by a normative interest rate set by the Ministry of Finance. The normative interest rate for 2008 was set at 5.2%. The regulations for establishing resource rent revenue were changed with effect from the 2007 fiscal year. From 2007 onwards 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 fiscal year or previous years are 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 linked to other temporary differences are calculated by power plant on the basis of whether it is probable that the deferred tax asset will be realised 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 capitalised to the extent that a future financial benefit can be identified 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 impairments. 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 recog-

nised 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 decommissioning obligations, with the balancing entry to increase the recognised value of the relevant investment, which is subsequently depreciated over the licence period.

Costs incurred for own plant 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 are 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 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.

Impairments Property, plant and equipment and intangible assets that are depreciated 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 are subject to an annual impairment test. Impairments are 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, non-current assets are grouped into the lowest level of identifiable assets that can generate independent cash flows (cash-generating units). With the exception of goodwill, the possibilities of reversing previous impairment on non-current assets are assessed at each reporting date.

Inventories CO₂ 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 CO₂ quotas are deemed to be held for trading purposes and are recognised as inventories. Inventories of CO₂ 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 the FIFO (first in, first out) method.

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 margin

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payments of derivatives connected with financial activities (cash collateral) is recognised in the balance sheet.

Equity Dividends proposed at the time of approval of the financial statements are classified as equity. Dividends are reclassified as current liabilities once they have been declared.

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 present values 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 as 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 within the industry for concessionary power contracts with financial settlement differs. Statkraft has elected not to include such concessionary contracts in the financial statements. The capitalised value of future concessionary power obligations is estimated and reported in Note 2.

Licence fees are paid annually to central and local government authorities for the increase in generating capacity that is obtained from regulated watercourses and catchment transfers. These licence fees are charged as expenses as they accrue. The value of future licence fees recognised in the balance sheet is estimated and disclosed in Note 13.

The Group pays compensation to landowners for the right to use waterfalls and land. In addition, compensation is paid to others for damage caused to forests, land, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensational 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 provision.

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 recognised in the balance sheet which relates to the defined benefit scheme is the present value of the future retirement benefits that 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 have retrospective effect, i.e. where the earning of rights is not contingent on future service, are recognised directly in the income statement. Changes that are not issued with retrospective effect are recognised in the income statement over the remaining service time.

Net retirement benefit fund assets for overfunded schemes are classified as non-current 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 total of the retirement benefits accrued during the period, the interest on the estimated liability and the projected yield on pension fund assets.

Defined contribution schemes A defined contribution scheme is a retirement benefit scheme where the Group pays fixed contributions to a fund manager without incurring further obligations for Statkraft once the payment has been made. The payments are expensed as salaries and payroll costs.

Segments Statkraft has implemented an internal reorganisation, and in this connection chose to implement IFRS 8 early. The mandatory deadline for the application of the standard was 1 January 2009. The figures for 2007 have been restated for comparative purposes.

Following the reorganisation, the Group now reports in accordance with the way in which Group management makes, follows up and evaluates its decisions. This differs from the previously adopted segmentation. The operating segments have been identified on the basis of internal management information that is periodically reviewed by management and used for resource allocation and key performance review.

The new organisational structure was chosen to accommodate the major changes arising from increased growth and internationalisation. The aim is to achieve a more flexible and dynamic organisation where new prioritisations and growth areas can be highlighted and achieve visibility as separate business units with clear performance targets. At the same time the Group is establishing a basis for an effective management and control structure.

Cash flow statement The cash flow statement has been prepared using the indirect method. The statement starts with the Group's result for the year in order to show cash flow generated by operating activities, investing activities and financing activities respectively. Dividends paid to the owner and to minority interests are presented under financing activities.

02

ACCOUNTING
JUDGMENTS,
ESTIMATES AND
ASSUMPTIONS**ACCOUNTING JUDGMENTS**

In applying the Group's accounting policies, the company's management has exercised judgement in the following areas of material importance with regard to the amounts that have been recognised in the consolidated income statement and 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 net financially settled. Using its best judgement, 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 the income statement, while those contracts that are not covered by the definition are mainly recognised on delivery.

Concessionary power contracts Recognising concessionary power contracts with financial settlement in accordance with IAS 39 would have led to these contracts being recognised at fair value in the balance sheet with changes in fair value being recognised through the income statement. At the end of 2008 concessionary power contracts with financial settlement had a total volume of around 500 GWh and an average price of NOK 92/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 2008 would have been around NOK -6 700 million, while the change in fair value recognised in 2008 would have been around NOK -2 500 million.

ESTIMATES AND ASSUMPTIONS

The most important assumptions regarding future events and other significant sources of uncertainty in relation to the estimates at the balance sheet date that can have a significant risk of material changes to the amounts recognised in future financial periods are discussed below.

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

Impairments Significant investments are made in property, plant and equipment, intangible assets, associates and joint ventures. These non-current 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 or 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.

Deferred tax assets Deferred tax assets associated with 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 period of ten years. The period 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 judgement in making assessments relating to future power prices and other conditions that determine future resource rent revenues.

Pensions Calculation of pension liabilities involves the use of judgement and estimates across a range of parameters. Refer to Note 12 for a more detailed description of the assumptions used. 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-party analyses and other methods that are considered appropriate.

03

IMPORTANT EVENTS
AND EVENTS SINCE THE
BALANCE SHEET DATE**2008**

Asset swap deal On 31 December Statkraft AS and E.ON AG completed an asset swap deal. The swap deal involved E.ON AG acquiring Statkraft's 44.6% shareholding in E.ON Sverige AB together with a hydropower plant in Sweden in exchange for 40 hydropower plants and five district heating plants in Sweden, two gas-fired power plants and 11 hydropower plants in Germany, three hydropower plants in the United Kingdom, along with a gas storage contract and a power delivery contract. The acquired production assets have an installed capacity of around 2 500 MW. In addition, Statkraft received a 4.17% shareholding in E.ON AG. The total value of the transaction was around EUR 4.5 billion. The fair value at the time of acquisition amounted to NOK 45.3 billion. This deviates slightly from the previously stated amount due to currency exchange rates and estimates of pro and contra settlements, and gave Statkraft a recognised profit after tax of NOK 25.6 billion.

Increased shareholding in Statkraft Norfund Power Invest AS (SN Power) In November Statkraft AS and Norfund agreed on a new ownership structure for SN Power. The agreement was effective from 13 January 2009 and Statkraft increased its shareholding to 60% through the purchase of 10% of Norfund's shareholding. Statkraft was offered a further option to increase

its shareholding to 67% at market price, by no later than 2015. Norfund was granted an option to sell all or some of its shares during the same period. A separate company was also established to focus on initiatives in Africa and Central America, in which Norfund participates as a direct owner alongside SN Power.

New industrial power agreement In October Statkraft and Boliden Odda signed two long-term, commercial industrial power contracts for the period 2009 to 2030. The agreement for the delivery of around 20 TWh is the largest industrial power agreement Statkraft has entered into since 1998. As part of the agreement Statkraft will acquire Boliden Odda's shares in AS Tyssefaldene and Statkraft's shareholding in the company will increase to 60.17%. The agreement will enter into force as soon as a number of matters, including tax conditions, have been resolved.

Hydropower Leirfossene power plant in Trondheim was opened in October. The new hydropower plant replaces two old power plants and will result in an increase in annual production from 150 GWh to 193 GWh.

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In 2008 Småkraft AS commissioned five small-scale hydropower plants. By the end of the year 12 small-scale power plants were in operation with a combined annual production of 129 GWh, and 13 power plants were under construction. During 2008 the company was granted nine new licences and now has a total of 11 construction licences.

In December Statkraft and the Austrian energy group Energi Versorgung Niederösterreich (EVN) signed a licence agreement for hydropower construction in Albania. A joint venture will be established to construct three power plants with a combined installed capacity of 340 MW and an expected annual output of around 1 TWh.

Together with its local partner Aboitiz, Statkraft acquired in 2008 two hydropower plants with a combined capacity of 175 MW in the Philippines.

On 18 March 2009 Statkraft entered into an agreement to purchase 95% of the company Yesil Enerji from the Turkish company Global Investment Holdings. Yesil Enerji has a total portfolio of seven hydropower projects. The entire project portfolio has a planned total installed capacity of 633 MW and an average production capacity of 2.1 TWh per annum. The shares are scheduled to be transferred in June this year. The agreement is subject to the approval of the relevant authorities.

Onshore wind power In August Statkraft and Agder Energi entered into an agreement to establish the company Statkraft Agder Energi Vind DA. The two parties will use the newly established company to implement a joint initiative within onshore wind power in Norway. The collaboration covers all new projects relating to the development, construction, operation and maintenance of wind farms in Norway and their associated power sales. The wind farms that are currently in operation are not covered by this collaboration. The establishment of Statkraft Agder Energi Vind DA is subject to the approval of the competition authorities.

In March Statkraft decided to construct the Blaengwen Wind Farm in Wales, which will have an installed capacity of 23 MW. The construction work started in autumn 2008 and is expected to be finished in early 2010. The wind farm was originally a 50/50 collaboration with the US company Catamount Energy Corporation. However, in March Statkraft acquired Catamount's shareholding, giving Statkraft 100% ownership of the wind farm.

In June, together with its partner GreenPower, Statkraft was awarded a licence for the construction and operation of a wind farm on the west coast of Scotland.

In December Statkraft SCA Vind AB submitted an application for a licence for six wind farms in Sweden, with a total installed capacity of at least 1 100 MW and an expected annual production of around 2.5 TWh. The company is owned 60% by Statkraft and 40% by the Swedish company SCA.

In May and October Statkraft acquired shares amounting to 11.8% in Arise Windpower AB, which develops onshore wind power projects in Southern Sweden and has a wind farm under construction.

In June SN Power decided to start the construction of the company's first wind farm. The wind farm, which will have a total installed capacity of 46 MW, is being constructed in Chile together with a local partner (SN Power shareholding: 80%).

Offshore hydropower In March 2009 Statkraft and Statoil-Hydro entered into a consortium with the UK-based Airtricity and RWE Npower Renewables to build offshore wind power capacity in zones off the United Kingdom coast. The application relates to the British authorities' third round of licence awards.

Solar power At the end of March Statkraft and its joint-venture partner Norsk Solkraft were granted a licence to develop a 3 MW photovoltaic solar energy plant in Italy.

Innovation and new technologies The ocean energy programme in collaboration with leading universities in Norway, Sweden and Denmark continued, with a funding commitment of NOK 80 million over four years.

In March Statkraft signed a collaboration agreement with NorWind in relation to offshore wind power. Under this agreement, NorWind is to complete a concept study for a large-scale, fixed-base offshore wind farm.

In June, together with partners, Statkraft established WindSea AS (49% shareholding), which is developing a concept for offshore wind power based on a floating construction.

Together with two local partners, Statkraft established Thetis Energy Ltd (51% shareholding), which will develop tidal power in Northern Ireland.

Statkraft started construction of the world's first prototype osmotic power plant in Hurum outside Oslo.

Statkraft has entered into collaboration initiatives with several Norwegian industrial businesses for energy optimisation within the industry. A licence application was submitted for an energy recovery plant in collaboration with Eramet Sauda.

2007

New gas-fired power plants Three gas-fired power plants that have 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 around 400 MW. The total construction costs for Statkraft's share amounted to NOK 5.2 billion.

Asset swap deal In October Statkraft AS and E.ON AG signed a letter of intent by which E.ON AG would 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, as well as shares in E.ON AG.

Agreements on power supply and collaboration in the construction of renewable energy In September Statkraft and the Swedish paper and hygienic products company SCA entered into a series of power supply and collaboration agreements 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 will cost approximately NOK 14 billion. The companies will also jointly investigate conditions for possible hydropower projects with a potential of 650 GWh.

Small-scale hydro The Pålbu 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 constructed eight new small-scale hydropower plants (115 GWh per annum in total) during 2007.

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 (2008).

International focus SN Power, which is 50% owned by Statkraft, purchased the Peruvian company Electroandes SA. The acquisition made 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 other 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 made a capital injection of NOK 1 200 million into SN Power in 2007.

New bond loans under the EMTN scheme Statkraft issued four loans under the EMTN scheme. Two loans, amounting to 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, amounting to NOK 1.5 billion each and with respective terms of 3 and 15 years, are quoted on the Oslo Stock Exchange. The new borrowings were made to finance loan maturities and new investments in general.

04

ACQUISITIONS
AND BUSINESS
COMBINATIONS**BUSINESS COMBINATIONS**

Swap deal with E.ON On 24 July 2008 Statkraft AS and E.ON AG entered into a swap deal. In exchange for shares in E.ON Sverige AB Statkraft received renewable and flexible power production assets and shares in E.ON AG. The swap deal has a total value of NOK 45 346 million. On the completion date of 31 December 2008, Statkraft's shareholding in E.ON Sverige AB and a Swedish hydropower plant were exchanged for a third of E.ON Sverige's hydropower production capacity (40 hydropower plants), five Swedish district heating plants, two gas-fired power plants and 11 hydropower plants in Germany, three hydropower plants in the United Kingdom and shares in E.ON AG. Statkraft also received a structured gas storage contract and a power delivery agreement. Statkraft increased its total production capacity by around 2 500 MW, and acquired 217 employees, primarily in connection with acquired business in Germany and district heating business in Sweden.

Following the deal Statkraft will be one of the four largest power generators in Sweden. Increased flexible power production in Germany and the United Kingdom will reinforce Statkraft's position as a significant player in Northern Europe and provide the company with a solid platform for future growth in these core markets.

Prior to the transaction E.ON Sverige AB was 55.365%-owned by E.ON AG, 44.631%-owned by Statkraft AS and 0.004%-owned by other shareholders. The transaction released the major increase in the value of Statkraft's investment in E.ON Sverige AB, and at the same time converted these values to a 100% shareholding in strategic assets in core markets. In addition, some of the value will be transferred to shares in E.ON AG, corresponding to around EUR 2 180 million. Following the transaction Statkraft acquired the following shareholding: Statkraft Sverige Vattendel 3 AB (100%), Harrsele AB (50.57%), Statkraft Värme AB (100%), Statkraft Energy Ltd (100%), Emden Biofuel (30%), Landesbergen Biofuel (50%) and E.ON AG (4.17%).

The voting rights in the acquired companies correspond to the shareholding.

The swap deal was made at fair value and no cash is included in the agreement with the exception of the final settlement which will be made during the first quarter of 2009 and is estimated to amount to NOK 2 300 million in Statkraft's favour. The initial purchase price allocation was made by the Group's own specialists and management, in collaboration with external experts. The allocation for the acquired business is deemed to be provisional pending the completion of the final valuation of the acquired assets and liabilities. The purchase price of the acquired business and assets will also be adjusted following the final settlement.

The total value of the swap deal is NOK 45 346 million. The provisional calculation of the fair value of assets and liabilities included in the swap deal is allocated as follows:

Assets NOK million	Book value at time of acquisition	Fair value investments	Fair value
Goodwill	274	151	425
Property, plant and equipment	4 859	12 273	17 132
Investments in associates	181	-	181
Non-current financial assets	21 285	1 840	23 125
Total non-current assets	26 599	14 264	40 863
Cash	339	-	339
Receivables	2 883	-	2 883
Inventories	73	-	73
Derivatives	1 350	358	1 708
Total current assets	4 645	358	5 003
Purchased assets	31 244	14 622	45 866
Liabilities	405	-	405
Deferred tax	9	106	115
Total liabilities	414	106	520
Net value of purchased assets	30 830	14 516	45 346

Costs connected with the swap agreement were in the region of NOK 98 million, of which NOK 32 million has been expensed.

Goodwill arising on the purchase amounts to NOK 425 million and amounts to NOK 151 million from the district heating business in Sweden and NOK 274 million from the hydropower and gas-fired power plants in Germany. Goodwill connected to the district heating business includes also the customer portfolios. Once the purchase price has been finally allocated, the customer portfolios will be reported as a separate item under intangible assets. Other goodwill relates to synergies and expected future

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earnings capacity that have been identified without being able to link the value to other intangible assets as well as the recognition of deferred tax liabilities at nominal value.

If the swap deal with E.ON AG had been completed on 1 January 2008, the consolidated sales revenues would have been NOK 30 812 million, and the profit after tax NOK 7 681 million. Management has adjusted for the following matters to arrive at these pro forma figures:

- added sales revenues and the result for the acquired entities in Sweden, Germany and the United Kingdom as well as estimated amortisation on the fair value adjustments
- added its share of the dividend from E.ON AG for 2008
- excluded the share of profit from the investment in E.ON Sverige AB
- excluded the profit on the sale of shares under the terms of the swap deal with E.ON AG
- adjusted for costs in connection with the acquisition

ACQUISITION IMPLEMENTED AFTER THE BALANCE SHEET DATE BUT PRIOR TO APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS BY THE BOARD

Statkraft Norfund Power Invest AS (SN Power) On 11 November 2008 Statkraft AS and Norfund agreed a new ownership structure for SN Power. Statkraft increased its shareholding from 50% to 60% on the completion date of 13 January 2009. The increased shareholding in SN Power supports Statkraft's ambitions of developing its role as a global niche player within hydro-power and other renewable energy. SN Power's market positions in Asia and South America provide a strong starting point for a long-term, global focus. Statkraft purchased 10% of the shares in SN Power for NOK 1 100 million. Statkraft also obtained a purchase option for a further 7% of the shares in 2015, or when the investment portfolio in Africa reaches 500 MW.

At the same time Norfund is guaranteed the opportunity to sell its shareholding in SN Power through a put option on its remaining shares in 2010, 2013, 2014 and 2015. The pricing of the shares, and thus Statkraft's financial obligation to Norfund, will be based on guidelines in the agreement calculated in accordance with recognised valuation models at the time of sale. The options will be recognised at fair value in the balance sheet. Norfund can sell up to half of its remaining shareholding in SN Power (20%) to new investors, with the exception of international competitors of Statkraft, before the end of 2010.

Together with Norfund, SN Power will establish a separate company to invest in Africa and Central America, in which SN Power will own 51% and Norfund 49%.

SN Power employs more than 400 staff within power production and construction projects in India, Nepal, Sri Lanka, the Philippines, Peru and Chile, in addition to a head office in Norway and offices in Singapore and Brazil. In 2008 SN Power had 621 MW of operating capacity and 320 MW under construction through wholly and partly owned plants. The ambition is to increase the installed capacity to 4 000 MW by 2015 through acquisitions and expansion in existing and selected new markets.

The purchase sum for the shares including transaction costs was NOK 1 100 million and was settled by NOK 276.4 million in cash and a private placement where Statkraft paid in NOK 2 billion.

The voting rights in the companies that are being acquired correspond to the shareholding. However, some decisions require the approval of all shareholders.

Overview of assets, liabilities and obligations acquired in the acquisition:

Assets	Book value at time of acquisition
NOK million	
Intangible assets	213
Waterfall rights	1 879
Other non-current assets	2 173
Investments in associates	2 403
Total non-current assets	6 668
Cash	1 346
Receivables	640
Total current assets	1 986
Purchased assets	8 654
Long-term liabilities and obligations	2 084
Current liabilities	527
Total liabilities	2 611
Net value of purchased assets	6 043

Prior to the transaction SN Power was accounted for as an associate under the equity method. The company will be fully consolidated in Statkraft's consolidated financial statements from the first quarter of 2009. The acquisition has recently been completed and work on the allocation of the purchase price has started. Since some material values are still to be allocated, fair values have not been reported above.

05
 CONSOLIDATED
 COMPANIES

SHARES IN CONSOLIDATED COMPANIES

Name	Registered office	Country	Parent company	Shareholding and voting rights
Statkraft Energi AS	Oslo	Norway	Statkraft AS	100.00%
Baltic Cable AS	Malmö	Sweden	Statkraft Energi AS	66.67%
Statkraft Carbon Invest AS	Oslo	Norway	Statkraft AS	100.00%
Statkraft Financial Energy AB	Stockholm	Sweden	Statkraft AS	100.00%
Statkraft Germany GmbH	Düsseldorf	Germany	Statkraft AS	100.00%
Statkraft Markets GmbH	Düsseldorf	Germany	Statkraft Germany GmbH	100.00%
Statkraft Markets Hungaria LLC	Budapest	Hungary	Statkraft Markets GmbH	100.00%
Statkraft South East Europe EOOD	Sofia	Bulgaria	Statkraft Markets GmbH	100.00%
Statkraft Romania SRL	Bucharest	Romania	Statkraft Markets GmbH	100.00%
Statkraft Energy Austria GmbH	Vienna	Austria	Statkraft Markets GmbH	100.00%
Statkraft Markets BV	Amsterdam	Netherlands	Statkraft Markets GmbH	100.00%
Statkraft Markets Financial Services GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Holding Knapsack GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Knapsack Power GmbH & Co KG	Düsseldorf	Germany	Statkraft Holding Knapsack GmbH	100.00%
Knapsack Power Verwaltungs GmbH	Düsseldorf	Germany	Knapsack Power GmbH & Co KG	100.00%
Statkraft Holding Herdecke GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Trading GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Germany Drei GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Germany Vier GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Germany Fünf GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Suomi Oy	Kotka	Finland	Statkraft AS	100.00%
Ahviokoski Oy	Kotka	Finland	Statkraft Suomi Oy	100.00%
Statkraft Sverige AB	Stockholm	Sweden	Statkraft AS	100.00%
Graning AB	Stockholm	Sweden	Statkraft Sverige AB	100.00%
Gidekraft AB	Stockholm	Sweden	Statkraft Sverige AB	91.00%
Statkraft Sverige Vättendel 3 AB	Stockholm	Sweden	Statkraft Sverige AB	100.00%
Vättendel ²	Stockholm	Sweden	Statkraft Sverige AB	100.00%
Statkraft Agder Energi Vind DA	Kristiansand	Norway	Statkraft AS	66.00%
Statkraft Development AS	Oslo	Norway	Statkraft AS	100.00%
Smøla Vind AS	Oslo	Norway	Statkraft Development AS	100.00%
Hitra Vind AS	Oslo	Norway	Statkraft Development AS	100.00%
Kjøllefjord Vind AS	Oslo	Norway	Statkraft Development AS	100.00%
Statkraft UK Ltd	London	United Kingdom	Statkraft AS	100.00%
Fairwind Statkraft Orkney Ltd	Orkney	United Kingdom	Statkraft UK Ltd	75.00%
Statkraft Energy Ltd	London	United Kingdom	Statkraft UK Ltd	100.00%
Thetis Energy Limited	Belfast	United Kingdom	Statkraft UK Ltd	51.00%
Statkraft Western Balkans d.o.o.	Belgrade	Serbia	Statkraft AS	100.00%
Statkraft d.o.o. Banja Luka	Banja Luka	Republika Srpska	Statkraft AS	100.00%
Wind Power Bulgaria OOD	Sofia	Bulgaria	Statkraft AS	60.00%
Statkraft Albania LLC	Tirania	Albania	Statkraft AS	100.00%
Statkraft Montenegro	Podgorica	Montenegro	Statkraft AS	100.00%
Statkraft Treasury Centre SA	Brussels	Belgium	Statkraft AS	100.00%
Statkraft SCA Vind AB	Stockholm	Sweden	Statkraft AS	60.00%
Renewable Energies and Photovoltaics Spain S.L.	Malaga	Spain	Statkraft AS	70.00%
Statkraft Värme AB	Kungsbacka	Sweden	Statkraft AS	100.00%
Statkraft Industrial Holding AS				
(previously Statkraft Regional Holding AS)	Oslo	Norway	Statkraft AS	100.00%
Skagerak Energi AS	Porsgrunn	Norway	Statkraft Regional Holding AS	66.62%
Skagerak Kraft AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Skagerak Nett AS	Sandefjord	Norway	Skagerak Energi AS	100.00%
Metor AS ¹	Porsgrunn	Norway	Skagerak Energi AS	60.00%
Telekraft AS	Porsgrunn	Norway	Skagerak Nett AS	100.00%
Skagerak Elektro AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Skagerak Varme AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Skagerak Fibernett AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Grenland Fibernett AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Energimåling AS	Skien	Norway	Skagerak Energi AS	85.00%
Skien Fjernvarme AS	Skien	Norway	Skagerak Varme AS	51.00%
Grunnåi Kraftverk AS	Porsgrunn	Norway	Skagerak Energi AS	55.00%
Trondheim Energi AS	Trondheim	Norway	Statkraft Regional Holding AS	100.00%
Trondheim Energi Fjernvarme AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Kraft AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Kraftsalg AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Nett AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Eiendom AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Sluppen Eiendom AS	Trondheim	Norway	Trondheim Energi Eiendom AS	100.00%
Statkraft Forsikring AS	Oslo	Norway	Statkraft AS	100.00%
Fjordkraft AS ²	Bergen	Norway		
Småkraft AS ³	Oslo	Norway		

¹ Metor AS is owned by Skagerak Energi AS (60% shareholding) and Trondheim Energi AS (40%).

² Fjordkraft AS is owned by Statkraft Regional Holding AS (3.15%), Skagerak Energi AS (48%) and Bergenshalvøens Kommunale Kraftselskap AS (48.85%). Fjordkraft AS has been consolidated since 1 January 2007.

³ 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

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06

SEGMENT INFORMATION

The new segment structure following the Group restructuring in 2008 is specified below:

Generation and Markets The Generation and Markets segment is the largest segment and is responsible for the operation and maintenance of hydropower plants and gas-fired power plants in Europe, as well as physical and financial trading in energy and energy-related products in Europe. These business units are organised into one segment due to the close integration between operations, maintenance and energy optimisation.

Wind Power The Wind Power segment is responsible for developing, constructing, operating and following up the ownership of onshore and offshore wind farms in Norway and the rest of Europe, as well as developing and commercialising offshore wind power technology.

Emerging Markets The Emerging Markets segment is responsible for managing and developing shareholdings outside Europe, and comprises the shareholdings in SN Power (50% shareholding until 13 January 2009), which Statkraft owns together with Norfund. In addition Theun Hinboun Power Company (THPC) is managed on behalf of Statkraft SF. THPC is not included in the segment's financial figures.

Skagerak Energi Activities in Skagerak Energi are followed up as a joint activity by management and reported as a separate segment. This segment focuses on the generation and sale of power and district heating, and distribution grid activities. Other businesses cover fibre and electrical contractor and settlement activities.

Customers The Customers segment comprises the distribution grid, district heating and power sales activities owned by Trondheim Energi.

Industrial Ownership The Industrial Ownership segment is responsible for managing and developing Norwegian shareholdings where Statkraft has an industrial perspective. The segment comprises Fjordkraft, BKK and Agder Energi. The shareholding in E.ON AG has been included in this segment since 31 December 2008.

Other The Other segment includes the Southeast Europe Hydro, Solar Power, Small-Scale Hydro and Innovation and Growth business units, along with the investment in E.ON Sverige AB and group functions and eliminations. The shareholding in E.ON Sverige was sold to E.ON AG on 31 December 2008.

ACCOUNTING SPECIFICATION PER SEGMENT

Segments	Statkraft AS Group	Generation and Markets	Wind Power	Emerging Markets	Skagerak Energi	Customers	Industrial Ownership	Other
2008								
Operating revenues external	25 061	17 447	13	-	2 197	1 684	3 508	212
Operating revenues internal	-	804	235	-	1 037	47	2	-2 125
Gross operating revenues	25 061	18 251	248	-	3 234	1 731	3 510	-1 913
Operating profit	16 618	15 570	276	-1	1 630	171	-78	-950
Share of profit from associates and joint ventures	935	-302	-38	87	-247	9	530	896
Profit before financial items and tax	17 553	15 268	238	86	1 383	180	452	-54
Balance sheet 31 Dec 2008								
Investments in associates and joint ventures	14 387	1 224	91	2 737	88	249	9 884	114
Other assets	129 912	74 936	1 512	200	14 955	4 612	24 729	8 968
Total assets	144 299	76 160	1 603	2 937	15 043	4 861	34 613	9 082
Depreciation, amortisation and impairments	-1 553	-1 069	233	-	-480	-155	-33	-49
Maintenance investments	796	490	-	-	202	84	-	20
Investments in new generating capacity	1 196	567	39	-	214	82	-	294
Investments in shares	581	26	178	200	26	3	-	148
2007								
Operating revenues external	17 619	11 432	16	-	1 808	1 335	2 758	270
Operating revenues internal	-	608	166	-	402	147	-	-1 323
Gross operating revenues	17 619	12 040	182	-	2 210	1 482	2 758	-1 053
Operating profit	7 242	6 700	-32	-	827	184	77	-514
Share of profit from associates and joint ventures	2 613	451	-	158	-108	7	829	1 276
Profit before financial items and tax	9 855	7 151	-32	158	719	191	906	762
Balance sheet 31 Dec 2007								
Investments in associates and joint ventures	32 131	1 318	11	2 173	84	293	10 338	17 914
Other assets	77 981	51 349	1 297	-	14 826	5 934	1 220	3 355
Total assets	110 112	52 667	1 308	2 173	14 910	6 227	11 558	21 269
Depreciation, amortisation and impairments	-1 639	-917	-68	-	-433	-143	-33	-45
Maintenance investments	571	316	-	-	207	48	-	-
Investments in new generating capacity	1 443	967	16	-	163	221	-	76
Investments in shares	1 800	462	-	1 200	129	8	-	1

SPECIFICATION PER PRODUCT

Refer to Note 7.

SPECIFICATION PER GEOGRAPHICAL AREA

External sales revenues are allocated on the basis of geographical origin of generating assets or activities.

Non-current assets exclude financial instruments, deferred tax and pension assets and are allocated on the basis of country of origin of generating assets or activities.

Geographical areas Amounts in NOK million	Statkraft AS					
	Group	Norway	Germany	Sweden	Finland	Other
2008						
External sales revenues	24 205	19 424	4 211	156	4	410
Non-current assets as of 31 Dec	75 515	48 804	6 387	18 769	911	644
2007						
External sales revenues	16 544	15 041	1 383	109	5	6
Non-current assets as of 31 Dec	56 791	48 226	3 013	4 810	739	3

INFORMATION ON IMPORTANT CUSTOMERS

No external customers account for 10% or more of the Group's operating revenues.

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. Such spot purchases are recorded as a correction to power sales. Physical and financial contracts are used to hedge underlying production in the form of purchase and sales positions. Sales positions are taken to hedge the price of a specific part of the planned future output. Purchasing positions are taken to adjust the hedging level if assumptions change and Statkraft considers its hedged position to be too high. All contracts are recognised as adjustments to the underlying revenue from production based on the margin between the contract price and the spot price (system price for financial contracts).

NOK million	2008	2007
Net physical spot sales, including green certificates	12 668	5 469
Concessionary sales at statutory prices	234	213
Industrial sales at statutory prices	1 624	1 713
Long-term commercial contracts	1 758	1 582
Dynamic hedging	1 221	1 593
Trading and origination	447	623
Distribution grid	1 426	1 535
End-users	4 305	3 390
District heating	370	315
Other/eliminations	152	111
Sales revenues	24 205	16 544

Statkraft has 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 for industrial and concessionary sales at statutory prices

TWh	Industrial power	Concessionary power	Total
2009	9.3	2.8	12.1
2010	9.3	2.8	12.1
2011	1.5	2.8	4.3
2012	0.5	2.8	3.3
2013	0.5	2.8	3.3
2014	0.5	2.8	3.3
2015	0.5	2.8	3.3
2016	0.5	2.8	3.3
2017	0.5	2.8	3.3
2018	0.5	2.8	3.3
Total	23.6	28.0	51.6

Price and volume of industrial and concessionary sales at statutory prices

	2008	2007
Industrial power – Volume (TWh)	8.7	10.3
Industrial power – Price (NOK/MWh)	191	166
Concessionary power – Volume (TWh)	2.5	2.9
Concessionary power – Price (NOK/MWh)	94	88

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

In addition, Statkraft has other physical contractual obligations of varying duration to both domestic and international customers.

Statkraft has entered into long-term agreements to purchase gas from StatoilHydro and WINGAS. Statkraft has no other material long-term physical purchasing obligations.

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08 OTHER OPERATING REVENUES

NOK million	2008	2007
Power plant leasing revenues	121	119
Other leasing and service revenues	493	427
Other	242	529
Total	856	1 075

09 ENERGY PURCHASES

NOK million	2008	2007
Gas purchases	2 053	425
End-user activities	2 363	2 255
Total	4 416	2 680

10 UNREALISED CHANGES IN THE VALUE OF ENERGY CONTRACTS

Unrealised changes in the value of energy contracts are classified by portfolio in the table below. The individual portfolios are described in Note 32.

NOK million	2008	2007
Nordic hydropower portfolio excluding industrial power	382	-1 515
Industrial power contracts in Nordic hydropower portfolio	2 335	407
Trading and Origination	312	-401
Baltic Cable and continental assets	233	122
End-user portfolio	-71	53
Gas power activities	1 091	595
Total	4 282	-739

Contracts indexed against various commodities, currencies and indices had a positive unrealised change in value in 2008. This was due in particular to higher coal and gas prices and the rising dollar exchange rate, and changes in volume.

11 SALARIES AND PAYROLL COSTS AND NUMBER OF FULL-TIME EQUIVALENTS

NOK million	2008	2007
Salaries	1 331	1 178
Employer's national insurance contributions	200	172
Pension costs	236	205
Other benefits	86	49
Total	1 853	1 604

The Group employed an average of 2 460 full-time equivalents in 2008. The corresponding figure for 2007 was 2 187. The number of full-time equivalents increased by 183 as of 31 December 2008 in connection with the swap deal with E.ON AG.

Pension costs are discussed in more detail in Note 12.

12 PENSIONS

DEFINED BENEFIT SCHEMES

Occupational pension schemes in the Group 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 the regulatory framework governing public service pensions. 2 475 employees and 1 201 pensioners were covered by benefit schemes as of 31 December 2008. The Skagerak Energi Group holds its pension plans in a separate pension fund. Fjordkraft AS is a member of BKK's Pension Fund. With the exception of Småkraft AS, the rest of the Group operates its pension plans through the Norwegian Public Service Pension Fund (SPK). Pension payments from the SPK are guaranteed by the Norwegian state (Section 1 of the Norwegian Pension Act). The occupational pension schemes cover retirement, disability, surviving spouse and child's pension. The retirement schemes provide pension benefits amounting to 66% of pensionable income, up to 12G (12 times the National Insurance Scheme's basic amount).

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

Companies with schemes in the SPK pay an annual premium to the Norwegian Public Service Pension Fund and are responsible for the financing of the scheme. The SPK scheme is not asset-based, but management of the pension fund assets (fictitious assets) is simulated as though the assets were invested in government bonds. In this simulation it is assumed that the bonds are held to maturity. The pension assets are guaranteed by the Norwegian state. Up to 35% of the pension fund assets can be invested in the Norwegian Government Pension Fund, which is a real fund where yields are linked to the market situation.

Employees who leave the company before pensionable age receive a deferred pension entitlement. In schemes that are part of SPK, participating companies are not responsible for these obligations. Deferred entitlements in Skagerak's Pension Fund and for Fjordkraft in BKK's pension fund are carried forward as a pension fund liability.

Unsecured pension obligations In addition to the above, some Group companies in Norway have 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. Agreements have also been entered into to provide some members of Group management with a surviving spouse and child's pension. In addition, Statkraft has a surviving relative scheme, which is a continuation of the Statkraft Pension Fund (which was terminated in 2003). These pensions are funded out of the company's current operations.

Employees who leave the company before pensionable age receive a deferred pension entitlement for the scheme above 12G.

Actuarial calculations – benefit schemes The 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 estimate assumptions as of 31 December 2008. Calculations are based on staff numbers and salary data at the end of the year.

Actuarial losses in 2008 are primarily attributable to changes in the pension liability as of 31 December 2008 as a result of updated assumptions, staff numbers and actual salary increases. As of 31 December 2008 the discount rate was changed from 4.6% to 3.7%.

Pension obligations in connection with the transfer of employees from E.ON AG The swap deal with E.ON AG resulted in Statkraft assuming pension obligations for 15 employees in the UK and 169 employees in Germany. The pension liabilities are included in Statkraft's balance sheet as of 31 December 2008.

A separate pension scheme has been established for employees in the UK (Rheidol 2008 Pension Scheme), which maintains and continues the pension scheme that was previously in place for this group. The pension scheme is administered by Rheidol 2008 Trustee Ltd. Pension rights for employees who have been transferred from E.ON AG in Germany have been assumed by Statkraft.

DEFINED CONTRIBUTION SCHEMES

Group companies in Sweden, Finland and Belgium operate defined contribution schemes in accordance with local legislation. Other employees in the UK, who are not covered by the defined benefit scheme mentioned above, also have defined contribution schemes.

Explanation of the background for selected assumptions/risk table The discount rate is set at 3.7% 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 nominal salary increase of 1.75%, inflation of 2.0% and career progression increase of 0.25%. 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 expected salary increases. For demographic factors the K 2005, GAB 07 and IR 73 tariffs are used to establish mortality and disability risks.

The following assumptions are used

	31.12.08	01.01.08	31.12.07	01.01.07
Annual discount rate	3.7%	4.6%	4.6%	4.4%
Salary adjustment	4.0%	4.0-4.5%	4.0-4.5%	4.0%
Adjustment of current pensions	3.75%	4.0%	4.0%	4.0%
Adjustment of National Insurance Scheme's basic amount (G)	3.75%	4.0%	4.0%	4.0%
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	3.7%	4.6-6.0%	4.6-6.0%	4.4-6.0%
Rate of inflation	2.0%	2.25%	2.25%	2.25%
Tendency to take early retirement (AFP)	20.0%	20.0%	20.0%	20.0%

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 pension costs for the year.

Breakdown of net defined benefit pension liability

NOK million	2008	2007
Present value of accrued pension entitlements for funded defined benefit schemes	4 267	3 558
Fair value of pension assets	2 525	-2 463
Actual net pension liability for funded defined benefit schemes	1 742	1 095
Present value of accrued pension entitlements for unfunded defined benefit schemes	267	223
Cost of pension entitlements relating to previous years not recognised in the balance sheet	-	-38
Employer's national insurance contributions	266	181
Net pension liabilities in the balance sheet (see Note 26)	2 275	1 461

Movement in defined benefit pension liability during the year

NOK million	2008	2007
Defined benefit pension liabilities 1 Jan	3 743	3 221
Increase in liabilities for new subsidiary/new members	148	90
Reduction in liabilities as a result of transfer of employees	-12	-
Present value of accrued pension entitlements for the year	180	160
Interest expenses	169	146
Actuarial losses/(gains) on liabilities	399	224
Cost of pension entitlements relating to previous years	-	4
Paid benefits	-93	-102
Gross defined benefit pension liabilities 31 Dec	4 534	3 743

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

NOK million	2008		2007	
Fair value of pension assets 1 Jan	2 463		2 103	
Projected yield on pension assets	129		113	
Actuarial gains/(losses) on pension assets	-234		78	
Total contributions	187		200	
Increase in pension assets through new subsidiary	-		54	
Reduction in assets as a result of transfer of employees	-4		-	
Paid benefits	-90		-85	
Change in the classification of pension assets	74		-	
Fair value of pension assets 31 Dec	2 525		2 463	
Pension assets comprise	31.12.08		31.12.07	
Equity instruments	248	10%	310	13%
Interest-bearing instruments	2 075	82%	1 868	76%
Other	202	8%	285	11%
Fair value of pension assets	2 525	100%	2 463	100%

For pension schemes in the SPK, the pension assets comprise a fictitious fund that is invested in 1, 3, 5 or 10-year Norwegian government bonds or a combination of these. In 2008 some of the companies reinvested a small share of the pension fund assets from the fictitious asset fund to the Norwegian Government Pension Fund.

Skagerak Energi has its own pension fund which has invested its pension assets in a diversified portfolio of Norwegian and foreign interest-bearing securities, beneficiary mortgages, shares (max. 25%), hedge funds (max. 7%) and property (max. 10%) through external managers. Fjordkraft, which is a member of BKK's Pension Fund, has invested the pension funds in Norwegian interest-bearing securities and Norwegian and foreign shares (max. 30%).

Movement in actuarial (gains)/losses recognised directly in equity

NOK million	2008		2007
Cumulative amount recognised directly in equity before tax 1 Jan	1 241		1 038
Cumulative amount recognised directly in equity before tax new subsidiary/new members	-4		36
Recognised in the period	722		168
Cumulative amount recognised directly in equity before tax 31 Dec	1 959		1 242
Deferred tax related to actuarial (gains)/losses recognised directly in equity	548		348
Cumulative amount recognised directly in equity after tax 31 Dec.	1 411		894

Pension cost recognised in the income statement

NOK million	2008		2007
Defined benefit schemes			
Present value of accrued pension entitlements for the year	180		160
Interest expense	169		146
Projected yield on pension assets	-129		-112
Cost of pension entitlements relating to previous years	-		4
Employee contributions	-17		-19
Employer's national insurance contributions	29		24
Pension cost defined benefit schemes	232		203
Defined contribution schemes			
Employer payments	4		2
Total pension cost (see Note 11)	236		205

Sensitivity analysis regarding changes in assumptions	Discount rate		Annual salary increase	
	+1%	-1%	+1%	-1%
Increase (+)/decrease (-) in net pension cost for the period	-53	70	74	-59
Increase (+)/decrease (-) in net pension liability 31 Dec	-773	1 011	526	-420

Sensitivity analysis regarding changes in assumptions	Increase in G		Staff turnover rate	
	+1%	-1%	+1%	-1%
Increase (+)/decrease (-) in net pension cost for the period	29	-30	-17	14
Increase (+)/decrease (-) in net pension liability 31 Dec	440	-382	-84	63

13 PROPERTY TAX AND LICENCE FEES

NOK million	2008	2007
Property tax	785	729
Licence fees	292	254
Total	1 077	983

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 present value of the Group's future licence fee obligations that are not provided for in the annual financial statements is estimated at NOK 7 300 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.

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 OTHER OPERATING
 EXPENSES

NOK million	2008	2007
Purchase of third-party services	914	630
Materials	377	197
Costs of power plants operated by third parties	202	197
Compensation payments	53	88
Other	954	681
Total	2 500	1 793

The increase in other operating expenses from 2007 to 2008 is attributable to generally higher activity levels and the swap deal with E.ON AG.

15
 FINANCIAL
 ITEMS

NOK million	Assessment basis						Fees	Total
	Voluntarily designated at fair value through profit or loss	Compulsorily designated at fair value through profit or loss	Amortised cost	Available for sale	Held for sale			
Financial income								
Profit on the sale of shares	-	-	-	-	25 591	-	-	25 591
Interest income liquidity	344	-	-	-	-	-	-	344
Interest income other	-	-	116	-	-	-	-	116
Bank accounts and loans, realised currency gains/losses	-	-	70	-	-	-	-	70
Dividend	-	-	-	19	-	-	-	19
Other financial income	-	-	11	284	-	-	-	295
Total	344	-	197	303	25 591	-	-	26 435
Financial expenses								
Interest expenses	-	-	-2 186	-	-	-	-	-2 186
Guarantee premiums	-	-	-	-	-	-65	-	-65
Financial derivatives, realised currency gains/losses	-	-776	-	-	-	-	-	-776
Bank accounts and loans, realised currency gains/losses	-	-	-36	-	-	-	-	-36
Securities liabilities, gains/losses, realised	29	-	-	-	-	-	-	29
Other financial expenses	-	-	-32	-	-	-	-	-32
Total	29	-776	-2 254	-	-	-65	-	-3 066
Unrealised changes in value of currency and interest contracts								
Financial interest rate swaps, unrealised change in value	-	298	-	-	-	-	-	298
Financial currency and interest rate swaps, unrealised change in value	-	-229	-	-	-	-	-	-229
Forward exchange contracts, unrealised change in value	-	-1 241	-	-	-	-	-	-1 241
Foreign currency loans, unrealised change in value	-	-393	-1 548	-	-	-	-	-1 941
Securities liquidity, gains/losses, unrealised	11	-	-	-	-	-	-	11
Total	11	-1 565	-1 548	-	-	-	-	-3 102
Total financial items	384	-2 341	-3 605	303	25 591	-65	-	20 267

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NOK million	Assessment basis				Fees	Total
	Voluntarily designated at fair value through profit or loss	Compulsorily designated at fair value through profit or loss	Amortised cost	Available for sale		
Financial income						
Interest income liquidity	287	-	-	-	-	287
Interest income other	-	-	48	-	-	48
Bank accounts and loans, realised currency gains/losses	-	-	12	-	-	12
Securities liquidity, gains/losses, realised	26	-	-	-	-	26
Dividend	-	-	-	4	-	4
Other financial income	-	-	23	-	-	23
Total	313	-	83	4	-	400
Financial expenses						
Interest expenses	-	-	-1 563	-	-	-1 563
Guarantee premiums	-	-	-	-	-73	-73
Financial derivatives, realised currency gains/losses	-	-81	-	-	-	-81
Bank accounts and loans, realised currency gains/losses	-	-	33	-	-	33
Securities liabilities, gains/losses, realised	-3	-	-	-	-	-3
Other financial expenses	-	-	-29	-	-	-29
Total	-3	-81	-1 559	-	-73	-1 717
Unrealised changes in value of currency and interest contracts						
Financial interest rate swaps, unrealised change in value	-	-410	-	-	-	-410
Financial currency and interest rate swaps, unrealised change in value	-	-263	-	-	-	-263
Forward exchange contracts, unrealised change in value	-	372	-	-	-	372
Foreign currency loans, unrealised change in value	-	-	530	-	-	530
Securities liquidity, gains/losses, unrealised	-2	-	-	-	-	-2
Total	-2	-301	530	-	-	227
Total financial items	308	-382	-946	4	-73	-1 090

16

TAXES

The total tax expense is calculated as follows

NOK million	2008	2007
Income tax	3 242	2 008
Resource rent tax	1 708	758
Correction relating to previous years	31	58
Change in deferred tax	-423	-691
Tax cost in the income statement	4 558	2 133

Income tax payable:

NOK million	2008	2007
Income taxes payable on the Group's profit for the year	3 116	3 714
Effect of Group contributions on tax liability	-982	-2 961
Reduction in prepaid natural resource tax relating to previous years	-1 114	-
Income tax payable before offsetting against natural resource tax for the year	1 020	753

Tax payable in the balance sheet:

NOK million	2008	2007
Natural resource tax	570	562
Resource rent tax	1 708	758
Income tax exceeding natural resource tax	450	191
Correction tax	-	75
Tax due from previous financial years	7	-3
Tax payable in the balance sheet	2 735	1 583

Prepaid tax in the balance sheet

NOK million	2008	2007
Prepaid natural resource tax	-	1 073
Prepaid correction tax	85	75
Prepaid tax in the balance sheet	85	1 148

Reconciliation of nominal tax rate and effective tax rate

NOK million	2008	2007
Profit before tax	37 820	8 765
Expected tax expense at a nominal rate of 28%	10 590	2 454
Effect on taxes of:		
Resource rent tax	1 876	571
Differences in tax rates from Norway	268	260
Change in tax rate/tax regulations	-	-588
Share of profit from associates	-262	-732
Tax-free income	-7 930	-14
Changes relating to previous years	31	38
Other permanent differences, net	-15	144
Total tax expense	4 558	2 133
Effective tax rate	12.1%	24.3%

BREAKDOWN OF DEFERRED TAX

The following table provides a breakdown of the net deferred tax liability. Deferred tax assets and liabilities connected with deferred tax subjects/regimes are presented separately 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	01.01.2007	Recognised in the period	Recognised in equity	Acquisitions and sales of companies	Other	31.12.2007
Current assets/current liabilities	1 110	-479	-4	-	-227	400
Property, plant and equipment	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 net 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

NOK million	01.01.2008	Recognised in the period	Recognised in equity	Acquisitions and sales of companies	Other	31.12.2008
Current assets/current liabilities	400	99	-138	-	139	500
Property, plant and equipment	3 841	268	-102	32	-	4 039
Pension liabilities	-414	-40	-162	-	-	-616
Other long-term items	623	-253	-	-	-	370
Tax loss carryforward/compensation	-26	-653	-	-	-	-679
Deferred tax, resource rent tax	1 937	-21	-	-	-	1 916
Negative resource rent tax carryforward	-1 080	177	-	-	-	-903
Total deferred tax asset	5 281	-423	-402	32	139	4 627
Of which recognised as deferred tax assets, see Note 17	1 025					1 518
Of which recognised as deferred tax liabilities, see Note 26	6 306					6 145

The item Other primarily relates to the effects of Group contributions.

Deferred tax recognised directly in equity

NOK million	2008	2007
Estimate deviations pensions	-162	-46
Hedging instruments	-261	-43
Translation differences	21	-68
Total deferred tax recognised in equity	-402	-157

Tax rates used in the calculation of deferred tax:

- 26% – Company tax rate in Finland
- 28% – Company tax rate in Sweden (26.3% from 2009)
- 28% – Company tax rate in Norway
- 31.4% – Company tax rate in Germany
- 30% – Resource rent tax rate in Norway
- 58% – Marginal tax rate in Norway (resource rent tax rate + company tax rate)

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17 INTANGIBLE ASSETS

NOK million	2008	2007
Deferred tax assets	1 518	1 025
Goodwill	632	207
Other	331	357
Total	2 481	1 589

Deferred tax is discussed in more detail in Note 16.

NOK million	Goodwill	Other
2007		
Cost as of 01.01.07	365	107
Accumulated amortisation and impairments per 01.01.07	-158	-4
Book value 1 Jan 2007	207	103
Additions	-	1
Additions on consolidation of new companies	-	512
Exchange differences	-	-3
Amortisation	-	-20
Accumulated amortisation on additions	-	-236
Book value 31 Dec 2007	207	357
Cost 31 Dec 2007	365	617
Accumulated amortisation and impairments 31 Dec 2007	-158	-260
Book value 31 Dec 2007	207	357
2008		
Book value 1 Jan 2008	207	357
Additions	-	7
Additions on consolidation of new companies	425	-
Exchange differences	-	10
Amortisation	-	-43
Book value 31 Dec 2008	632	331
Cost 31 Dec 2008	757	683
Accumulated amortisation and impairments 31 Dec 2008	-125	-352
Book value 31 Dec 2008	632	331
Expected economic lifetime		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 2008 and 2007 primarily related to research. Total respective amounts of NOK 157 million and NOK 98 million were recognised in the income statement in respect of research and development activities in 2008 and 2007.

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 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, roads, bridges and quays	Facilities under construction	Other ¹	Total
Cost 1 Jan 2007	26 898	18 906	9 766	3 103	12 320	4 615	2 936	78 544
Accumulated depreciation and impairment 1 Jan 2007	-4 868	-8 652	-4 410	-830	-1 991	-1	-1 411	-22 163
Book value 1 Jan 2007	22 030	10 254	5 356	2 273	10 329	4 614	1 525	56 381
2007								
Book value 1 Jan 2007	22 030	10 254	5 356	2 273	10 329	4 614	1 525	56 381
Additions	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
Capitalised loan expenses	103	7	-	-	-	1	2	113
Currency effects	-53	-25	-74	-	-285	-81	-	-518
Depreciation/impairments	-289	-537	-335	-75	-125	-	-257	-1 618
Accumulated depreciation/impairments on disposals	-	-	68	-	14	-	22	104
Book value 1 Jan 2007	22 009	12 503	5 137	2 208	10 289	1 664	2 418	56 228
Cost 31 Dec 2007	27 166	21 692	9 814	3 113	12 391	1 664	4 064	79 904
Accumulated depreciation and impairments 31 Dec 2007	-5 157	-9 189	-4 677	-905	-2 102	-	-1 646	-23 676
Book value 31 Dec 2007	22 009	12 503	5 137	2 208	10 289	1 664	2 418	56 228
2008								
Book value 1 Jan 2008	22 009	12 503	5 137	2 208	10 289	1 664	2 418	56 228
Additions	157	217	186	29	78	961	357	1 985
Additions on purchase of new subsidiaries	4 781	5 239	-	-	6 444	63	605	17 132
Transferred from facilities under construction	260	516	87	-	264	-1 127	-	-
Disposals	-3	-25	-1	-	-352	-38	-36	-455
Capitalised loan expenses	-	1	-	-	-	8	3	12
Currency effects	44	530	49	-	423	35	5	1 086
Depreciation/impairments	-294	-377	-334	-76	-108	-39	-282	-1 510
Accumulated depreciation/impairments on disposals	-	10	-	-	-	38	27	75
Book value 31 Dec 2008	26 954	18 614	5 124	2 161	17 038	1 565	3 097	74 553
Cost 31 Dec 2008	32 405	28 222	10 192	3 142	19 278	1 565	4 999	99 803
Accumulated depreciation and impairments 31 Dec 2008	-5 451	-9 608	-5 068	-981	-2 240	-	-1 902	-25 250
Book value 31 Dec 2008	26 954	18 614	5 124	2 161	17 038	1 565	3 097	74 553
Depreciation period (years)	30–75	15–40	25–35	5–50	25–75		3–40	

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 useful economic lifetimes of 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 facilities	
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 fixtures	5
– other mechanical installations	15	Land	perpetual
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 power plant transformers	20–25

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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 134 million, and the properties have been recognised in the financial statements at a book value of NOK 14 million. Market value has been established on the basis of financial considerations in the form of cash flow analyses performed by an independent valuer in 2007. This was primarily based on local market knowledge gained from reviewing the individual properties' abilities to generate current and future rental income, along with the properties' development potential, location, condition and knowledge of the interested parties' (purchasers') required rate of return.

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ASSOCIATES AND JOINT VENTURES

COMPANIES RECOGNISED IN ACCORDANCE WITH THE EQUITY METHOD

Shares in associates and joint ventures 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	Oslo	50.0%	50.0%
Naturkraft AS	Bærum	50.0%	50.0%
Luster Småkraft AS	Gaupne	50.0%	50.0%
Viking Varme AS	Porsgrunn	50.0%	50.0%
RA1 S.r.l.	Milan	50.0%	50.0%
RA2 S.r.l.	Milan	50.0%	50.0%
Kraftwerksgesellschaft Herdecke. GmbH & Co. KG	Hagen	50.0%	50.0%
Biomassheizkraftwerk Landesbergen GmbH	Landesbergen	50.0%	50.0%
Catamount Cymru Cyf	Cardiff	50.0%	50.0%
Catamount Energy Ltd	St. Albans	50.0%	50.0%
Greenpower Carraig Gheal Ltd	Sterling	50.0%	50.0%
Greenpower Little Law Ltd	Sterling	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:			
Hydra Tidal Energy Technology AS	Oslo	28.3%	28.3%
Energy Future Invest AS	Oslo	34.0%	34.0%
Windsea AS	Sandvika	49.0%	49.0%
Midtnorge Kraft AS	Rissa	40.0%	40.0%
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%
Larvik Fibernett AS	Larvik	34.0%	34.0%
Skagerak Fibernett Vestfold AS	Porsgrunn	49.0%	49.0%
Energi og Miljøkapital AS	Skien	35.0%	35.0%
Thermokraft AS	Porsgrunn	22.2%	22.2%
Biomassheizkraftwerk Emden GmbH	Emden	30.0%	30.0%
Rullestad og Skromme Energi AS	Etna	35.0%	35.0%
Bergenshalvøens Kommunale Kraftselskap AS (BKK)	Bergen	49.9%	49.9%
Agder Energi AS	Kristiansand	45.5%	45.5%
Istad AS	Molde	49.0%	49.0%
Ecopro AS	Steinkjer	25.0%	25.0%
Baillie Wind Farm Ltd	Thurso	33.0%	33.0%

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

NOK million	Telenor				
	BKK	Agder	Cinclus	SN Power	Naturkraft
Opening balance	6 193	4 146	1	2 173	1 075
Share of profit	378	232	-203	87	66
Amortisation of excess value	-15	-65	-	-	-
Impairment ³	-	-	-36	-	-397
Investment/sale	-	-	-	200	-
Dividend	-451	-329	-	-	-
Translation differences ¹	-	-	-	296	-
Change in hedging instruments	-	-	-	-17	-
Equity transactions booked directly in the company	-90	-115	-	-	-
Other ²	-	-	238	-	-
Closing balance	6 015	3 869	-	2 739	744
Excess value 31 Dec 2008	2 362	2 461			
Of which unamortised waterfall rights	1 818	333			

NOK million	E.ON Sverige	Istad	Herdecke	Other	Total
Opening balance	17 914	269	243	117	32 131
Share of profit	988	27	31	-54	1 552
Amortisation of excess value	-92	-12	-	-	-184
Impairment ³	-	-	-	-	-433
Investment/sale	-17 925	-	185	265	-17 275
Dividend	-1 780	-14	-	-5	-2 579
Translation differences ¹	1 062	-	21	-	1 379
Change in hedging instruments	-176	-	-	-	-193
Equity transactions booked directly in the company	-	-24	-	-	-229
Other ²	9	-	-	-29	218
Closing balance	-	246	480	294	14 387

Excess value 31 Dec 2008	4 588	110			9 521
Of which unamortised waterfall rights	1 729				3 880

¹ Unrealised gains/losses resulting from foreign exchange changes on investments are recognised as translation differences in equity. Unrealised gains/losses on loans in foreign currency, made in connection with foreign investments, are recognised accordingly as translation differences in equity as these are deemed to be hedging of net investments in a foreign operation. Cumulative translation differences for E.ON Sverige AB were reversed from equity in connection with the swap deal with E.ON AG.

² Other comprises the waiving of liabilities due from Skagerak Energi AS.

³ As a result of a significant reduction in allocated carbon quotas for the period 2008-2012 for Kårstø gas-fired power plant, the investment in Naturkraft was written down by NOK 397 million.

COMPANIES RECOGNISED IN ACCORDANCE WITH THE EQUITY METHOD – 100% BASIS

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

Income statement (unaudited)	E.ON Sverige (SEK)		Agder		BKK	
	2008	2007	2008	2007	2008	2007
Operating revenues	-	30 908	7 211	5 032	4 121	3 818
Operating expenses	-	-25 363	-5 509	-3 733	-1 742	-2 262
Operating profit	-	5 545	1 702	1 299	2 379	1 556
Profit before tax and minority interests	-	5 381	1 150	1 141	1 523	1 611
Net profit for the year	-	3 972	510	846	762	997

Balance sheet (unaudited)	2008		2007		2008		2007	
NOK million								
Non-current assets	-	90 852	11 906	11 430	14 813	14 440		
Current assets	-	12 109	3 088	1 570	3 754	2 398		
Assets	-	102 961	14 994	13 000	18 567	16 838		
Equity	-	35 164	3 007	3 481	7 516	7 835		
Minority interests	-	634	14	2	19	22		
Long-term liabilities and obligations	-	48 970	6 616	6 143	3 183	2 558		
Current liabilities	-	18 193	5 357	3 374	7 849	6 423		
Equity and liabilities	-	102 961	14 994	13 000	18 567	16 838		

The investment in E.ON Sverige AB was disposed of on 31 December 2008 in connection with the swap deal with E.ON AG. See Note 4 for further information.

JOINT VENTURES

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

Name	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%
Harrsele AB	50.57%
Svorka	50.00%
Kraftverkene i Orkla	48.60%
Sira-Kvina Kraftselskap DA	46.70%
Mørkfoss-Solbergfoss	33.33%
Tyssefaldene	20.29%
Røldal-Suldal Kraft AS *	8.74%
Aurlandsverkene	7.00%

* Statkraft owns 8.74% of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79% of the Røldal-Suldal plants. Statkraft's indirect shareholding in the power plants is thus 4.79%.

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20 OTHER NON-CURRENT FINANCIAL ASSETS

NOK million	2008	2007
Valued at amortised cost:		
Loan to Statkraft SF	1 049	1 014
Loans to associates	481	284
Prepaid natural resource tax	0	1 073
Bonds and other long-term receivables	109	243
Total valued at amortised cost	1 639	2 614
Voluntarily designated at fair value:		
Equity investment CO ₂ fund	127	147
Available for sale:		
Other shares and shareholding	23 403	183
Total	25 169	2 944

The item other shares and shareholding includes the shareholdings in E.ON AG amounting to NOK 23 125 million.

21 INVENTORIES

NOK million	2008		2007	
	Recognised value	Cost price	Recognised value	Cost price
Valued at net realisable value:				
Green certificates	440	423	187	157
CO ₂ quotas	117	74	42	16
Total inventories valued at net realisable value	557	497	229	173
Valued at the lower of cost and net realisable value:				
Spare parts	83		42	
Other	59		32	
Other inventories are valued at the lower of cost and net realisable value	142		74	
Total	699		303	

22 RECEIVABLES

NOK million	2008	2007
Accounts receivable	2 649	2 262
Accrued revenues etc.	3 377	1 310
Interest-bearing restricted funds	1 910	502
Other receivables	3 710	1 020
Total	11 646	5 094

The change in receivables from 2007 to 2008 is due to increased activity and sales within the Group. Other receivables includes NOK 2 827 million relating to the final settlement in connection with the swap deal with E.ON AG.

Maturity schedule, receivables

2008 NOK million	Not yet due	Non-impaired receivables, due		Receivables	Total
		Within 90 days	After 90 days past due, impaired		
Accounts receivable	2 334	251	52	12	2 649
Other receivables	8 967	26	4	-	8 997
Total	11 301	277	56	12	11 646

Impairments for the year

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2007 NOK million	Not yet due	Non-impaired receivables, due		Receivables,	Total
		Within 90 days	After 90 days past due, impaired		
Accounts receivable	1 931	308	15	8	2 262
Other receivables	2 494	281	57	-	2 832
Total	4 425	589	72	8	5 094

Impairments for the year

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SHORT-TERM
FINANCIAL
INVESTMENTS

NOK million	2008	2007
Bonds	175	156
Fixed income funds	109	126
Shares and other investments	65	65
Total	349	347

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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 included in the table below are the recognised values of contracts which in accordance with IAS 39 fall under the definition of financial instruments. There can be significant deviations between the accounting values and the underlying real economic values due to the fact that the portfolios contain contracts that are both covered and not covered by IAS 39.

Derivatives – assets	2008	2007
NOK million		
Energy derivatives		
Nordic hydropower portfolio excluding industrial power	586	947
Industrial power contracts in Nordic hydropower portfolio	1 630	773
Trading & Origination	5 250	5 224
Baltic Cable and continental assets	2 018	-
End-user portfolio	261	97
Gas power activities	266	-
Total	10 011	7 041
Currency and interest rate derivatives		
Interest rate swaps	627	493
Forward exchange rate contracts	754	216
Combined interest rate and currency swaps	1 414	576
Total	2 795	1 285
Total derivative – assets	12 806	8 326
Derivatives – liabilities		
NOK million		
Energy derivatives		
Nordic hydropower portfolio excluding industrial power	1 611	2 504
Industrial power contracts in Nordic hydropower portfolio	1 406	2 582
Trading & Origination	4 529	5 344
Baltic Cable and continental assets	311	-
End-user portfolio	330	101
Gas power activities	136	955
Total	8 323	11 486
Currency and interest rate derivatives		
Interest rate swaps	183	444
Forward exchange rate contracts	2 783	81
Combined interest rate and currency swaps	10	443
Total	2 976	968
Total derivative – liabilities	11 299	12 454

Baltic Cable and continental assets comprise a gas storage contract and power delivery contract that were acquired in connection with the swap deal with E.ON AG. Forward exchange rate contracts for the sale of EUR against NOK have fallen in value from 2007 to 2008 as result of the appreciation of the EUR against the NOK.

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BANK DEPOSITS,
CASH IN HAND ETC.

NOK million	2008	2007
Cash in hand and bank deposits	2 199	2 736
Money market funds, certificates, promissory notes, bonds	10	414
Total	2 209	3 150

Book value of assets pledged as guarantees for obligations

The following amounts in cash and cash equivalents are pledged as security for/from counterparties:

NOK million	2008	2007
Cash collateral for financial derivatives	-534	174
Deposit account in connection with power sales on energy exchanges	494	218
Total	-40	392

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

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PROVISIONS

NOK million	2008	2007
Deferred tax	6 145	6 306
Pension liabilities	2 275	1 461
Other provisions	2 907	3 064
Total provisions	11 327	10 831

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 15 year term of the agreement.

NOK million	Rana	Other	Total
Opening balance 1 Jan 2007	1 906	1 251	3 157
New provisions in the period	-	181	181
Amount utilised in the period	-147	-88	-235
Unused amount written back in the period	-	-39	-39
Closing balance 31 Dec 2007	1 759	1 305	3 064
New provisions in the period	-	128	128
Amount utilised in the period	-147	-164	-311
Currency effects	-	26	26
Closing balance 31 Dec 2008	1 612	1 295	2 907

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INTEREST-BEARING LONG-TERM LIABILITIES

NOK million	2008	2007
Loan from Statkraft SF	5 165	6 034
Bond loans from the Norwegian market	14 680	15 311
Other loans from non-Norwegian markets	10 554	7 889
External loans in subsidiaries and other loans	240	1 127
Total	30 639	30 361

Total interest-bearing liabilities increased from NOK 37 billion in 2007 to NOK 41 billion in 2008 (see Notes 27 and 28), despite the fact that the Group repaid liabilities of NOK 1 billion in 2008. The increase is primarily attributable to increases in exchange rates of loans denominated in foreign currencies.

For further information see Notes 29–34.

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CURRENT LIABILITIES

Short-term interest-bearing liabilities

NOK million	2008	2007
Certificate loans	4 509	900
First year's instalment of long-term liabilities	3 699	4 958
Debt connected to cash collateral	1 385	714
Overdraft facilities	531	351
Other short-term loans	28	-
Total	10 152	6 923

See comments in Note 27.

Other interest-free liabilities

NOK million	2008	2007
Trade payables	2 295	847
Indirect taxes payable	805	808
Other interest-free liabilities	2 260	1 709
Current liabilities due to Statkraft SF	463	178
Total	5 823	3 542

The item Other interest-free liabilities includes an estimated final settlement in connection with the swap deal with E.ON AG.

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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 currency swaps and forward exchange contracts. Financial instruments used in energy trading primarily comprise financial and physical agreements for the purchase and sale of electricity and gas, as well as embedded derivatives in physical energy sale agreements. In addition to the above, other financial instruments exist in the form of accounts receivable, accounts payable, cash, short-term financial 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 hedged items are often assets in foreign currency, future cash flows or financial instruments valued at amortised cost, while hedging instruments are recorded 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. Hedge accounting in accordance with IFRS has been used in certain cases. This applies to selected loan arrangements where the interest rate has been swapped from fixed to floating rates (fair value hedging), to the hedging of net investments in a foreign unit and to cash flow hedging of contracts. To isolate 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 energy trading activities. In addition, a series of financial instruments is 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 physical contracts that are not as such covered by IAS 39. Energy derivatives are valued at fair value with changes in value being recognised through profit or loss. In light of the significant volumes connected with 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 isolate the unrealised effects of energy 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 DESCRIPTION OF HEDGE ACCOUNTING AT STATKRAFT

Fair-value hedging Only one loan arrangement is treated as a fair value hedge. A bond loan is designated as a hedging object 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 entity In 2008 some investments in SEK were hedging objects covered by hedge accounting for net investments in a foreign operation. A set of financial instruments was designated as hedging instruments in this hedging relationship. The hedging arrangement ceased on 31 December 2008 in connection with the implementation of the swap deal with E.ON AG. Statkraft has not used hedge accounting for any other foreign operations.

Cash flow hedging One cash flow hedging arrangement was in place during 2008. The opportunities for other hedge accounting are assessed on an ongoing basis on the finance side. Hedge accounting will normally be used in cases where the efficiency of hedging 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 the accounting profit. Consequently, no on-going assessment is made of opportunities to document hedge accounting connected to power generation.

More detailed description of cash flow hedging The hedging object was the purchase contract in EUR for the E.ON AG shares, which was part of the swap deal with E.ON AG. The hedging instruments were forward foreign exchange contracts for the sale of EUR and loans in EUR that were not swapped into other currencies. The hedged risk in the hedging relationship was foreign currency risk connected to exposure in EUR. The critical terms of the hedging object and hedging instrument were deemed to be the same, and 100% hedging efficiency was 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 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 rate 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 six months EURIBOR floating. The hedged risk in the hedging relationship is interest rate risk. The critical terms of the hedging object 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 operation Parts of the investment in SEK in the associate E.ON Sverige AB were designated as a hedging object in hedge accounting of net investments in a foreign operation. A set of financial instruments was designated as hedging instruments in this hedging relationship. These instruments comprised currency swaps from SEK to NOK, and forward exchange contracts for the sale of SEK. The hedged risk in the hedging relationship was foreign currency risk connected to exposure in SEK. The critical terms of the hedging object 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. The hedging relationship was concluded on 31 December 2008 and foreign currency gains and losses recognised in the balance sheet were subsequently recognised as part of the profit on the swap deal with E.ON AG.

Fair value of hedging instruments		
NOK million	2008	2007
Hedging instruments used in fair value hedging	438	-27
Hedging instruments used to hedge net investments in a foreign operation	-	225
Total fair value of hedging instruments	438	198
Other information on fair value hedging		
NOK million	2008	2007
Gains and losses on hedging instruments	438	-27
Gains and losses on hedging objects, in relation to the hedged risk	-438	27

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FAIR VALUE OF
FINANCIAL
INSTRUMENTS**FAIR VALUE OF ENERGY DERIVATIVES**

The following parameters and assumptions are applied in the fair value valuation of energy derivatives:

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

Other bilateral electricity contracts are valued on the basis of a market price curve. Closing rates on energy exchanges 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 in the market, and broker quotes for corresponding contracts. For time periods of more than 10 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 energy exchanges. The price is adjusted for the expected rate of inflation for contracts that extend beyond the periods quoted on energy exchanges.

Foreign currency Several electricity contracts have prices in different currencies. Current market prices are obtained from the ECB (European Central Bank) and major financial institutions for such currencies. If quotes are not available for the entire time period, the foreign currency price curve for this area is set as the latest quoted price.

Commodities Some electricity contracts have a contract price that is linked to the price development of various commodities including gas. These are valued using forward prices from relevant commodity exchanges and major financial institutions. If quotes are not available for the entire time period, the commodity prices are adjusted for inflation based on the most recent quoted price in the market.

CO₂ CO₂ contracts are priced based on the forward price of EUA quotas and CER quotas. Statkraft uses the closing rate on commodity exchanges to price CO₂ contracts.

For certain power sale agreements that are recognised at fair value, the value is dependent on CO₂ costs at the Group's gas power plants. Here it has been assumed that the power plants will not be allocated free CO₂ quotas following 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 derivatives. This is obtained from major financial institutions. In cases where the credit risk is relevant, the interest rate curve is adjusted upwards.

FAIR VALUE OF CURRENCY AND INTEREST RATE DERIVATIVES

Interest swaps, foreign currency swaps and forward exchange contracts Interest swaps are valued using valuation techniques where expected future cash flows are discounted to 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 valued 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 CO₂ FUND

Equity investments in the CO₂ fund are voluntarily designated at fair value through profit or loss and are valued 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.

NOK million	Note	2008 Recognised value	2008 Fair value	2007 Recognised value	2007 Fair value
Financial assets compulsorily designated at fair value					
Energy derivatives	24	10 011	10 011	7 041	7 041
Currency and interest rate derivatives	24	2 795	2 795	1 285	1 285
Total		12 806	12 806	8 326	8 326
Financial assets voluntarily designated at fair value					
Equity investment CO ₂ fund	20	127	127	147	147
Bonds	23	175	175	156	156
Shares and financial investments	23	65	65	65	65
Fixed income funds	23	109	109	126	126
Money market funds, certificates, promissory notes, bonds	25	10	10	414	414
Total		486	486	908	908
Financial assets valued at amortised cost					
Loan to Statkraft SF	20	1 049	1 049	1 014	1 022
Loans to associates	20	481	480	284	284
Prepaid natural resource tax	20	-	-	1 073	1 073
Bonds and other long-term receivables	20	109	109	243	243
Accounts receivable	22	2 649	2 649	2 262	2 262
Accrued revenues etc.	22	3 377	3 377	1 310	1 310
Interest-bearing restricted funds	22	1 910	1 910	502	502
Other receivables	22	3 710	3 710	1 020	1 020
Cash in hand and bank deposits	25	2 199	2 199	2 736	2 736
Total		15 484	15 483	10 444	10 452
Available-for-sale financial assets					
Other shares and shareholdings	20	23 403	23 403	183	183
Total		23 403	23 403	183	183
Financial liabilities compulsorily designated at fair value					
Energy derivatives	24	-8 323	-8 323	-11 486	-11 486
Currency and interest rate derivatives	24	-2 976	-2 976	-968	-968
Total		-11 299	-11 299	-12 454	-12 454
Financial liabilities valued at amortised cost					
Loan from Statkraft SF	27	-5 165	-5 408	-6 034	-6 362
Bond loans from the Norwegian market	27	-14 680	-15 652	-15 311	-15 537
Other loans from non-Norwegian markets	27	-10 554	-10 117	-7 889	-8 017
External loans in subsidiaries and other loans	27	-240	-240	-1 127	-1 223
Debt connected to cash collateral	28	-1 385	-1 385	-714	-714
Certificate loans	28	-4 509	-4 543	-900	-914
Overdraft facilities	28	-531	-531	-351	-351
First year's instalment of long-term liabilities	28	-3 699	-3 741	-4 958	-4 931
Other short-term loans	28	-28	-28	-	-
Trade payables	28	-2 295	-2 295	-847	-847
Indirect taxes payable	28	-805	-805	-808	-808
Other interest-free liabilities	28	-2 260	-2 260	-1 709	-1 709
Current liabilities due to Statkraft SF	28	-463	-463	-178	-178
Total		-46 614	-47 468	-40 826	-41 591
Total		-5 734	-6 589	-33 419	-34 176

The fair value that is presented is calculated on the basis of valuation techniques where expected future cash flows are discounted to present value. Expected cash flows are calculated and discounted using observed market interest rates for the various currencies (swap interest rate curve) adjusted upwards for credit risk and observed exchange rates.

Unrealised changes in value

NOK million	Note	2008	2007
Energy contracts	10	4 282	-739
Currency and interest rate contracts	15	-3 102	227
Total		1 180	-512

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MARKET RISK
IN THE GROUP**GENERAL COMMENTS ON RISK CONNECTED TO 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 electricity price risk, CO₂ prices, gas price risk, interest rate risk and foreign currency risk. Risk management at Statkraft focuses on 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 market 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 some physical contracts are valued at fair value. The physical contracts that are valued at fair value are contracts with volume options 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 energy exchanges and bilateral financial contracts. The portfolio's objective is to hedge the value of future revenues.

The physical sales obligations include statutory-priced industrial contracts, long-term sales contracts, concessionary power obligations, as well as miscellaneous free power and compensation power contracts. The majority of the statutory-priced industrial contracts will expire in the period leading up to 2011. The long-term contracts have varying terms, but the longest contract runs until 30 June 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 energy exchanges and bilateral contracts. These generally have terms of less than five years, though some financial contracts run until 2020. To some extent 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 term changes in the market values of energy, as well as gains on non-standard contracts 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 financial forward and option contracts for electricity and CO₂ contracts traded on energy exchanges. The portfolio also contains bilateral financial contracts, normally with identical terms to standardised contracts traded on energy exchanges.

Trading (Continent) This 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 APX (the Netherlands), contracts for physical deliveries still dominate the bilateral market in continental Europe. The portfolio also includes physical gas contracts traded on the most liquid marketplaces, such as the NBP (National Balancing Point) in the UK, Zeebrugge in Belgium and TTF (Title Transfer Facility) in the Netherlands.

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 and contracts. The majority of the contracts in the portfolio have terms of up to five years, though some contracts run until 2018.

Origination (Continent) This portfolio consists of structured contracts. The Origination portfolio also includes trading in international transport capacity in order to profit from international price differences. A separate sub-portfolio has been created for virtual power plant contracts. The most important of these contracts is an agreement with a Swiss hydropower producer which runs until 2013.

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. CO₂ and green certificates are also traded. Efforts are generally made to offset most of the volume exposure by entering into corresponding standardised financial contracts, so that the portfolio's total net exposure remains relatively moderate at all times.

Continental Asset Hedges This portfolio comprises hedging contracts relating to Baltic Cable AB, the gas-fired power plants and continental assets. The portfolio comprises financial and physical power contracts with both the Nordic power market and the European power market. The objective of the portfolio is to hedge price differences with a time perspective of 0 to 5 years. Risk connected to the gas-fired power plants is hedged using forward contracts for oil products, coal, CO₂ and the electricity price.

CO₂/green certificates CO₂/green certificates cover trading in various green certificates and CO₂ quotas as well as documentation of the physical flows of environmentally friendly power.

End-user sales The Group has two portfolios connected with end-user activities. These are found 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 authorities/government agencies or private businesses and industry, though not major industrial businesses. Contracts with the latter are contained in the Nordic hydropower 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 energy exchanges 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 authorities 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. Mandate breaches are reported to the President and CEO.

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 is otherwise associated with total power sale revenues. The purpose of hedging, which takes into account the company's current and future generation capacity, is to secure an optimal contract position in relation to the company's risk profile. Statkraft is exposed to both price and volume risk, because both future price and inflow are unknown. Authorities for power trading are based on annual volume thresholds and available production. Individual market strategies have also been established at the operating level, which also safeguard 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 hedging at any one time is limited. Authorities for power trading are based on amount thresholds for any losses. Risk management at the operative level focuses on minimising such potential losses.

Origination portfolios The risk in this business is largely 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 approved guidelines. As a rule, listed liquid contracts (system price, area prices, CO₂ 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 CO₂.

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 energy exchanges. Efforts are normally made to eliminate the bulk of the electricity price risk, and frameworks have been established for maximum exposure within various delivery period intervals. The existing exposure in relation to the established frameworks is reported to management. The 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 are made of the volumes that can be expected to be consumed and for which hedging relationships must therefore be made.

COMMODITIES RISK

Several power contracts in the Nordic hydropower portfolio, both statutory industrial contracts and long-term 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 authorities have been established in connection with the products that are traded in the forwards market. Product-price dependent power contracts are included in the overall risk assessment for the hydropower portfolio.

GAS PRICE RISK

The Group has shareholdings in five gas-fired power plants, four in Germany and one in Norway, and has in this connection entered into long-term supply contracts for natural gas. The purchase price for these contracts is indexed to coal and oil. Price development in the spot market for electricity, gas, the underlying commodities included in the indexing and CO₂ therefore affect the gas 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 CO₂ costs. The company's risk management department follows up exposures and hedging deals on an ongoing basis. The responsibility for ongoing follow-up of issued authorities and frameworks lies with independent organisational units in Oslo and Düsseldorf.

FOREIGN EXCHANGE 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 exposure to foreign exchange risk in the form of transaction risk primarily relates to power sales revenues in foreign currencies, as well as balance sheet risk connected to shareholdings in foreign subsidiaries in countries such as Belgium, Sweden, Germany and the UK, and in some associates.

The operational currency for trading on energy exchanges is EUR, which means that all contracts that are entered into via energy exchanges are denoted in EUR and are thus exposed to EUR. Statkraft hedges the EUR exposure connected with cash flows as a result of hedged power sales (physical contracts and financial trading on energy exchanges). 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 currency exposure is regularly reported to Group management through the CFO 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 mix 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 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, 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 currency positions that are to be entered into are assessed 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 interest rate exposure per currency is regularly reported to Group management via the CFO 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 loan 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 in connection with the Trading and Origination portfolios. Statkraft is also 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 related revenues are linked to the interest rate market.

The Statkraft Group quantifies risk as deviations from expected post-tax results with a given confidence level. Market risk is included in these calculations, which 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 targets for market risk shall have a 95% probability of covering all potential losses (deviations from expected results) connected with the 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 period for the calculations is one year. For contracts with exposure of more than one year, only the uncertainty relating to 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 as at 31 December 2008 was calculated at NOK 2 562 million, where the main risk relates to energy optimisation. The increase in the risk for energy utilisation from 31 December 2007 to 31 December 2008 should be viewed in conjunction with the fact that production capacity and prices were higher at the end of 2008 than in 2007, and that the downside (risk) was therefore also greater. However, increased volatility on the energy markets also contributed to the increased risk. The increase in interest rate and foreign currency risk is primarily attributable to increased volatility in the interest rate and foreign currency markets.

NOK million	2008	2007
Market risk, energy optimisation	2 532	1 548
Market risk, trading and origination	237	193
Market risk, interest rates and foreign currency	319	91
Market risk, distribution grid revenues	25	15
Market risk, end-user activities	30	40
Diversification effects	-581	-325
Total market risk	2 562	1 562
Diversification effect as percentage	19%	17%

Breakdown of debt by currency by loan ¹

NOK million	2008	2007
Loans in NOK	23 206	18 241
Loans in SEK	5 408	13 882
Loans in EUR	8 734	3 941
Total	37 348	36 064

¹ Includes certificates, interest rate and currency swaps

Breakdown of interest per currency ¹

	2008	2007
Average nominal interest rate, NOK	6.7%	5.1%
Average nominal interest rate, SEK	4.9%	3.7%
Average nominal interest rate, EUR	5.3%	4.8%

¹ Includes certificates, interest rate and currency swaps

Fixed-interest loan portfolio¹

NOK million	Future interest rate adjustments:				Total
	2009	1–3 years	3–5 years	5 years and later	
Loans in NOK	8 274	216	2 624	12 092	23 206
Loans in SEK	5 408	-	-	-	5 408
Loans in EUR	4 387	487	-	3 860	8 734
Total	18 069	703	2 624	15 952	37 348

¹ Includes certificates, interest rate and currency swaps

Liquid funds – bonds per debtor category

NOK million	2008			
	2008	2007	Duration	Av. interest rate (%)
Commercial/savings banks	67	82	1.04	5.42
Industry	23	32	3.34	4.55
Public sector	85	42	4.17	5.05
Total	175	156		

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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 to another party by not fulfilling its obligations. Statkraft is exposed to counterparty risk through power trading and physical sales, investing its surplus liquidity and trading in financial instruments.

No counterparty risk is assumed for financial power contracts that are cleared through energy exchanges. 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. Statkraft also has a separate category for counterparties with whom no trading is performed on ethical grounds.

In some cases, bank guarantees are used to reduce the credit risk on 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 and the debtor pays the net amount owing to the contract counterparty. Settlement normally takes place on a monthly basis.

Excess liquidity is primarily placed with institutions with BBB ratings or higher. A potential loss on the non-fulfilment of the contract by the counterparty is calculated for financial instruments. Statkraft has entered into agreements 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 financial means to fulfil their obligations is regarded as limited. Historically Statkraft's bad debts have been limited.

The maximum credit risk associated with energy derivatives is approximately the same as the book values recognised in the balance sheet.

The frameworks for exposure to 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 pledged parent company guarantees for subsidiaries and associates (Note 39). Statkraft has not guaranteed any loans, or issued guarantees in any other way. Maximum exposure for credit risk does not exceed the recognised values of financial assets already recognised. Gross exposure for credit risk relating to financial assets is partly reduced by the use of collateral. Where relevant collateral of material importance has been pledged, this is stated below.

NOK million	Note	2008	2007
Gross exposure credit risk:			
Other non-current financial assets	20	25 169	2 944
Derivatives	24	12 806	8 326
Receivables	22	11 646	5 094
Short-term investments	23	349	347
Cash and cash equivalents	25	2 209	3 150
Total		52 179	19 861
Exposure reduced by security (guarantees, cash collateral etc.):			
Other non-current financial assets		-	-
Derivatives		-1 334	-1 522
Receivables		-	-
Short-term financial investments		-	-
Cash and cash equivalents		-	-
Total		-1 334	-1 522
Net exposure credit risk		50 845	18 339

In the case of financial derivatives, the credit risk for most counterparties and derivatives is reduced by the provision of security 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 on 31 December. There could therefore be an outstanding credit risk at the year-end.

Frameworks for exposure to individual counterparties have been adopted in the case of short-term financial investments.

All cash and cash equivalents are receivables due from banks.

LIQUIDITY RISK

Statkraft assumes a liquidity risk because the term of its financial obligations is not matched to the cash flows generated by its assets, and because of variations in security requirements linked to both financial contracts in the forward market (energy exchanges) and cash collateral requirements. Statkraft has long-term credit ratings from Standard & Poor's and Moody's Investor Service of BBB+ and Baa1 respectively, both with a "stable outlook". Statkraft has traditionally enjoyed good opportunities for borrowing from the Norwegian and European money markets and in the banking market. The new market situation is resulting in greater uncertainty than in the past. Drawdown facilities have been established 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 4.0. Liquidity capacity in this context is defined as cash and cash equivalents, plus committed drawdown facilities, overdrafts 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. Exposure is regularly reported to Group management via the CFO 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 balanced scorecard.

The finance department prepares the liquidity forecasts, which are 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 drawdown facilities will be Statkraft's buffer against unforeseen events with significant cash flow 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 balanced scorecard.

Maturity schedule, external long-term liabilities

NOK million	2009	2010	2011	2012	2013	After 2013
Repayments of bond loans from the Norwegian market	3 494	5 618	2 672	-	418	11 138
Repayments of other loans	206	114	751	162	3 317	6 448
Interest payments	1 627	1 351	1 142	1 031	954	2 935
Total	5 327	7 083	4 565	1 193	4 689	20 521

Allocation of non-discounted values per period

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.

NOK million	2009	2010	2011	2012	2013	After 2013
Energy derivatives	2 957	2 253	921	624	370	1 812
Interest rate and foreign currency derivatives	2 324	312	189	5	3	213
Total derivatives	5 281	2 565	1 110	629	373	2 025

35 MANAGEMENT OF CAPITAL STRUCTURE

The main aim of the Group's management of its capital structure is to maintain a reasonable balance between the company's debt/equity ratio, its ability to expand and its maintenance of a strong credit-rating.

Tools for long-term management of capital structure primarily comprise of the draw down and repayment of long-term liabilities and payments of share 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 2008.

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 capital included in management of capital structure

NOK million	Note	2008	2007
Long-term interest-bearing liabilities	27	30 639	30 361
Short-term interest-bearing liabilities	28	10 152	6 923
Cash and cash equivalents and short-term financial investments	23, 25	-2 558	-3 497
Net liabilities		38 233	33 787

36 BENEFITS PAID TO EXECUTIVE MANAGEMENT AND THE BOARD

Statkraft is organised into business units and support functions. The managers of these units are members of the Management Team, and report to the Executive Management Team, which comprises the executive vice presidents (EVPs) and President and CEO. Group management also 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 *	3 361 530	-	248 358	3 609 888
Jørgen Kildahl, executive vice president	2 275 703	189 000	187 293	2 651 996
Jon G. Brandsar, executive vice president	1 868 993	160 000	154 664	2 183 657
Siri Hatlen, executive vice president	2 058 436	-	150 688	2 209 124
Eli Skrvøset, executive vice president **	414 750	189 000	38 636	642 386
Stein Dale, executive vice president	1 912 644	234 000	154 278	2 300 922
Ragnvald Nærø, executive vice president	1 852 725	224 000	184 387	2 261 112

* Bård Mikkelsen is a board member of E.ON AG, for which he received directors' fees of NOK 22 661 in 2008.

** Eli Skrvøset resigned her position at the end of March 2008. The salaries and other benefits stated above reflect her service time as EVP.

*** The bonus was earned in 2007 but paid out in 2008. The bonus amount reflects the individual EVPs' periods in office during 2007.

Members of Group management, with the exception of the President and CEO, can qualify for an annual bonus of up to NOK 250 000. The bonus is paid out based on the achievement of individually established targets. The maximum bonus amount has been increased to NOK 500 000 from 2008.

Group management has not received any remuneration or financial benefits from other companies in the same Group other than those shown above. No additional remuneration for special services over and above their normal managerial functions has been provided.

The total salaries and other benefits paid to executive management in 2007 amounted to NOK 15 714 583.

Directors' fees and fees paid to the Audit Committee and Compensation Committee

NOK	Directors' fees	Audit Committee	Compensation Committee
Arvid Grundekjøn, board chair	333 000	-	40 000
Ellen Stensrud, vice chair	277 000	-	-
Halvor Stenstadvold, board member	220 500	72 500	-
Aud Mork, board member	220 500	-	25 000
Astri Botten Larsen, employee-elected board member	220 500	52 500	-
Thorbjørn Holøs, employee-elected board member	220 500	-	-
Odd Vanvik, employee-elected board member	220 500	-	25 000
Egil Nordvik, board member	220 500	-	-
Berit J. Rødseth, board member	220 500	52 500	-

The board has no remuneration agreements other than the directors' fee and remuneration for participation in committee work, nor have any loans or pledges been granted to board members.

Total remuneration paid to the board, Audit Committee and Compensation Committee in 2007 was NOK 2 052 000, NOK 170 000 and NOK 45 000 respectively

Pension provisions – executive management

NOK	Pensions**
Bård Mikkelsen, President and CEO	3 757 921
Jørgen Kildahl, executive vice president	1 297 771
Jon G. Brandsar, executive vice president	667 889
Eli Skrøvset, executive vice president *	133 212
Stein Dale, executive vice president	587 767
Ragnvald Nærø, executive vice president	1 437 283
Siri Hatlen, executive vice president	911 100

* Eli Skrøvset resigned her position at the end of March 2008. The salaries and other benefits stated above reflect her service time as EVP

** Pension scheme cost 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 President and 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 2007 the total pension provision for executive management amounted to NOK 8 622 102.

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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 Group auditors for auditing and other services was as follows:

NOK	2008	2007
Statutory auditing	9 884 000	7 557 000
Other certification services	250 000	620 000
Tax consultancy services	1 129 000	391 000
Other services	292 000	1 841 000
Total	11 555 000	10 409 000

The increase in statutory auditing and tax consultancy expenses between 2007 and 2008 is primarily attributable to services in connection with the swap deal with E.ON AG.

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RELATED PARTIES

All 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 are members of Group management or the board and are also related parties of Statkraft.

In accordance with IAS 24, Astri Botten Larsen has been identified as a related party through her spouse, who is a general manager of and has a 28% shareholding in Norsk Radiokommunikasjon AS. In 2008 Norsk Radiokommunikasjon sold goods and services to Statkraft Energi AS worth NOK 367 000 kroner on market terms and conditions.

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 transactions or outstanding balances of significance with related parties.

The table below shows the transactions with related parties that are associates or joint ventures that are not eliminated in the consolidated financial statements.

NOK million	2008	2007
Revenues	205	56
Expenses	1 422	1 243
Receivables at the end of the period	419	284
Liabilities at the end of the period	102	159

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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. 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 1 916 million. As of 31 December 2008, the book value of the pledged assets in Statkraft Energi AS totalled NOK 4 730 million. Other subsidiaries have a total of NOK 1 351 million in pledged assets.

Obligations and guarantees

The Statkraft Group has the following off-balance-sheet obligations and guarantees

NOK million	2008
Parent company guarantees	3 997
Nord Pool guarantees	2 536
Financial power exchange agreement	1 852
Overdraft facilities guarantee	600
Contingent tax obligation for intragroup transfer of assets	515
Regress guarantee	231
Other guarantees	770
Total	10 501

The Statkraft Group had off-balance-sheet obligations and guarantees totalling NOK 8 413 million in 2007.

CONTRACT OBLIGATIONS

Statkraft has entered into long-term agreements to purchase gas from StatoilHydro and WINGAS respectively.

A third of the production volume in the Knapsack gas power plant is pre-sold to the Dutch energy company Essent, through an agreement with a term of 15 years.

40 LEASES

The total of future minimum lease payments in relation to non-cancellable leases for each of the following periods is

NOK million	Within 1 year of the end of the year	Within between 1 and 5 years of the end of the year	More than 5 years from the end of the year	Total
Property rental agreements	81	302	660	1 043
Other leases	9	8	9	26
Total	90	310	669	1 069

The lease amount connected to leases recognised in the period and specified in the following manner is:

NOK million	Minimum lease	Variable lease	Sublease payments
Property rental agreements	76	-	21
Other leases	13	-	-
Total	89	-	21

There are no other material operating leases. The company has no leases that qualify for treatment as finance leases.

41 CONTINGENCIES, DISPUTES ETC.

REVENUE 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 a revenue shortfall. Revenue 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	2008	2007
NOK million		
Cumulative revenue surplus transferred to subsequent years	137	102
Cumulative revenue shortfall transferred to subsequent years	-8	-23
Net revenue surplus/shortfall	129	79

DISPUTES

Statkraft has extensive business activities and is consequently likely to be involved in disputes of varying magnitude at any one time. At the time of the approval of the financial statements, there were no disputes that could have a material effect on Statkraft's results or liquidity.

42 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, which is a Norwegian state-owned company, established and domiciled in Norway. Statkraft SF is wholly owned by the Norwegian state, through the Ministry of Trade and Industry.

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Statement**
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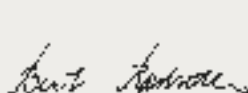
NOK million	NOTE	2008	2007
Sales revenues	1	1 324	350
Salaries and payroll costs	2	-264	-213
Other operating expenses	4	-419	-366
Depreciation and impairments	8	-43	-36
Operating expenses		-726	-615
Operating profit		598	-265
Financial income	6	36 591	9 103
Financial expenses	6	-8 054	-1 884
Net financial items		28 537	7 219
Profit before tax		29 135	6 954
Taxes	7	586	-1 386
Profit after tax		29 721	5 568
Disposal of profit for the year			
Dividend payable	13	-	3 333
Group contribution payable excluding tax effects	13	10 000	3 505
Transfer to (+)/from (-) other equity	13	19 721	-1 270

Balance Sheet

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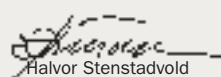
NOK million	NOTE	31.12.08	31.12.07
ASSETS			
Deferred tax asset	7	670	68
Property, plant and equipment	8	155	92
Investments in subsidiaries and associates	9	54 386	46 199
Other non-current financial assets	10	1 344	18 186
Non-current assets		56 555	64 545
Receivables	11	50 516	12 106
Cash and cash equivalents	12	241	2 624
Current assets		50 757	14 730
Assets		107 312	79 275
EQUITY AND LIABILITIES			
Paid-in equity	13	31 569	31 569
Retained earnings	13	20 500	819
Equity		52 069	32 388
Provisions	14	532	454
Long-term interest-bearing liabilities	15	28 043	29 075
Long-term liabilities		28 575	29 529
Short-term interest-bearing liabilities	16	11 922	8 490
Other interest-free liabilities	17	14 746	8 868
Current liabilities		26 668	17 358
Equity and liabilities		107 312	79 275

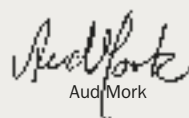
The Board of Directors of Statkraft AS
 Oslo, 18 March 2009


 Berit Rødseth

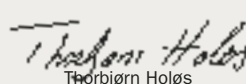

 Arvid Gkundefjøn
 Chair


 Ellen Stensrud
 Deputy Chair

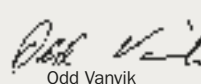

 Halvor Stenstadvoid


 Aud Mork


 Egil Nordvik


 Thorbjørn Holøs


 Astri Botten Larsen


 Odd Vanvik


 Bård Mikkelsen
 President and CEO

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Statement of Cash Flow

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NOK million	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	29 537	6 954
Depreciation and impairments	45	36
Profit on sale of shares	-31 816	-
Cash flow from operating activities	-2 638	6 990
Change in long-term items	77	55
Change in other short-term items	10 684	467
Net cash flow from operating activities	8 123	7 512
	A	
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-109	-45
Proceeds from sale of non-current assets	1	-
Loans to third parties	-771	-2 503
Investments in other companies	-403	-1 610
Net cash flow from investing activities	-1 282	-4 158
	B	
CASH FLOW FROM FINANCING ACTIVITIES		
New long-term debt	6 525	11 752
Repayment of long-term debt	-7 551	-6 154
Dividend and Group contribution paid	-8 198	-7 478
Net cash flow from financing activities	-9 224	-1 880
	C	
Net change in cash and cash equivalents during the year	-2 383	1 473
	A+B+C	
Cash and cash equivalents 01.01	2 624	1 152
Cash and cash equivalents 31.12	241	2 624

Accounting Policies

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 financial statements. Group contributions received are recognised under dividends from subsidiaries.

VALUATION AND CLASSIFICATION PRINCIPLES

Uncertainty relating to 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.

Recognition of revenues and expenses Revenues derived from the sale of goods and services are recognised when they are earned, while expenses are recognised in accordance with the matching principle. Dividends and Group contributions from subsidiaries are recognised in income in the year they are earned, while dividends from other companies are recognised in accordance with the cash principle. Profits/losses on the sale of ordinary non-current 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 recognised 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 pension fund assets for overfunded schemes are classified as non-current assets and recognised in the balance sheet at fair value. Net pension liabilities for underfunded 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 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 realised 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 non-current 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.

Non-current assets are recognised at cost and are written down to fair value when any impairment in value is not considered to be temporary in nature. Non-current assets with a limited useful economic life are depreciated or amortised. Long-term liabilities are recognised 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 recognised 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 recognised 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 asset 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 and associates are recognised using the cost method. Investments are recognised at the cost 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 impairment 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 accounted for using the cost method in the single entity financial statements. Dividends received are treated as financial income.

Receivables Accounts receivable and other receivables are recognised at nominal value less provisions for expected losses. Provisions for losses are recognised on the basis of an individual assessment of the receivables concerned.

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

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

Contingent liabilities Contingent liabilities are recognised 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 accounting 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 trading transaction when it is entered into.

Where agreements are treated as hedging transactions in the financial statements, revenues and costs are accrued and classified in the same way as the underlying position. If cash flow hedging is undertaken, unrealised gains/losses on the hedging instrument are not recognised in the balance sheet.

Foreign currency Balance sheet items denominated 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.

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Interest Interest rate instruments are accrued 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 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 result for the year in order to show cash flow generated by ordinary operating activities, investing activities and financing activities, respectively.

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STATKRAFT AS

01

OPERATING
REVENUES

Operating revenues primarily comprise intragroup service revenues, property rental revenues, and a profit on the sale of Statkraft Markets GmbH to Statkraft Germany GmbH amounting to NOK 905 million.

02

SALARIES AND OTHER
PAYROLL COSTS

NOK million	2008	2007
Salaries	168	131
Employer's national insurance contributions	30	23
Pension costs	53	41
Other benefits	13	18
Total	264	213

The parent company employed an average of 213 full-time equivalents in 2008.

Pension costs are discussed in more detail in Note 3.

For information concerning salaries and payroll costs for Group management and the board, see Note 36 to the consolidated financial statements.

03

PENSIONS

OCCUPATIONAL PENSION SCHEMES

The company is obliged to operate an occupational pension scheme under the Norwegian Act on Mandatory Occupational Pension Schemes. Statkraft AS operates an occupational scheme for its employees through the Norwegian Public Service Pension Fund which meets these requirements. 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 12 times the National Insurance Scheme's basic amount (G). 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 (fictitious 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.

UNSECURED PENSION OBLIGATIONS

Statkraft has in addition to the above schemes entered into agreements that provide employees whose pensionable income exceeds 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G. Agreements have also been entered into that provide some members of Group management with a surviving relative and child pension. In addition, Statkraft AS has a surviving relative scheme, which is a continuation of the Statkraft Pension Fund (which was terminated in 2003). These pensions are funded out of the company's operations.

Breakdown of pension cost for the period

NOK '000	2008	2007
Present value of accrued pension entitlements for the year	36	33
Interest costs on pension liabilities	23	15
Projected yield on pension assets	-6	-7
Net pension costs	53	41

Reconciliation of pension liabilities and pension fund assets

NOK '000	2008	2007
Gross pension liabilities	499	387
Pension assets in the Norwegian Public Service Pension Fund	-166	-138
Employer's national insurance contributions	44	36
Net pension liabilities	377	285

Movement in estimate deviations recognised directly in equity

NOK '000	2008	2007
Cumulative amount recognised directly in equity before tax 1 Jan	103	110
Estimate deviations recognised in equity during the year	56	33
Cumulative amount recognised directly in equity before tax 31 Dec	159	143
Recognised in equity	143	103
Recognised in deferred tax	16	40

Economic assumptions

	31.12.08	01.01.08	31.12.07
Discount rate	3.70%	4.60%	4.60%
Salary adjustment	4.00%	4.00%	4.00%
Adjustment of current pensions	3.75%	4.00%	4.00%
Adjustment of National Insurance Scheme's basic amount (G)	3.75%	4.00%	4.00%
Projected yield on pension assets	3.70%	4.60%	4.60%
Forecast voluntary exit			
– Up to age 45	2.50%	2.50%	2.50%
– Between age 45 and 60	0.50%	0.50%	0.50%
– Over age 60	0.00%	0.00%	0.00%
Rate of inflation	2.00%	2.25%	2.25%
Tendency to take early retirement (AFP)	20.00%	20.00%	20.00%

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 2008 are calculated on the basis of updated mortality (K2005) and disability tariffs (IR73).

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 for the year.

04 OTHER OPERATING EXPENSES

NOK million	2008	2007
Materials	55	9
Purchase of third party services	196	164
Other operating expenses	168	193
Total	419	366

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 2008 are broken down as follows:

NOK	2008	2007
Statutory auditing	2 560 000	2 294 000
Other certification services	121 000	271 000
Tax consultancy services	240 000	-
Other services	125 000	1 313 000
Total	3 046 000	3 878 000

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FINANCIAL INCOME AND EXPENSES

Financial income

NOK million	2008	2007
Interest income from Group companies	1 418	1 057
Interest income	243	219
Other financial income	34 930	7 827
Total	36 591	9 103

Other financial income in 2008 primarily comprises the sale of the shareholding in Statkraft Invest AB (which in turn owned E.ON Sverige AB) which resulted in a profit of NOK 31 815 million. This item also includes dividends and Group contributions from subsidiaries totalling NOK 3 109 million.

Financial expenses

NOK million	2008	2007
Interest expenses paid to Group companies	909	923
Interest expenses	1 542	950
Other financial expenses	5 603	11
Total	8 054	1 884

The increase in other financial expenses is primarily attributable to currency losses, hedging of power sales revenues and the swapping of liabilities denominated in foreign currencies. Losses on the transfer of loans in the form of contributions in kind to subsidiaries are also included in this item.

07

TAXES

The total tax expense is calculated as follows

NOK million	2008	2007
Income tax	-	1 363
Change in deferred tax	-586	23
Total tax expense in the income statement	-586	1 386

Income tax payable

Taxes payable on the Group's profit for the year	-	1 363
Effect of Group contributions on tax liability	-	-1 363
Income tax payable	-	-

Tax payable in the balance sheet

NOK million	2008	2007
Correction tax	-	75
Tax payable in the balance sheet:	-	75

Reconciliation of nominal tax rate and effective tax rate

NOK million	2008	2007
Profit before tax	29 135	6 954
Expected tax expense at a nominal rate of 28%	8 158	1 947
Effect on taxes of:		
Tax-free income	-9 036	-701
Other permanent differences, net	292	140
Total tax expense	-586	1 386
Effective tax rate	-2%	20%

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 pension estimate deviation totals NOK 16 million, and is recognised directly in the balance sheet.

NOK million	2008	2007
Current assets/current liabilities	-25	79
Property, plant and equipment	-54	-39
Pension liabilities	-379	-285
Tax losses carried forward	-1 936	-
Total temporary differences and tax loss carryforwards	-2 394	-245
Total deferred tax liability (+)/deferred tax asset (-)	-670	-68
Applied tax rate	28%	28%

08

PROPERTY,
PLANT AND
EQUIPMENT

NOK million	Other	Facilities under construction	Total
Cost 1 Jan 2008	258	18	276
Additions	39	70	109
Disposals	-13	-	-13
Transferred from facilities under construction	6	-6	-
Cost 31 Dec 2008	290	82	372
Accumulated depreciation and impairments 31 Dec 2008	-217	-	-217
Book value 31 Dec 2008	73	82	155
Depreciation charge for the year	-43	-	-43
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 Germany GmbH	Düsseldorf	100%	3 608
Statkraft Suomi Oy	Kotka	100%	911
Statkraft Financial Energy AB	Stockholm	100%	-
Statkraft Sverige AB	Stockholm	100%	3 159
Statkraft UK Ltd.	London	100%	94
Statkraft Development AS	Oslo	100%	366
Statkraft Industrial Holding AS (tidligere Statkraft Regional Holding AS)	Oslo	100%	13 951
Statkraft Forsikring AS	Oslo	100%	80
Småkraft AS ¹	Oslo	20%	51
Statkraft Western Balkans d.o.o.	Beograd	100%	34
Renewable Energies and Photovoltaics Spain S.L.	Malaga	70%	4
Statkraft SCA Vind AB	Stockholm	60%	5
Statkraft Värme AB	Kungsbacka	100%	642
Statkraft Treasury Centre SA	Brüssel	100%	17 900
Wind Power Bulgaria EOOD	Sofia	60%	6
Statkraft d.o.o.Banja Luka	Banja Luka	100%	-
Statkraft Agder Energi Vind DA	Kristiansand	66%	-
Statkraft Albania LLC	Tirania	100%	-
Statkraft Montenegro	Podgorica	100%	-
Total subsidiaries			50 877
Associates and joint ventures			
Naturkraft AS	Bærum	50%	1 089
Statkraft Norfund Power Invest AS	Oslo	50%	2 253
Hydra Tidal Energy Technology AS	Oslo	28%	6
Energy Future Invest AS	Oslo	34%	148
RA 1 s.r.l.	Milano	50%	6
RA 2 s.r.l.	Milano	50%	-
Windsea AS	Oslo	49%	7
HPC Ammerån AB	Stockholm	50%	-
HPC Byske AB	Stockholm	50%	-
HPC Edsox AB	Stockholm	50%	-
HPC Røan AB	Stockholm	50%	-
Total associates and joint ventures			3 509
Total			54 386

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.

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10 OTHER NON-CURRENT FINANCIAL ASSETS

NOK million	2008	2007
Loans to Group companies	1 049	18 168
Other shares and loans	295	18
Total	1 344	18 186

Loans to Group companies have been reduced as a result of the transfer of the bulk of the loan portfolio to Statkraft Treasury Centre SA.

11 RECEIVABLES

NOK million	2008	2007
Interest-bearing restricted funds	1 910	502
Other receivables	3 702	635
Current receivables from Group companies	44 904	10 969
Total	50 516	12 106

As of 31 December 2008, no need to recognise a 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.

Other receivables include NOK 2 827 million relating to the final settlement in connection with the swap deal with E.ON AG.

Current receivables from Group companies primarily relate to dividends and Group contributions due from Group companies totalling NOK 3 117 million, and an intercompany loan amounting to NOK 41 787 million.

12 BANK DEPOSITS, CASH IN HAND ETC.

NOK million	2008	2007
Certificates and promissory notes	-	404
Cash in hand and bank deposits	241	2 220
Total	241	2 624

Cash in hand and bank deposits for 2008 includes NOK -534 million relating to cash collateral. Cash collateral represents payments made to/by counterparties as security for net unrealised gains/losses Statkraft recognises on interest rate and currency swaps. Since such gains/losses are not recognised in income, a contra entry amounting to NOK 1 385 million has been recorded under other interest-free liabilities, while NOK 1 910 million has been recognised under receivables.

As of 31 December 2008, Statkraft AS had unused long-term committed credit lines of up to NOK 8 000 million and unused overdraft facilities totalling NOK 400 million.

13 EQUITY

NOK million	Paid-in capital			Retained earnings	Total equity
	Share capital	Share premium account	Other paid-in capital		
Equity 31 Dec 2006	20 000	11 553	16	1 432	33 001
Group contributions relating to previous years	-	-	404	-	404
Profit for 2007	-	-	-	5 568	5 568
Consolidation of subsidiaries	-	-	-	275	275
Estimate deviations pensions	-	-	-	-23	-23
Group contributions paid	-	-	-404	-3 101	-3 505
Dividend to Statkraft SF	-	-	-	-3 332	-3 332
Equity 31 Dec 2007	20 000	11 553	16	819	32 388
Profit for 2008	-	-	-	29 721	29 721
Estimate deviations pensions	-	-	-	-40	-40
Group contributions paid	-	-	-	-10 000	-10 000
Equity 31 Dec 2008	20 000	11 553	16	20 500	52 069

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	2008	2007
Pension liabilities	377	285
Other provisions	155	169
Total	532	454

Pension liabilities are discussed in more detail in Note 3.

15
 INTEREST-BEARING
 LONG-TERM
 LIABILITIES

NOK million	2008	2007
Loan from Statkraft SF (back-to-back agreement)	5 165	6 034
Bond loans from the Norwegian market	14 406	15 311
Other	14	-
Other loans raised from non-Norwegian markets	8 458	7 730
Total	28 043	29 075

All interest swaps are recognised in Other loans raised from non-Norwegian markets.

Breakdown of loans by currency

NOK million	2008	2007
Loans in NOK	13 902	11 271
Loans in SEK	5 408	13 863
Loans in EUR	8 733	3 941
Total	28 043	29 075

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	6.65%	5.60%
Average nominal interest rate, SEK	4.86%	3.70%
Average nominal interest rate, EUR	5.30%	4.70%

Fixed-interest loan portfolio

NOK million	Future interest rate adjustments				Total
	2009	1-3 years	3-5 years	5 years and later	
Loans in NOK	3 634	-	1 826	12 092	17 552
Loans in SEK	5 408	-	-	-	5 408
Loans in EUR	4 387	487	-	3 860	8 734
Total	13 429	487	1 826	15 952	31 694

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

Repayment schedule

NOK million	2009	2010	2011	2012	2013	After 2013	Total
Loan from Statkraft SF (back-to-back agreement)	2 023	4 112	653	-	-	400	7 188
Bond loans from the Norwegian market	1 461	1 538	2 019	-	-	10 754	15 772
Other loans from non-Norwegian markets	168	-	660	132	2 915	5 825	9 700
Other	-	14	-	-	-	-	14
Exchange rate adjustments, currency and interest swaps	-980	-	-	-	-	-	-980
Total	2 672	5 664	3 332	132	2 915	16 979	31 694

The recognised effects of underlying currency and interest rate swaps have been allocated to their respective dates of maturity.

16
 INTEREST-BEARING
 SHORT-TERM
 LIABILITIES

NOK million	2008	2007
First year's instalment of liabilities	3 651	4 912
Group cash pooling liability	2 377	1 965
Certificate loans	4 509	900
Cash collateral (see Note 12)	1 385	713
Total	11 922	8 490

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17 OTHER INTEREST-FREE LIABILITIES

NOK million	2008	2007
Other interest-free liabilities	3 707	413
Taxes payable (See Note 7)	-	75
Dividend payable	-	3 332
Current liabilities due to Group companies	11 039	5 048
Total	14 746	8 868

Current liabilities due to Group companies primarily comprise the Group contribution without tax effect payable to the parent company Statkraft SF amounting to NOK 10 000 million.

18 OBLIGATIONS AND GUARANTEES

Statkraft AS has off-balance-sheet obligations and guarantees totalling NOK 4 494 million. Of this, an amount of NOK 3 948 million relates to parent company guarantees, NOK 515 million to a contingent tax liability concerning an intragroup assets transfer and NOK 17 million to tax deductions payable.

Statkraft leases an office building at Lilleakerveien 6 in Oslo. The lessor is Mustad Eiendom AS. The agreement has a residual term of 13.5 years with an option to renew for a further ten years. The annual rent totals NOK 59.5 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 accounting policies note.

CURRENCY AND INTEREST RATE AGREEMENTS

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

NOK million	31.12.08		31.12.07	
	Book value	Fair value	Book value	Fair value
Interest rate swaps	-	469	-	-8
Forward interest rate agreements	-	2	-	-
Combined interest rate and currency swaps	980	1 146	186	310
Forward exchange contracts	-2 103	-2 103	74	74
Total	-1 123	-486	260	376

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 currency swaps) are used to manage the company's interest rate risk and are recognised as hedging instruments. These are recognised at cost, which is zero, in the balance sheet. Unrealised losses on the part of the loan contract that is swapped are offset against non-recognised, 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 currency swaps is recognised at the exchange rate in effect on the balance sheet date. The change in value recognised in the income statement is offset by a comparable change in value of underlying loans in the same currency.

20 RELATED PARTIES

Statkraft AS owns shareholdings 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

DeloitteDeloitte AS
Karenslyst allé 20
Postboks 347 Skøyen
0213 Oslo
Telefon: 22 27 90 00
Telefax: 22 27 90 01
www.deloitte.no

To the Annual Shareholders' Meeting of Statkraft SF

AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of Statkraft SF as of 31 December 2008, showing a profit of NOK 10,279 million for the parent company and a profit of NOK 33,529 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 2008, 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 2008, 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, 18 March 2009
Deloitte ASAsse As, Lundgaard
State Authorised Public Accountant (Norway)

Audit, Tax & Legal, Consulting, Financial Advisory

Org. nr.: 980 211 342

Member of
Deloitte Touche Tohmatsu

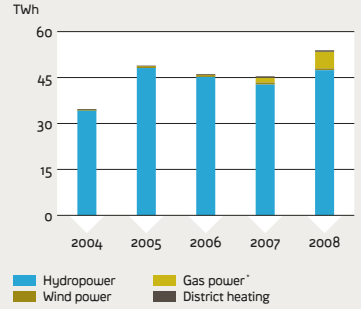
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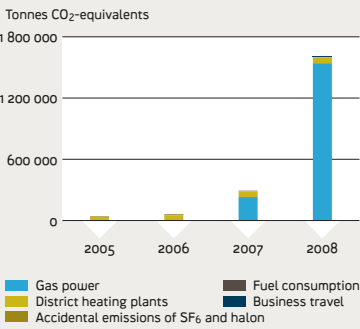
Power generation: Power generation in the Group totalled 53.4 TWh in 2008 (including Herdecke, Germany). This represents a 19% increase compared with 2007 and a 54% rise compared with 2004. The high production level in 2008 is attributable to the fact that this was the first full year of operation of the company's gas-fired power plants in Germany, and to high levels of hydro-power production.

POWER GENERATION AND DISTRICT HEATING (STATKRAFT'S SHARE)



* Includes the jointly controlled Herdecke (Germany) and Kårstø (Norway) power plants.

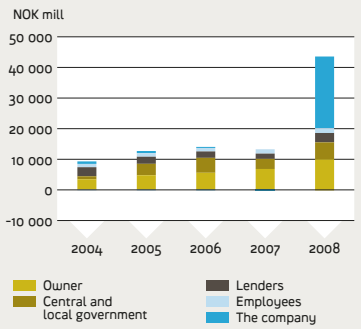
GREENHOUSE GAS EMISSIONS



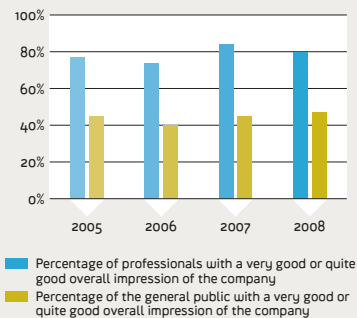
Greenhouse gas emissions: The Group's total emissions of CO₂-equivalents amounted to 1 605 000 tonnes in 2008. The significant increase compared with 2007 (292 000 tonnes) is primarily attributable to the fact that 2008 was the first full year of operation for Knapsack gas-fired power plant in Germany. Emissions from Knapsack account for 96% of the Group's total CO₂ emissions.

Allocation of value creation: 2008 was characterised by record value creation (NOK 43 566 million) and a record dividend for the owner (NOK 10 000 million). The high level of value creation is primarily attributable to profits recognised in connection with the swap deal with E.ON AG (NOK 25 591 million), and high levels of power generation and solid electricity prices.

ALLOCATION OF VALUE CREATION



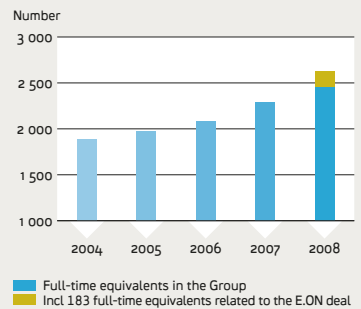
STATKRAFT'S REPUTATION



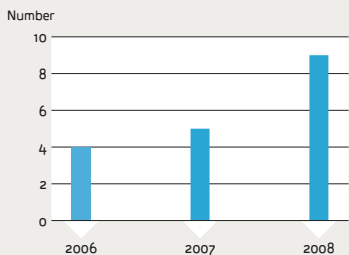
Statkraft's reputation: Statkraft is continuously working to reinforce its reputation and the Group ran two profile-raising advertising campaigns in Norway in 2008. Statkraft's reputation among the general public has been strengthened in recent years and in 2008 47% of the public had a good or very good impression of Statkraft. Statkraft's reputation among professionals remains high.

Full-time equivalents at Statkraft: The Statkraft Group has grown significantly in recent years, not least internationally. The number of full-time equivalents increased by 40% between 2004 and 2008, with 15% of the growth taking place last year. 183 of the full-time equivalents are connected to the E.ON agreement. As of 31 December 2008 the Group employed staff in 15 countries, 15% of whom work outside Norway.

FULL-TIME EQUIVALENTS AT STATKRAFT



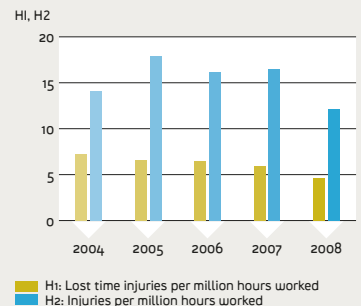
FATALITIES AT ASSOCIATES



Fatalities at associates: In 2008 there were nine fatalities at Statkraft's associates, all at SN Power. Six of the fatalities occurred on the Allain Duhangan project in India and two fatalities occurred at the La Higuera and La Confluencia construction projects in Chile. A ten-year old boy also drowned in the inlet duct at a power plant in Peru. Statkraft is continuously working to increase understanding of safety requirements on all development projects. Two HSE reviews were performed on the Allain Duhangan project in 2008 and several measures have been implemented on the basis of the results of the reviews.

Injuries and lost-time injuries: Statkraft's target is to experience zero injuries in connection with the Group's activities. The Group's injury statistics are currently improving and in 2008 the H1 indicator was 4.6, while the H2 indicator was 12.1. The improvement is generally accredited to an increased focus on reporting and analysis of incidents and hazardous conditions, along with more stringent requirements regarding examination of hazardous conditions.

INJURIES



ENVIRONMENTALLY
 FRIENDLY
 PRODUCTION

Installed capacity (Statkraft's share)	Unit of measurement	2008**	2007	2006
Installed capacity	MW	15 478	12 355	11 213
Of which hydropower	MW	12 546	10 573	10 676
Of which wind power	MW	245	245	245
Of which gas power*	MW	2 130	1 210	-
Of which bio fuel	MW	16	-	-
Of which district heating	MW	541	327	292
Geographical distribution				
Norway	MW	11 070	10 998	10 955
Other Nordic	MW	1 544	358	358
Other European	MW	2 247	1 000	-
Rest of the world	MW	621	-	-

* Includes the jointly controlled Herdecke (Germany) and Kårstø (Norway) power plants.

** Includes power plants and district heating plants covered by the E.ON transaction, the consolidation of SN Power, and is applicable from Januar 2009.

Power generation and district heating production

(Statkraft's share)	Unit of measurement	2008	2007	2006
Power production, actual	TWh	53.4	44.9	45.7
Of which hydropower	TWh	47.4	42.7	45.2
Of which wind power	TWh	0.6	0.7	0.5
Of which gas power*	TWh	5.4	1.5	-
District heating	TWh	0.5	0.5	0.4
Proportion of renewable power production	%	89.7	96.4	99.6

* Includes the jointly controlled Herdecke (Germany) and Kårstø (Norway) power plants.

CLIMATE

Emissions	Unit of measurement	2008	2007	2006
Emissions of CO ₂ -equivalents	Tonnes	1 604 700	291 600	63 700
Of which from gas-fired power plants	Tonnes	1 541 300	229 900	-
Of which from district heating	Tonnes	56 400	55 700	137 500
Of which from SF ₆ emissions	Tonnes	2 000	2 000	9 600
Of which from halon emissions	Tonnes	150	1 200	-
Of which from fuel consumption*	Tonnes	3 200	2 800	3 800
Of which from business travel**	Tonnes	1 600	-	-
SF ₆ emissions	Kg	89	86	400
Halon emissions	Kg	20	303	-

* CO₂ from fuel consumption from the Group's own equipment and machinery.

** Comprises air travel and mileage reimbursements for private vehicle use in the Norwegian operations. Skagerak Energi and air travel in Trondheim Energi is not included.

Inventories of greenhouse gases	Unit of measurement	2008	2007	2006
SF ₆	Kg	30 200	23 600	-
Halon	Kg	1 600	2 200	-

Statkraft has been temporarily exempted from the requirement to phase out halon as an explosion suppression medium in transformer rooms. Statkraft Energi AS is currently undertaking tests in order to replace halon with FE-36. A new plan for phasing out the use of halon will subsequently be developed.

Carbon quotas	Unit of measurement	2008	2007	2006
Allocated carbon quotas	Tonnes	1 840 000*	-	-

* Includes Knapsack gas-fired power plant.

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IN NATURE AND
BIOLOGICAL DIVERSITY

Impact on watercourses	Unit of measurement	2008	2007	2006
Affected river courses with anadromous fish	Km	806	806	806
Presence in national salmon rivers	Number	12	12*	6
Presence in protected rivers	Number	32	32*	23

* Increase from 2006 due to measures relating to new national salmon rivers and protected rivers.

Fish management	Unit of measurement	2008	2007	2006
Restocking of fish and smolt *	Number	732 000	593 000	729 000
Egg planting	Number	1 775 000**	1 164 000	850 000

* Include salmon, sea trout, inland trout and char.

** Large increase due to the reestablishment of fish stocks in Ranaelva and Røssåga.

Distribution grid and cables	Unit of measurement	2008	2007	2006
Overhead lines				
High voltage (more than 1 kV)	Km	3 500	7 500*	-
Low voltage (up to 1 kV)	Km	4 600	-	-
Underground and undersea cables	Km	14 000	-	-
District heating grid	Km	170	-	-

* Total high voltage and low voltage lines.

ENERGY AND
RESOURCE
CONSUMPTION

Consumption	Unit of measurement	2008	2007	2006
Electricity *	GWh	828	843	213
Of which pumped-storage power	GWh	595	598	-
Of which electric boilers for district heating plants	GWh	118	107	-
Of which other operations	GWh	115	-	-
Of which certified renewable (RECS)	%	100	100	100
Fossil fuels				
Natural gas, gas-fired power plants	Mill. Nm ³	767.4	116.1	-
Fuel gas, district heating plants	Tonnes	5 100	5 500	-
Fuel oil	Tonnes	800	2 200	-
Engine oil **	Tonnes	1 000	900	1 300
Other fuel				
Waste for district heating plants	Tonnes	163 800	138 500	-
Biofuel	Tonnes	5 700	5 200	-
Transformer, lubricating and hydraulic oils	Litres	4 700	6 800	10 400

* Does not include energy losses at transformer stations and power lines. Electric boilers are included from 2007.

** Includes consumption of fuel for own equipment and machinery.

Inventories	Unit of measurement	2008	2007	2006
Transformer, lubricating and hydraulic oils	m ³	5 250	-	-

Energy optimisation	Unit of measurement	2008	2007	2006
Increased production capacity through optimisation projects	GWh	45	-	-
Energy losses, transformer stations and power lines	GWh	638*	-	-

* Does not include Trondheim Energi.

LOCAL
POLLUTION

	Unit of measurement	2008	2007	2006
SO ₂ from district heating plants	Tonnes	16	15	21
NO _x	Tonnes	1 225	152	141
Of which from gas power	Tonnes	1 009	-*	-
Of which from district heating plants	Tonnes	216	152	141

* Data unavailable for the running-in period of the Knapsack gas-fired power plant.

WASTE
 MANAGEMENT

Waste	Unit of measurement	2008	2007	2006
Hazardous waste	Tonnes	34 287	26 765	-
Of which from waste incineration *	Tonnes	33 811	26 393	-
Of which other hazardous waste	Tonnes	476	372	267
Other waste	Tonnes	1 650	1 268	2 154
Percentage of other waste recycled				
Total	%	81**	86	74
Material recycling	%	67**	-	-
Energy recycling	%	14**	-	-

* Consists of slag, filter dust and filter cake. Reported since 2007.

** Only includes the Generation and Markets segment.

 ENVIRONMENTAL
 NON-COMPLIANCES

Environmental non-compliances and incidents	Unit of measurement	2008	2007	2006
Serious environmental non-compliances	Number	1	1	0
Serious environmental incidents	Number	0	0	1
Less serious environmental non-compliances	Number	27	32	18

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 2008 when the water flow in a section of the Surna river was significantly reduced following a breakdown at Trollheim Power Plant on 27 July. The Norwegian Institute for Environment Research (NINA) estimated that around 20 000 salmon and sea trout alevin could have been stranded.

In addition, 27 less serious environmental non-compliances were recorded in 2008. The majority of these related to brief violations of minimum water flow requirements.

Fines	Unit of measurement	2008	2007	2006
Fines for breaches of environmental legislation				
Number	Number	0	1	-
Total	NOK million	0	1.5*	-

* The fine was due to a generator failure at Trollheim power station in 2005. Profits of NOK 2 million were also confiscated.

 CONTRIBUTION
 TO SOCIETY

Value creation	Unit of measurement	2008	2007	2006
Gross operating revenues	NOK million	25 061	17 619	16 200
Unrealised changes in value energy contracts	NOK million	4 282	-739	1 865
Paid to suppliers for goods and services *	NOK million	8 242	5 412	2 666
Gross value added	NOK million	21 101	11 468	15 399
Depreciation and amortisation	NOK million	1 553	1 639	1 488
Net value added	NOK million	19 548	9 829	13 911
Financial income	NOK million	26 435	400	279
Unrealised changes in value currency and interest rates	NOK million	-3 102	227	-1 131
Share of profit from associates	NOK million	935	2 631	1 935
Minority interests	NOK million	250	166	387
Total wealth for distribution	NOK million	43 566	12 903	14 607

* Includes energy purchases, transmission costs and other operating expenses.

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Distribution of value added	Unit of measurement	2008	2007	2006
Employees				
Gross salaries and benefits	NOK million	1 594	1 419	1 146
Lenders/owner				
Interest	NOK million	3 066	1 717	1 422
Dividend *	NOK million	10 000	6 837	5 598
Taxes **	NOK million	5 524	3 301	4 878
The company				
Change in equity	NOK million	23 282	-371	1 566
Total wealth distributed	NOK million	43 566	12 903	14 607

* 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	2008	2007	2006
Total, all local authorities to which tax is paid	NOK million	1 407.7	1 361.0	1 225.2
Total, 10 largest local authorities to which tax is paid	NOK million	652.6	630.4	570.5
Vinje	NOK million	91.0	91.8	81.0
Hemnes	NOK million	84.8	84.4	76.9
Suldal	NOK million	81.4	75.8	70.6
Rana	NOK million	75.2	73.1	69.4
Sirdal	NOK million	60.9	60.2	53.1
Nore og Uvdal	NOK million	57.7	55.0	45.5
Meløy	NOK million	52.4	50.1	44.7
Eidfjord	NOK million	52.2	49.8	42.7
Tokke	NOK million	51.4	46.3	44.7
Luster	NOK million	45.6	43.9	42.0

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	2008	2007	2006
Statutory-priced industrial contracts				
Volume sold	TWh	8.3	10.3	13.1
Value lost	NOK million	-1 438	-587	-3 357
Concessionary fixed-price contracts				
Volume sold	TWh	2.6	2.9	2.5
Value lost	NOK million	-706	-395	-785

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	2008	2007	2006
Sponsorships, total	NOK million	18.75	14.65	10.10
Of which brands:				
Statkraft	NOK million	8.60	6.10	-
Trondheim Energi	NOK million	1.09	0.95	-
Skagerak Energi	NOK million	9.06	7.60	-
Donations, total to teams and organisations	NOK million	7.00	5.34	1.71
Of which brands:				
Statkraft	NOK million	4.60	2.50	1.15
Trondheim Energi	NOK million	2.13	2.09	0.36
Skagerak Energi	NOK million	0.13	0.65	0.21
Fjordkraft	NOK million	0.14	0.10	-
The Statkraft Fund, total	NOK million	5.0	2.0	5.0
Granted:				
Ny-Ålesund Symposium at Svalbard	NOK million	2.0	-	-
The Trondheim Science Museum in Trondheim	NOK million	1.5	-	-
The Technichus Centre in Håmösand, Sweden	NOK million	1.5	-	-

Financial support received from authorities	Unit of measurement	2008	2007	2006
Financial support from authorities, total	NOK million	2.2	11.03	-
Of which investment support	NOK million	1.9	6.08	-
Of which R&D support	NOK million	-	4.30	-
Of which other	NOK million	0.3	0.65	-

Procurements	Unit of measurement	2008	2007	2006
Procurements, total*	NOK million	3 900	3 000	2 900
Suppliers, total	Number	7 500	-	-
Suppliers registered in Sellihca**	Number	2 012	-	-

* Excluding Fjordkraft.

** Common pre-qualifying scheme and supplier register for the Nordic energy sector.

Customers	Unit of measurement	2008	2007	2006
Retail customers	Number	399 000	401 000	67 000
Distribution grid customers	Number	273 000	271 000	268 000
District heating customers	Number	7 000	-	-

* Fjordkraft has been consolidated since 2007.

BRANDS

Reputation, Statkraft	Unit of measurement	Target	2008	2007	2006
General public *	%	50	47	45	40
Professionals **	%	75	80	84	74

* Percentage of people 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

Customer satisfaction	Unit of measurement	2008	2007	2006
Trondheim Energi Kraftsalg *		64	64	58
Fjordkraft *		64	62	63
Skagerak Energi **	%	89	87	80

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

** Satisfaction with customer service centre.

EMPLOYEE MATTERS

Employees	Unit of measurement	2008	2007	2006
Full-time equivalents 31.12	Number	2 633*	2 287	2 087
Of which in Norway	Number	2 236	-	-
Of which in other Nordic regions	Number	44	-	-
Of which in other European countries	Number	163	-	-
Of which in the rest of the world	Number	7	-	-
Percentage of full-time employees 31.12	%	95	93	-
Staff turnover rate **	%	4.0	5.0	2.7
Average service time	Year	14	15	16
Apprentices employed 31.12	Number	48	49	47
Trainees employed 31.12	Number	35	23	14

* Including new employees transferred on 31. December as per the E.ON agreement, totalling 183 full-time equivalents.

** Excluding retirements.

Gender equality	Unit of measurement	2008	2007	2006
Percentage of women				
Total	%	24	24	22
In Norway	%	24	-	-
In other Nordic regions	%	14	-	-
In other European countries	%	21	-	-
In management positions	%	21	22	17
In Group management	%	17	29	29
On the board of directors	%	44	44	44
New employees	%	26	27	-
New managers	%	32	33	-
Full-time employees	%	21	21	-
Part-time employees	%	64	74	-
Equal salaries *				
Total		0.93	0.95**	-
Managers		0.97	1**	-

* Average salary for women in relation to salary for men.

** Does not include Trondheim Energi, Skagerak Energi and Fjordkraft.

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Age	Unit of measurement	2008	2007	2006
Age				
<30	%	9	7	7
30-34	%	10	9	9
35-39	%	13	12	13
40-44	%	17	17	16
45-49	%	16	16	17
50-54	%	14	16	16
55-59	%	14	15	15
>59	%	8	8	8
Average age	Years	45	46	47

Education	Unit of measurement	2008	2007	2006
Competence level				
Secondary school	%	12	14	15
Technician/master craftsman	%	31	36	36
College (1–3 years)	%	18	21	22
University (>3 years)	%	20	20	20
Undisclosed	%	22*	9*	7*
Employees on management development programme	Number	55**	75	69
Employees on project management programme	Number	301	-	-
Employees who have performed annual employee review	%	87	69	-

* Skill levels of employees at Knapsack, SMC, Graning and Fjordkraft are not recorded.

** Comprises the Group's three management development programmes - Just, Next and Reflexion.

Statkraft as employer	Unit of measurement	Target	2008	2007	2006
Organisation and leadership evaluation					
Result	Scale of 1 to 5, where 5 is best	4.0	4.1	4.1	4.1
Response rate	%		87	88	89
Ranking* among					
Business students	Ranking	-	43	53	33
Business students, selected courses**	Ranking	10	35	-	-
Technology students	Ranking	-	15	28	41
Technology students, selected courses**	Ranking	10	10	-	-

* Ranking as preferred employer by final-year students. Source: Universum Graduate Survey.

** Courses identified as especially relevant for Statkraft.

INCENTIVE
SCHEMES

Variable salary scheme	Unit of measurement	2008	2007	2006
Total variable salaries				
Statkraft's Norwegian operations* **	NOK/employee	19 000	24 000	15 000
Trondheim Energi**	NOK/employee	17 000–28 000***	26 800	-
Skagerak Energi****	NOK/employee	5 000	12 000	-
Fjordkraft*****	NOK/employee	14 000	21 600	-
Individual variable salaries, total				
Statkraft's Norwegian operations*	NOK million	21.1	13.4	12.7
Trondheim Energi	NOK million	0.8	-	-

* Excluding Trondheim Energi, Skagerak Energi and Fjordkraft.

** Based on an operational index and an index for non-compliance recording and improvement proposals. Each index can result in a maximum payment of up to NOK 15 000/employee.

*** Dependent on subsidiary in the Trondheim Energi Group.

**** Based on an index for non-compliance recording and improvement proposals that can result in a maximum payment of up to NOK 15 000/employee.

***** Based on six indicators, with a maximum payment of NOK 36 000/employee.

HEALTH AND
 SAFETY

Fatalities	Unit of measurement	2008	2007	2006
Consolidated operations				
Employees	Number	0	0	0
Contractors	Number	0	0	0
Associates*	Number	9	5	4

* Including contractors and third parties.

In 2008 there were nine fatalities associated with the company (all within SN Power). The fatalities were mainly associated with transport operations, landslides and avalanches. Six of the fatalities occurred on the Allain Duhangan project in India. There were also two fatalities on projects in Chile, one at La Higuera and one at La Confluencia. In addition, a child drowned in the intake duct of a power station in Peru.

Injuries	Unit of measurement	Target	2008	2007	2006
Employees					
Number of					
lost-time injuries	Number	0	20	25	25
H1	Lost-time injuries per million hours worked	0	4.6	5.9	6.5
Number of injuries					
H2	Injuries per million hours worked	0	53	70	62
F	Sickness days per million hours worked	0	12.1	16.5	16.2
Contractors					
Number of					
lost-time injuries	Number		5	15	17
Third parties					
Number of injuries*	Number		1	-	-

* Recorded injuries requiring treatment by a doctor.

Fines for breach of health and safety legislation	Unit of measurement	2008	2007	2006
Number	Number	1*	-	-
Total	NOK	100 000	-	-

* Accident in the workplace at Smøla in 2006, where an apprentice received an electric shock.

Sickness absence	Unit of measurement	2008	2007	2006
Sickness absence, total	%	3.9	3.9	4.1
Of which short-term absence (up to 16 days incl.)	%	1.8	1.9	1.9
Of which long-term absence (more than 16 days)	%	2.1	2.0	2.2

Non-compliances and improvement proposals*	Unit of measurement	2008	2007	2006
Operations, total	Number	7 686	-	-
Hazardous conditions **	Number	4 524	2 275	-
Recorded improvement proposals, total*	Number	1 989	-	-

* Excluding Fjordkraft.

** Recorded incidents involving safety risk, also covers matters involving no risk of personal injuries.

Global Reporting Initiative index



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	1-3	
1.2	Description of key impacts, risks, and opportunities	1-5, 25, 29, 36-37, 42-43	
→	Organisational Profile		
2.1	Name of the organisation	Cover, 4-5	
2.2	Primary brands, products, and/or services	4-7	
2.3	Operational structure of the organisation	6-7, 24-25, 44-57, 131	
2.4	Location of organisation's headquarters	131	
2.5	Countries where the organisation operates	4-5	
2.6	Nature of ownership and legal form	44-47	
2.7	Markets served	4-19, 32-35, 48-57	
2.8	Scale of the reporting organisation	Cover, 4-7, 21-24, 38-41, 48-57	
2.9	Significant changes in size, structure, or ownership	1-2, 6-7, 20-21, 75-77	
2.10	Awards received in the reporting period	The Farmand award for the annual report 2007 (second place)	
→	Report Parameters		
3.1	Reporting period	2008	
3.2	Date of most recent previous report	Annual report 2007	
3.3	Reporting cycle	Annual	
3.4	Contact point for questions regarding the report	131	
3.5	Process for defining report content	128	
3.6	Boundary of the report (organisational)	128	
3.7	Limitations on the scope or boundary of the report	128	
3.8	Basis for reporting on joint ventures, subsidiaries etc.	70-71, 128	
3.9	Data measurement techniques	119-125, 128	
3.10	Explanation of the effect of any re-statements	119-125, 128	
3.11	Significant changes from previous reporting periods	119-125, 128	
3.12	Overview of reported indicators – GRI Index Table	1126-127	
3.13	Practice for seeking external assurance for the report	128-129	
→	Governance, Commitments, and Engagement		
4.1	Governance structure of the organisation	44-47	
4.2	Whether the Chair of the board also is an executive officer	44-47	
4.3	Independent and/or non-executive members of the board (if unitary board structure).	44-47	
4.4	Mechanisms to provide recommendations or direction to the board	44-47, 27, 58	
4.5	Linkage between compensation and performance	26, 44-47, 103	
4.6	The Board's role to ensure conflicts of interest are avoided	44-47	
4.7	Process for determining the qualifications of the Board members	44-47	
4.8	Mission or values, codes of conduct, and principles	4, 27, 44-47, 58	
4.9	Board procedures for overseeing the organisation	26, 44-47	
4.10	Processes for evaluating the Board's own performance	44-47	
4.11	Precautionary approach or principle	42-43, 58-63	
4.12	Externally developed charters, principles, or other initiatives	25, 45, 59-60	
4.13	Memberships of associations	60	
4.14	Stakeholder groups engaged by the organisation	128	
4.15	Identification and selection of stakeholders	128	
4.16	Approaches to stakeholder engagement	47, 59-60, 62, 123, 128	
4.17	Key topics and concerns raised in stakeholder engagement	59-60	

GRI INDICATOR	DESCRIPTION	PAGE(S)	NOT REPORTED
PERFORMANCE INDICATORS AND MANAGEMENT APPROACH			
→ Economic			
Disclosure on Management Approach		58-59	
EC1	Direct economic value generated and distributed	Cover, 6-7, 21-24, 27, 38-41, 48-57, 59-60, 66-67, 81, 118, 121-122	
EC2	Financial implications due to climate change	1-3, 26, 32-37, 42-43, 49	
EC3	Coverage of the organisation's defined benefit plan obligations	82-84	
EC4	Financial assistance received from government	122	
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	60, 62, 122	
EC9*	Indirect economic impacts	27, 29, 58, 60-62	
→ Environmental			
Disclosure on Management Approach		26-28, 58, 60-62	
EN1	Materials used by weight or volume	120	
EN2	Percentage of recycled materials		x
EN3	Direct energy consumption by primary energy source	27, 62, 120	
EN4	Indirect energy consumption by primary source		x
EN5*	Energy saved due to conservation and efficiency improvements	60, 62, 120	
EN6*	Energy-efficient or renewable energy based products and services	60, 62	
EN8	Total water withdrawal by source		x
EN11	Locations in, or adjacent to, areas of high biodiversity value	120	
EN12	Significant biodiversity impacts		x
EN14*	Managing impacts on biodiversity	61-62	
EN16	Direct and indirect greenhouse gas emissions	Cover, 27, 61, 118-119	
EN17	Other relevant indirect greenhouse gas emissions		x
EN18*	Initiatives to reduce greenhouse gas emissions	57, 60-61	
EN19	Emissions of ozone-depleting substances	119	
EN20	NOx, SOx, and other significant air emissions	62, 120	
EN21	Total water discharge by quality and destination		x
EN22	Total weight of waste by type and disposal method	27, 62, 121	
EN23	Total number and volume of significant spills	61, 118-119	
EN26	Mitigation of environmental impacts of products		x
EN27	Products and packaging materials that are reclaimed		x
EN28	Fines and sanctions related to environmental issues	121	
EN29*	Significant environmental impacts of transportation	61, 118-119	
→ Labour Practices and Decent Work			
Disclosure on Management Approach		27-28, 58, 63-65, 118	
LA1	Workforce by employment type, contract, and region	Cover, 28, 48-57, 64, 118, 123-124	
LA2	Total number and rate of employee turnover	28, 123	
LA4	Employees covered by collective bargaining agreements		x
LA5	Notice period(s) regarding significant operational changes		x
LA7	Health and safety indicators	Cover, 28, 48-57, 63, 118, 125	
LA8	Assistance programs regarding serious diseases		x
LA10	Average training hours per employee by employee category		x
LA11*	Skills management and lifelong learning	64	
LA12*	Performance and career development reviews	124	
LA13	Governance bodies and employees diversity	Cover, 28, 64, 123	
LA14	Ratio of basic salary of men to women	123	
→ Human Rights			
Disclosure on Management Approach		27, 58	
HR1	Significant investment agreements with human rights clauses or screening	59-60	
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		27, 59-60	
SO1	Programs and practices for assessing community impact	59-60, 118, 121-122	
SO2	Business units analysed for risks related to corruption		x
SO3	Employees trained in anti-corruption policies and procedures	27, 58	
SO4	Actions taken in response to incidents of corruption	No incidents recorded	
SO5	Participation in public policy development and lobbying	58-60	
SO8	Significant fines and non-monetary sanctions	No incidents recorded	
→ Product Responsibility			
Disclosure on Management Approach		42-43, 58 61	
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	60, 123	
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

The Statkraft Group's business principles establish that the company 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. Sustainability reporting therefore represents an important and integral part of the company's annual report.

Statkraft's sustainability statement is prepared on the basis of 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 and where in the report information about each of the indicators can be found.

Quantitative information relating to sustainability is presented in a separate section immediately following the financial statements. The sustainability section of the management report contains information 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. Statkraft believes that this approach allows the company to meet the requirements regarding materiality, completeness and stakeholder involvement, which companies must fulfil to comply with the AA1000 Assurance Standard (2003 version).

REPORTING SCOPE AND DATA COLLECTION

The sustainability reporting generally follows the company's accounting principles for the treatment of subsidiaries, partly owned power plants and associates. As a rule sustainability data is collected for all companies in which Statkraft holds a majority stake, and the sustainability data is then presented in the statement in its entirety. As a general principle all presented sustainability data shall be prepared on a Group-wide basis. However, for some indicators it has not been possible to prepare Group-wide figures. 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 to calculation methods.

A Group instruction has been prepared that describes how sustainability reporting shall be performed at Statkraft. All

relevant units report on sustainability performance in accordance with this instruction. The Group scorecard represents another important reporting channel for sustainability data. Data is generally collected and collated with the aim of achieving as uniform and relevant 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.

STAKEHOLDER DIALOGUE

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, suppliers, local and regional authorities, voluntary organisations, the media and the local authorities where the company is active. Statkraft conducts a dialogue with these stakeholders on various levels, including through information meetings, performance presentations and surveys.

ASSURANCE

Statkraft wishes to ensure that the information on sustainability that it publishes is transparent, relevant and reliable. Statkraft's external auditor has therefore reviewed the company's sustainability reporting for 2008, and the management systems and processes on which the reporting is based. The auditor's work is based on the AA1000 Assurance Standard (2003 version) which has been specifically developed for assurance 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 management of sustainability issues, and which underpin the report. The auditor's conclusions are presented in the auditor's statement on page 129. The auditor also addresses comments and recommendations to the Group management. These are summarised below.

Comments from the auditor

As in previous years, Statkraft's sustainability reporting for 2008 integrates sustainability information in the annual report. The reporting supports Statkraft's vision of meeting the world's need for pure energy, and the company's business principles for ethics, HR, health and safety, the environment and corporate social responsibility.

The report for 2008 provides a comprehensive picture of the challenges, and not least, the commercial opportunities Statkraft believes to exist in connection with the global climate challenges facing the world and the requirements for new technology and more environmentally friendly power production that this entails. However, the report could be clearer and more specific with regard to the company's targets and ambitions concerning climate, and other relevant sustainability aspects, and performance in these areas could be included in future reports.

2008 was marked by extensive reorganisation within Statkraft. Such a reorganisation and the international growth experienced by the Group represent challenges with regard to the management and reporting of relevant sustainability-related matters. In the future, high priority should be accorded to

ensuring that management documents relating to corporate social responsibility are made available to, and understood by, the entire organisation – not least outside Norway. We have noted that the company is allocating increased resources to the support units for HSE and corporate social responsibility, and we believe that this is important to be able to meet the challenges created by increased international activity.

The sustainability statement presented in the annual report includes several indicators and provides improved coverage of the Group's consolidated activities compared with previous years. The significant reorganisation performed in 2008 has presented challenges in the reporting process as it has come to involve new reporting units and individuals. At the same time, we believe that Statkraft realises the importance of establishing sound routines for collection and consolidation of sustainability information.

Future reporting would benefit from including more extensive information on sustainability aspects within marketing and product and service development for end-user groups in the areas of distribution grid, power and district heating.

Auditor's Statement

Deloitte.

Deloitte AS
Karenslyst allé 20
Postboks 347 Skøyen
NO-0213 OSLO

Tel: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

Independent Auditor's Report on the Statkraft Sustainability Report 2008

To the management of Statkraft AS

We have reviewed certain aspects of Statkraft's Sustainability Report for 2008 ("the Report") and related management systems and procedures. The Report, presented on pages 58 – 65 and 118 – 129 in Statkraft's Annual Report for 2008, is the responsibility of and has been approved by the management of Statkraft AS ("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 (version 2003) 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 the Knapsack gas power plant; the head office of Region Western Norway as well as one reporting unit within this region; and the head office of the Company's subsidiary Fjordkraft AS.

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 58 – 65, in accordance with the principles of AA1000 Assurance Standard (version 2003).
- Statkraft applies procedures to identify, collect, compile and validate data and information for 2008 to be included in the report, as described on page 128, and data presented for 2008 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 2008 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 126 – 127 in the Report appropriately reflects where relevant information on each of the elements and core indicators of the GRI Sustainability Reporting Guidelines is to be found within the Statkraft Annual Report 2008.

Oslo, Norway, 18 March 2009
Deloitte AS



Preben J. Sørensen
State Authorized Public Accountant
Corporate Responsibility Services

Audit • Tax & Legal • Consulting • Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Medlemmer av Den Norske Revisorforening
org.nr: 980 211 282

Presentation of Group Management



FROM LEFT:

SIRI HATLEN

BORN: 1957
POSITION: Executive Vice President
BUSINESS AREAS: International, Power Generation, Innovation and Growth, Solar Power, HSE, HR and Employee Relations
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. Siri Halten will resign her position at Statkraft on 30 June 2009
DIRECTORSHIPS (EXTERNAL): Chair of AS Vinmonopolet and Samlaget; Director of Kongsberggruppen ASA, NTNU

JØRGEN KILDAHL

BORN: 1963
POSITION: Executive Vice President
BUSINESS AREAS: Energy Management Nordic, Trading and Continental Operations, Southeast Europe Hydro, Small-scale Hydro, Corporate Projects.
EDUCATION: MSc Economics and Business Administration, MBA (Finance major)
BACKGROUND: Partner, Geelmuyden.Kiese; Portfolio Manager, International Formuesforvaltning
JOINED STATKRAFT: 1999
DIRECTORSHIPS (EXTERNAL): Board Member Multiconsult AS

JON G. BRANDSAR

BORN: 1954
POSITION: Executive Vice President
BUSINESS AREAS: Customers, Wind Power, Industrial Ownership, Skagerak Energi, IT and Process
EDUCATION: Engineer
BACKGROUND: CEO Trondheim Energiverk; various executive positions within Statkraft, Statkraft Engineering and ABB
JOINED STATKRAFT: 1994

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, Deputy Chair of Cermaq ASA, Board Member E.ON AG, member of corporate assembly of the Fred Olsen companies Ganger Rolf and Bonheur

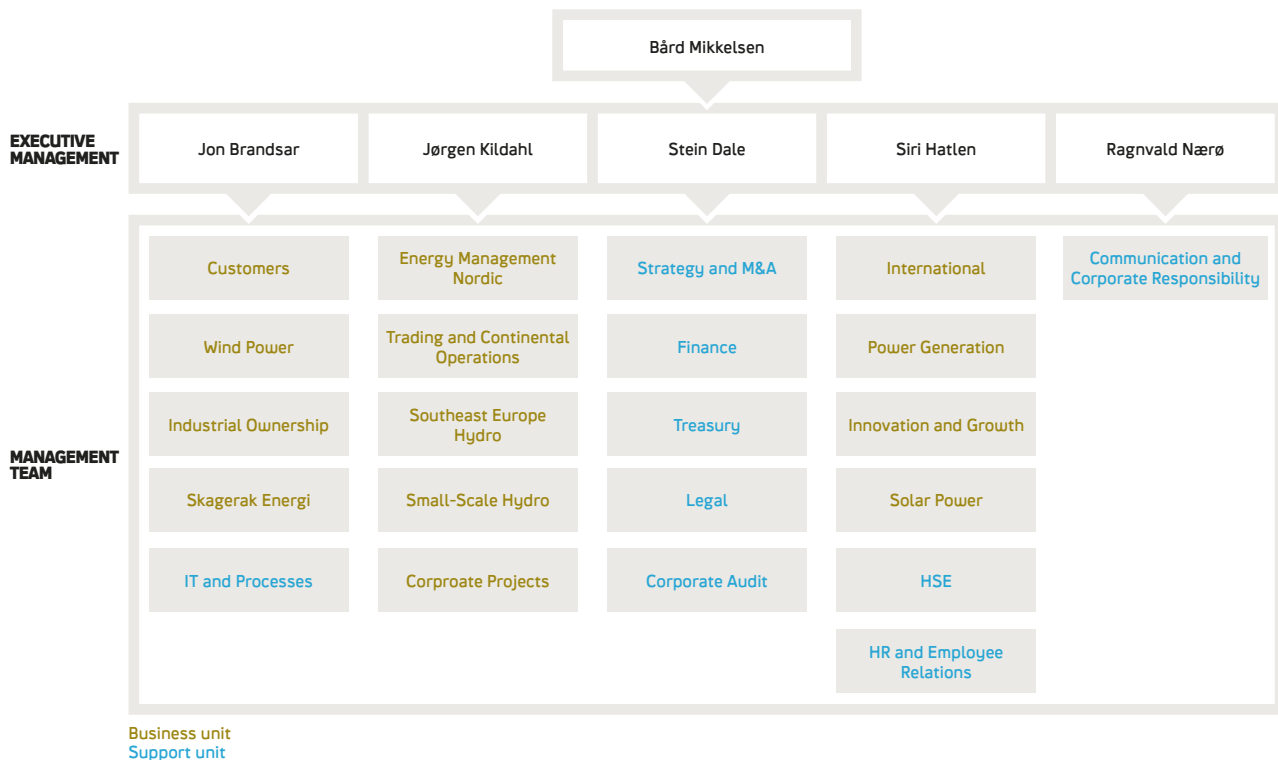
STEIN DALE

BORN: 1962
POSITION: Executive Vice President and CFO
BUSINESS AREAS: Strategy and M&A, Finance, Treasury, Legal, Corporate Audit
EDUCATION: MSc Economics and Business Administration
BACKGROUND: Various executive positions with Statkraft and the Telia Group
JOINED STATKRAFT: 2002

RAGNVALD NÆRØ

BORN: 1954
POSITION: Executive Vice President
BUSINESS AREAS: Communication and Corporate Responsibility
EDUCATION: BEd, Cand.philol.
BACKGROUND: 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
DIRECTORSHIPS (EXTERNAL): Board Member EBL Norwegian Electricity Industry Association

Organisation



Financial calendar

Results, Q1 2009	20 May 2009
Results, Q2 2009	13 August 2009
Results, Q3 2009	12 November 2009
Results, Q4 2009	mid-February 2010

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HEAD OFFICE

STATKRAFT
PO Box 200 Lilleaker
NO-0216 Oslo
Norway
Tel.: +47 24 06 70 00
Fax: +47 24 06 70 01
Office address: Lilleakerveien 6

STATKRAFT ENERGI AS

Region Northern Norway
NO-8512 Narvik
Norway
Tel.: +47 76 96 40 00
Fax: +47 76 96 40 01
Office address: Stasjonsveien 60

STATKRAFT ENERGI AS

Region Central Norway
Gaupnegrandane
NO-6868 Gaupne
Norway
Tel.: +47 57 68 92 00
Fax: +47 57 68 92 01

STATKRAFT ENERGI AS

Region Western Norway
PO Box 233
NO-4201 Sauda
Norway
Tel.: +47 52 78 64 00
Fax: +47 52 78 64 01

STATKRAFT ENERGI AS

Region Eastern Norway
3880 Dalen
Norway
Tel.: +47 35 07 95 00
Fax: +47 35 07 72 27

TRONDHEIM ENERGI AS

NO-7005 Trondheim
Norway
Tel.: +47 73 96 10 11
Fax: +47 73 96 11 90
Office address: Sluppenvegen 6

SKAGERAK ENERGI AS

PO Box 80
NO-3901 Porsgrunn
Norway
Tel.: +47 35 93 50 00
Fax: +47 35 55 97 50
Office address: Storgata 159 b

FJORDKRAFT AS

PO Box 3957 Fyllingsdalen
NO-5845 Bergen
Norway
Tel.: +47 55 12 70 00
Fax: +47 55 12 70 01
Office address: Folke Bernadottes vei 38

SMÅKRAFT AS

Kokstadvegen 37
NO-5020 Bergen
Norway
Tel.: +47 55 12 73 20
Fax: +47 55 12 73 21

**STATKRAFT NORFUND
POWER INVEST AS**

PO Box 200 Lilleaker
NO-0216 Oslo
Norway
Tel.: +47 24 06 86 20
Fax: +47 24 06 86 21
Office address: Lilleakerveien 28

STATKRAFT SVERIGE AB

Nippan 51
SE-881 52 Sollefteå
Sweden
Tel.: +46 620 13080
Fax: +46 620 13605

STATKRAFT FINANCIAL ENERGY AB

Hitechbuilding 92
SE-101 52 Stockholm
Sweden
Tel.: +46 8 545 11260
Fax: +47 24 06 77 30
Office address: Sveavägen 9

STATKRAFT SUOMI OY

Kolsintie 230
FI-32800 Kokemäki
Finland
Tel.: +358 10 77 67 600

STATKRAFT MARKETS GMBH

Niederkaßeler Lohweg 175
DE-40547 Düsseldorf
Germany
Tel.: +49 211 60 244 000
Fax: +49 211 60 244 199

STATKRAFT PGG

Regional office for Germany and UK
Chemiepark Knapsack
Gebäude 6723
DE-50352 Hürth-Knapsack
Germany
Tel.: +47 24 06 70 00

STATKRAFT UK LTD

26-28 Hammersmith Grove
London W6 7BA
United Kingdom
Tel.: +44 (0) 20 8834 1051
Fax: +44 (0) 20 8834 1159

STATKRAFT MARKETS BV

ITO Building
Gustav Mahlerplein 100
NL-1082 MA Amsterdam
The Netherlands
Tel.: +31 20 795 78 00
Fax: +31 20 795 78 99

STATKRAFT TREASURY CENTRE S.A.

Rue Archimède 15-21
1000 Brussels
Belgium
Tel.: +32 2 280 24 64
Fax: +32 2 280 24 65

**RENEWABLE ENERGIES AND
PHOTOVOLTAICS SPAIN S.L.**

C/ Tales de Mileto s/n, Banana Beach
Port. W2 3DW
29603 Marbella/Málaga
Spain
Tel.: +34 952 898 808
Fax: +34 952 926 747

STATKRAFT

Southeast Europe EOOD
10 Tri Ushi Str., Office 5
BG-1000 Sofia
Bulgaria
Tel.: +359 2 400 1380
Fax: +359 2 986 7012

STATKRAFT

WESTERN BALKANS D.O.O
Francuska 17/05
11000 Belgrade
Serbia
Tel.: +381 11 3038 688
Fax: +381 11 3038 686

**STATKRAFT REPRESENTATIVE
OFFICE ALBANIA**

Rr "Dëshmorët e 4 Shkurtit"
Sky Tower
Tirana
Albania
Tel.: +355 (0) 422 1666 Line 145

STATKRAFT ROMANIA SRL

Strada Povernei nr. 15-17
Sector 1
010642 Bucuresti
Romania
Tel.: +40 31 42 51 764
Fax: +40 31 42 51 767

STATKRAFT MONTENEGRO D.O.O.

I/3 Krusevac Zona A - Trg Vektra
entrance 2 flat No. 3
81000 Podgorica
Montenegro
Tel.: +382 69 66 77 33

Organisation no.:
Statkraft AS: 987 059 699

www.statkraft.com



Statkraft



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STATKRAFT ENERGI AS
ANNUAL REPORT 2008

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Report From the Board of Directors

STATKRAFT ENERGI AS' BUSINESS

Statkraft Energi AS is a company in the Statkraft Group. The Statkraft Group is the third largest electricity generator in the Nordic region and Europe's largest producer of renewable energy. Statkraft Energi AS is engaged in the generation and sale of electricity and power-related products.

The company's head office is in Oslo.

Statkraft Energi AS owns 66.7% of Baltic Cable AB, which is headquartered in Malmö, Sweden. Baltic Cable AB operates an under-sea power transmission cable between Sweden and Germany. The subsidiary posted strong results for 2008.

IMPORTANT EVENTS

In December 2008 Statkraft implemented a swap deal with E.ON AG under the terms of which E.ON AG acquired Statkraft's shareholding in E.ON Sverige and Statkraft Energi AS took over power plants in Sweden, Germany and the United Kingdom, and some individual contracts. Under the terms of the agreement Statkraft Energi AS has entered into a gas contract and a power supply agreement, both with terms of 10 years. Statkraft Energi AS' operating units have had their operational responsibility extended to encompass the new assets in Sweden, Germany and the United Kingdom. Preparations for the takeover lasted throughout 2008. Operations were taken over at the end of the year and proceeded as planned, and there were no operational delays. The integration of new assets into existing business and business processes will also require significant resources throughout 2009.

In October Statkraft Energi AS and Boliden Odda signed two long-term, commercial industrial power agreements for the period 2009 to 2030. The agreement for the

delivery of around 20 TWh is the largest industrial power agreement Statkraft Energi AS has entered into since 1998. As part of the agreement, Statkraft Energi AS will acquire the shares in AS Tyssefaldene held by Boliden Odda, thus increasing its shareholding in the company to 60.17%. The agreement will enter into force as soon as a number of factors, including tax-related matters, have been clarified.

There was one serious environmental non-compliance on 27 July following a stoppage at Trollheim Power Plant. This resulted in a stretch of the Surna river experiencing strongly reduced water flow for 3.5 hours. The incident resulted in the stranding of around 20 000 salmon and sea trout alevin. Statkraft Energi AS has contributed to the establishment of two funds with the intention of reinforcing salmon and sea trout populations in the Surna river. Statkraft Energi AS has decided to install a bypass valve at Trollheim Power Plant in order to prevent a similar situation arising in the future. The bypass valve is in production and installation at the plant will commence in October 2009. The valve is scheduled to be fully installed and in operation in spring 2010. Once the bypass valve is in place, the likelihood of downtime and reductions in water flow in the Surna river will be significantly reduced.

Statkraft Energi AS has a tolling agreement with the owner of Kårstø gas-fired power plant. In December the carbon quota allocation for Kårstø was approved. The decision will result in a significant reduction in carbon quotas allocated to Kårstø in the period 2008 to 2012. The number of quotas allocated is 320 000, which corresponds to 2 500 operating hours. This represents 40% of the level of carbon quotas allocated by the European authorities. The tolling

agreement was reassessed following the lower-than-expected quota allocation. The reassessment led to a write-down of NOK 397 million for the agreement.

Baltic Cable AB and the European Market Coupling Company (EMCC) have signed an agreement to introduce market coupling of the Baltic Cable power cable. One of the consequences of the agreement will be the abolition of variable charges for power exchange in Sweden with a view to ensuring optimal flow for the cable. EMCC is a joint venture company that will help manage bottlenecks via market coupling and thus contribute to increased integration in the European power market.

Baltic Cable suffered a breakdown on 16 February 2009. Work has been performed to locate the cause of the breakdown, which appears to be located at sea, 87 kilometres from the point where the cable goes ashore at Priwall in Germany. At this location the cable is buried in the seabed, which makes the repair work more complicated. Preparations for the repair work have started. However, it is uncertain when the cable will re-enter operation.

Transfer capacity has been reduced between Norway and Sweden since April 2008 as a result of problems with the Oslo fjord cables. Full capacity is not expected to be restored before June 2009. As a result of a problem with a transformer there was only half capacity between Denmark and Norway in the first half of the year. In May 2008 a new power cable between the Netherlands and Norway (NorNed) was made available for the market.

Statkraft Energi AS achieved stable operations and production during the year under review. Svartisen Power Plant was out of

operation for the period 31 March to 4 June in connection with the replacement of a generator at the power plant. The downtime was of shorter duration than originally planned. No material operational interruptions were experienced in 2008.

FINANCIAL PERFORMANCE

Statkraft Energi AS posted strong results in 2008. At NOK 8 454 million, the profit before tax was NOK 2 654 million higher than in 2007. The improved profits are mainly attributable to higher electricity prices and production. Operating expenses increased by NOK 861 million, primarily as a result of the write-down of the tolling agreement and increased activity levels.

Operating revenues The average system price in the Nordic market was higher in 2008 than in 2007, and increased by 16.8 EUR/MWh to 44.7 EUR/MWh, which is 3.8 EUR/MWh lower than the record prices seen in 2006. Precipitation was higher than normal in Norway in 2008 and consumption was also high, despite relatively warm weather. The average monthly price was higher in 2008 than the year before for 11 months of the year, with the exception of December. At times there were major differences between the various regional price areas in the Nordic market in 2008. The NO1 area (Southern Norway) was a low price area with a price significantly below the system price.

Gross operating revenues were NOK 3 801 million higher than in 2007. The increase is primarily attributable to higher electricity prices and production. Saleable hydropower production in 2008 totalled 36 TWh, which is 4.2 TWh higher than in 2007. The company's reservoir levels were high at the start of 2009. Total saleable gas-fired power production in 2008 was 3.4 TWh through the agreements between Statkraft Energi AS and Knapsack Power GmbH and KGH (Kraftwerkgesellschaft Herdecke mbH & Co. KG). Statkraft Energi AS has also sold gas with a total value of NOK 456 million.

Hedging activities and the trading and origination portfolios also achieved very positive results in 2008.

Other operating revenues amounted to NOK 358 million in 2008 (NOK 506 million).

The decrease is primarily attributable to the recognition in income of an insurance settlement for Svartisen in 2007.

Energy purchases amounted to NOK 596 million in 2008 (NOK 176 million). The increase was primarily attributable to gas purchases for the Kårstø gas-fired power plant.

Transmission costs associated with the transport of power totalled NOK 888 million (NOK 630 million). The increase is attributable to a rise in the variable part of the transmission tariff as a result of higher transmission volumes and prices.

Net operating revenues amounted to NOK 12 154 million (NOK 9 031 million).

Operating expenses Operating expenses amounted to NOK 3 597 million in 2008 (NOK 2 736 million), which represents an increase of 31.5% compared with 2007.

Salaries and payroll costs rose by NOK 62 million to NOK 570 million. The increase is primarily connected to increased activity levels, normal salary development and higher provisions for pension liabilities.

Property tax and licence fees increased by NOK 67 million, primarily as a result of increased calculation bases for property tax in Norway. Total property tax and licence fees amounted to NOK 835 million.

Other operating expenses totalled NOK 1 535 million. The increase of NOK 727 million is primarily attributable to a write-down of the tolling agreement for Kårstø gas-fired power plant which contributed NOK 397 million. The remainder of the increase is connected to project development and new business, primarily within gas.

R&D activities are recognised in the income statement on an ongoing basis. A total of NOK 13 million was recognised for this item in 2008. The company's research activities are intended to achieve new knowledge and develop new methods within hydrology, energy optimisation and maintenance activities.

Operating profit The operating profit totalled NOK 8 557 million (NOK 6 295 mil-

lion), which represents an improvement of NOK 2 262 million compared with 2007.

Financial items Net financial items totalled NOK -103 million during 2008 (NOK -495 million). This is primarily attributable to foreign currency gains totalling NOK 324 million.

Taxes The tax expense recognised in the income statement comprised NOK 3 811 million in 2008 (NOK 1 399 million). This corresponds to an effective tax rate of 45%.

In 2008 resource rent tax amounted to NOK 1 474 million, which corresponds to 39% of company's total tax expense. The increase in resource rent tax's share of the company's tax expense in relation to 2007 is a result of higher generation and area prices.

Cash flow and equity Operating activities generated a cash flow of NOK 8 045 million in 2008 (NOK 5 051 million). Changes in short-term and long-term committed capital resulted in a change in liquidity of NOK -2 823 million (NOK 2 837 million). The net cash flow from operating activities was thus NOK 5 222 million (NOK 7 888 million).

The company's cash flow from investing activities decreased by NOK 678 million. A total of NOK 322 million was invested in increased capacity while other investments were made in plant maintenance. Operating assets with a value of NOK 11 million were also sold in 2008.

The cash flow from financing activities was NOK -4 395 million, which is primarily attributable to payments of dividends and Group contributions to Statkraft AS.

As of 31 December 2008 the company had cash and cash equivalents of NOK 228 million. The company's other liquid assets are held under a group account scheme, which means that the assets are classified as receivables due from Statkraft AS in the financial statements. The company is in a good position to finance its own investments due to the fact that operations are expected to continue to generate a good cash flow in the coming years.

As of 31 December 2008 the company's short-term liabilities accounted for 43.6%

of the company's overall debt, compared with 48.2% as of 31 December 2007. The company has a sound financial position.

At the end of the year total assets amounted to NOK 29 828 million, compared with NOK 28 250 million twelve months previously.

The equity ratio as of 31 December 2008 was 40.5% (35.6%). The board has decided to appropriate the profit for the year for a transfer to Other equity and the payment of Group contributions. As of 31 December 2008 recognised equity amounted to NOK 12 090 million. However, the market value of equity is significantly higher than the book value. The board regards the company's equity levels as satisfactory. This assessment is based on the company's profit forecasts and market capitalisation, and efficient and prudent business practice.

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.

RISK AND INTERNAL CONTROLS

The key risk factors at Statkraft Energi AS relate to market operations, operating activities and framework conditions. The management of risk is important for value creation and is an integrated part of all business activities. Risk management is followed up within the respective unit by means of procedures for the monitoring and mitigation of risk.

Significant volume and price risk attaches to energy production and trading. In the Nordic power market, precipitation levels and winter temperatures are of great significance and lead to considerable fluctuations in both prices and output volumes. Electricity prices are also impacted by gas, coal and oil prices, and carbon quota prices. Gas power business is also directly exposed to gas, oil and carbon quotas. Statkraft Energi AS manages this market risk by trading physical and financial instruments in several markets. Closer integration of the energy markets is of major importance for the company's business models and risk management. Statkraft consequently attaches

significant importance to interrelationships between the various markets. Internal authorities and frameworks have been established for all trading activities. These are followed up on an ongoing basis.

The Group's central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity. Forward exchange contracts, interest rate swaps and forward interest rate agreements are the most important instruments used to manage these risks. Foreign currency and interest rate risk are regulated by means of mandates. Limits have also been established for liquidity and counterparty risk.

Risk and internal controls connected with operations are primarily managed by means of procedures, contingency plans and insurance. A comprehensive system for mapping, registering and reporting hazardous conditions, undesired incidents and injuries has also been established, and these are analysed on an ongoing basis.

The financial crisis that broke out in the second half of 2008 is directly impacting Statkraft Energi AS's financial risk profile and is indirectly affecting prices and structural changes in key markets. These increased risks are managed within the framework of financial risk, though are now being accorded greater attention and followed up more closely than in the past. Statkraft Energi AS is aware that the current financial crisis can involve both threats and opportunities, and is closely monitoring in particular the development of counterparty risk.

A management system has been established in the Group which also covers Statkraft Energi AS. The management system gathers all governing documents and facilitates uniform management of the Group incorporating adequate formalisation, documentation and compliance. The status of compliance with the management system is included as a part of management's review in accordance with ISO 9000 and ISO 14000 certification.

SAFE AND HEALTHY BUSINESS CULTURE

Organisation The Statkraft Group is in a period of international growth, and this

is also impacting Statkraft Energi AS. The company employed an average of 738 full-time equivalents in 2008, which represents an increase of 64 compared with 2007. The sickness absence rate at Statkraft Energi AS was 3.6% (3.3%), which is lower than the target rate of below 4%. The company has entered into an agreement on the Inclusive Working Life (IA) scheme. The scheme involves the active follow-up of those on sick leave and close cooperation with the company's health service.

Statkraft Energi AS wishes to achieve a better gender balance and a higher proportion of women in management positions. In 2008 18% of the company's employees were women (17%). Women constitute 19% of Group management (14%) and 50% of the board of directors. The board follows up work to secure balanced gender distribution on an ongoing basis.

Safety Statkraft Energi AS's target is to avoid injuries and health problems in connection with the company's activities. Health and safety aspects shall be identified and evaluated ahead of all operating and maintenance activities. All injuries, near misses and hazardous conditions are registered, analysed and followed up in a systematic manner.

There has been a pleasing improvement in the number of injuries. Two lost-time injuries and 12 injuries that did not involve absence from work were reported in 2008. Injuries involving absence resulted in a total of six days' absence from work. One injury occurred when an employee got a finger stuck, the other injury was caused by a car accident. The corresponding figures for 2007 were eight days absence and 20 injuries not involving absence among own employees. There were six injuries at contractors in 2008. In 2007, 19 injuries were recorded among contractors. In 2008 the H1 absence indicator was 1.7 (8), while the H2 injury indicator was 11.7 (25.7). This improvement is generally attributed to personal commitment, collaboration with employee representatives, increased attention to reporting and analysis of incidents, near misses and hazardous conditions, and more stringent requirements for examination of serious conditions.

Statkraft Energi AS works continuously to increase understanding of, and compliance with, safety requirements on all projects in which the company is involved. Health and safety work and performance are directly followed up on the projects, by management and through reporting to the board.

Environmental factors Hydropower represents a clean and renewable source of energy, which offers an environmentally friendly alternative to other methods of power generation. The construction and operation of any power generation facility has an impact on the environment, but Statkraft Energi AS places a major emphasis on limiting the environmental impact of its operations.

The company aims to experience zero environmental non-compliances. One serious environmental non-compliance was recorded in 2008. On 27 July a stretch of the Surna river experienced strongly reduced rates of water flow for around 3.5 hours after an unforeseen breakdown at Trollheim Power Plant. The incident resulted in the stranding of around 20 000 salmon and sea trout alevin. Statkraft Energi AS has contributed to the establishment of two funds intended to reinforce salmon and sea trout populations in the Surna river. Statkraft has decided to install a bypass valve at Trollheim Power Plant to prevent similar situations arising in the future.

There were also 13 less serious environmental non-compliances in 2008, the majority of which related to brief violations of minimum water flow requirements and minor oil emissions.

Statkraft Energi AS is certified in accordance with the requirements of the ISO 14001:2004 environmental management system.

OUTLOOK

High reservoir levels at the start of 2009 have resulted in a robust resource situation. The average system price was significantly higher in 2008 than in 2007, while forward prices indicate that prices will be lower in the future. There is a basis for relatively high power production in 2009 and high levels of income from ongoing power sales. However, major uncertainty attaches to the further development of power prices and the hydrological resource situation. It is expected that prices and demand for power could fall in the short and medium-term as a result of the financial crisis. The long-term consequences are more uncertain.

At the end of the year, the Group presented an enhanced strategy for the period 2009 to 2015. The new strategy outlines three main directions for further development - Industrial developer in Norway, European flexible producer and green global developer. The first involves Statkraft being a driving force behind developments in the Norwegian power industry, and through this creating profitable workplaces and contributing to meet the world's need for more clean energy. As a European flexible producer, Statkraft will generate growth within flexible power production in Western Europe and further develop its market operations. As a green global developer, Statkraft wishes to establish a strong niche position within international hydropower and renewable energy sources in Europe. Statkraft has

updated its vision: As Europe's leader in renewables, we will meet the world's need for pure energy. Statkraft wishes to leverage its expertise and experience to meet global climate and energy challenges.

In 2009 and the years to come the board of Statkraft Energi AS will work to further develop the company in line with the Group's strategic goals. Statkraft Energi AS will also focus in particular on further developing value creation from its core business: power generation and market operations. There will be a strong focus on HSE and stable and efficient operations throughout the year. The board would like to take this opportunity to thank all employees for their excellent contributions during 2008.

ALLOCATION OF PROFIT FOR THE YEAR

The company posted a profit after tax of NOK 4 643 million in 2008. The board proposes the following allocation of Statkraft Energi AS's profit for the year:

Transferred to other equity	NOK 2 125 million
<u>Group contributions</u>	<u>NOK 2 518 million</u>
Total allocated	NOK 4 643 million

This proposal reflects a desire to coordinate and optimise the Statkraft AS Group's tax and financing position.

As of 31 December 2008, the company had distributable reserves of:

Other paid-in equity	NOK 1 508 million
Retained earnings	NOK 2 029 million
<u>Deferred tax asset (net)</u>	<u>NOK - 808 million</u>
Distributable reserves	NOK 2 729 million

The Board of Directors of Statkraft Energi AS
Oslo, 16 March 2009

Bård Mikkelsen
Chair

Eli Skrøvset

Kristin Steinfeldt-Foss

Arne Einungbrekke

Olav Rabbe

Anniken Tostrup

Jørgen Kildahl
CEO

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Income statement

STATKRAFT ENERGI AS

NOK million	NOTE	2008	2007
Power sales	3	13 280	9 331
Other operating revenues	5	358	506
Gross operating revenues		13 638	9 837
Energy purchases		-596	-176
Transmission costs		-888	-630
Net operating revenues		12 154	9 031
Salaries and payroll costs	6, 7	570	508
Depreciation, amortisation and impairments	13	657	652
Property tax and licence fees	8	835	768
Other operating expenses	9	1 535	808
Operating expenses		3 597	2 736
Operating profit		8 557	6 295
Financial income	11	673	192
Financial expenses	11	-776	-687
Net financial items		-103	-495
Profit before tax		8 454	5 800
Taxes	12	3 811	1 399
Profit after tax		4 643	4 401
Allocation of profit for the year			
Group contributions payable		2 518	3 749
Dividend payable		-	646
Transferred to other equity		2 125	6
Total allocated		4 643	4 401

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STATKRAFT ENERGI AS

NOK million	NOTE	31.12.08	31.12.07
BALANCE SHEET			
Deferred tax asset	12	809	821
Property, plant and equipment	13	23 804	23 781
Investments in subsidiaries and associates	14	771	771
Other non-current financial assets	15	1 488	927
Non-current assets		26 872	26 300
Inventories	16	465	199
Receivables	17	2 263	1 672
Cash and cash equivalents	18	228	79
Current assets		2 956	1 950
Assets		29 828	28 250
EQUITY AND LIABILITIES			
Paid-in equity	19	10 061	10 061
Retained earnings	19	2 029	3
Equity		12 090	10 064
Provisions	20	5 339	4 726
Deferred tax	12	1	-
Long-term interest-bearing liabilities	21	4 671	4 680
Long-term liabilities		10 011	9 406
Short-term interest-bearing liabilities	22	129	805
Taxes payable	12	1 801	1 020
Other interest-free liabilities	23	5 797	6 955
Current liabilities		7 727	8 780
Equity and liabilities		29 828	28 250
Pledges	24	1 762	1 762
Guarantee pledges	24	3 250	2 349

The Board of Directors of Statkraft Energi AS
Oslo, 16 March 2009

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CEO

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Statement**

STATKRAFT ENERGI AS

NOK million	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	8 454	5 800
Gains/losses on the sale of non-current assets	-2	-5
Depreciation, amortisation and impairments	657	652
Taxes	-1 064	-1 396
Cash flow from operating activities	8 045	5 051
Change in long-term items	52	-404
Change in short-term items	-2 875	3 241
Net cash flow from operating activities A	5 222	7 888
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-689	-659
Proceeds from the sale of non-current assets	11	14
Loans to third parties	-	-130
Net cash flow from investing activities B	-678	-775
CASH FLOW FROM FINANCING ACTIVITIES		
New interest-bearing debt	-	-
Repayment of long-term debt and subordinate loans	-	-3
Dividend and Group contributions paid	-4 395	-7 156
Net cash flow from financing activities C	-4 395	-7 159
Net change in cash and cash equivalents during the year A+B+C	149	-46
Cash and cash equivalents 01.01	79	125
Cash and cash equivalents 31.12 *	228	79

* The company's liquidity is organised in a group account scheme. The company's cash holdings are formally regarded as receivables due from the parent company Statkraft AS.

Accounting Policies

STATKRAFT ENERGI AS

ACCOUNTING REGULATIONS

The annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP). Statkraft Energi AS does not prepare consolidated financial statements since the subgroup is included in Statkraft AS's consolidated financial statements.

The Statkraft Group has prepared its financial statements in line with International Financial Reporting Standards (IFRSs) effective from 2007. Most of the companies included in the Group will continue to prepare their financial statements in accordance with Norwegian GAAP. This also applies to Statkraft Energi AS.

VALUATION AND CLASSIFICATION POLICIES

Uncertainty relating to estimates The financial statements are based on assumptions and estimates that affect the book value of assets, liabilities, revenues and expenses. Although the best estimates available at the time the financial statements were prepared have been used, 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 expenses are recorded in accordance with the matching principle. Revenues from power trading are recorded at net value. Subsidiaries' results are recognised in the year they are earned, while dividends from other companies are recognised in income in accordance with the cash principle. Gains/losses on the sale of ordinary non-current assets are treated as operating revenues or expenses.

RECOGNITION OF POWER TRADING REVENUES

Power generation Power generation is recognised in income as the volume generated multiplied by the sales price. Statkraft hedges its power generation by entering into physical and financial contracts. The financial instruments used in power trading are bilateral financial contracts, forward contracts (futures and forwards) and options. Physical and financial trading for the purpose of hedging future production output is recorded as hedging in the financial statements. The prerequisite for classification as a hedging instrument is that the level of hedging lies within the company's generating capacity. Generating capacity is defined as the volume of power that the company is 80% certain to produce. Losses and gains on hedging contracts, calculated as the margin between the contract price and spot price, are recognised on delivery and are included under power sales revenues.

Paid and received option premiums for future power deliveries on fixed terms are recognised in the balance sheet in accordance with the lower value principle.

Trading and Origination The company has separate portfolios for trading and origination, which are managed independently of the company's expected power generation. The trading portfolios consist of financial power contracts and are used in the market with a view to exploiting short and long-term changes in market prices for electricity. The portfolios mainly comprise products traded on Nord Pool or bilateral standardised products. The portfolios are recognised at fair value in accordance with Sections 5-8 of the Norwegian Accounting Act. The origination portfolio comprises customised bilateral power contracts that are offered to customers as required. Since there is no market listing that can provide a satisfactory pricing of such non-standard contracts, the portfolio does not meet the requirements of Norwegian GAAP for fair value recognition. The portfolio is therefore recognised in accordance with the lower value principle at portfolio level.

PENSIONS

Defined benefit schemes A defined benefit scheme is a pension scheme that defines the pensions that an employee will receive on retirement. The pension is normally set as a

percentage of the employee's salary. To be able to receive a full pension, contributions will be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their pensions proportionately reduced. The liability relating to the defined benefit scheme recognised in the balance sheet is the present value of the future pension benefits that are deemed to have accrued at the balance sheet date adjusted for the fair value of the pension assets and for non-recognised expenses connected to previous periods' accrued pensions. 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 pension liability is calculated annually by an independent actuary using the linear accruals method.

Actuarial gains and losses attributable to changes in actuarial assumptions or basis data are recognised in equity in their entirety on an ongoing basis.

Changes in defined benefit pension liabilities attributable to changes in pension 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 pension fund assets for overfunded schemes are recognised in the balance sheet at fair value and classified as non-current assets. Net pension benefit liabilities for underfunded schemes and non-fund-based schemes that are covered by operations are classified as long-term liabilities.

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

Deposit schemes A deposit scheme is a pension scheme where the Group pays fixed contributions to a separate legal unit without incurring further obligations after the deposit has been paid. The deposits are recognised as salaries and payroll costs as they mature.

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.

MAINTENANCE COSTS

Periodical maintenance is recognised in the balance sheet and depreciated over the period until such time as similar maintenance is expected to be carried out. Daily maintenance costs are expensed as they accrue.

PUBLIC SUBSIDIES

Public subsidies are assessed on an individual basis and are recorded in the financial statements as an adjustment to the item to which the subsidy is intended to apply.

COMPENSATION

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

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LICENCE FEES

Licence fees are paid annually to central and local government authorities for the increase in generating capacity that is obtained from regulating watercourses and catchment transfers. These licence fees are recognised as expenses as they accrue. The capitalised value of future licence fees has been calculated and is disclosed in Note 8.

CONCESSIONARY SALES

Each year concessionary sales are made to local authorities at statutory prices stipulated by the Norwegian Storting (parliament). In the case of certain concessionary sales contracts, agreements have been recognised regarding financial settlement, in which Statkraft Energi AS is invoiced for the difference between the spot price and the concessionary price.

PROPERTY TAX

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

The property tax base is established by discounting the previous five years' net operating revenues of the power plant at a fixed interest rate in perpetuity and deducting the net present value of the power plant's calculated costs for the replacement of operating assets. Property tax is charged at a rate ranging from 0.2% to 0.7% and is paid to the individual local authority. Property tax is recognised as an operating expense.

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 expense in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the year's taxable income, while deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax-written down values and the tax effects of losses carried forward. Deferred tax assets are only recorded in the balance sheet to the extent that it is probable that the asset will be realised in the future. Tax related to equity transactions is 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 tax can be carried forward with interest to subsequent years, and is recognised in the balance sheet as prepaid tax (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. With respect to deliveries of concessionary power and power subject to contracts with a term exceeding seven years, the actual contract price is applied. Actual operating expenses, depreciation, amortisation and impairments and a tax-free allowance are deducted from the calculated revenue in order to arrive at the net resource rent revenue tax base. The tax-free allowance is set each year on the basis of the taxable value of the power plant's operating assets, multiplied by a normative interest rate set by the Ministry of Finance. The normative interest rate for 2008 was set at

5.2%. 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 the deferred tax assets will be utilised within a time horizon of 10 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 for which it is calculated, 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 with resource rent tax. Deferred tax positions connected with income tax cannot be offset against tax positions connected with resource rent tax.

CLASSIFICATION AND VALUATION OF ASSETS AND LIABILITIES

Assets intended for permanent ownership or use are classified as non-current 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 liabilities.

Non-current assets are recorded at cost and are written down to fair value when any impairment in value is not considered to be of a temporary nature. Non-current assets with a limited useful economic life are depreciated. Long-term liabilities are recognised at their nominal value in the balance sheet, 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 their nominal amount at the time the liability was incurred.

Property, plant and equipment Investments in production facilities and other property, plant and equipment are recognised at cost less accumulated depreciation and impairments. 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. Borrowing 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 charged through the income statement, while other expenses that are expected to generate future economic benefits are recognised in the balance sheet. In connection with time-limited licences, provisions are made for removal obligations, with a contra entry in the increased value of the relevant investment recognised in the balance sheet, which is depreciated over the licence period.

Accrued costs of own investments are recognised in the balance sheet as facilities under construction. The cost consists solely of directly attributable costs. Indirect administration costs incurred in connection with the recording of own hours worked are therefore not included.

Depreciation is calculated on a straight-line basis over assets' useful economic lives. Residual values are taken into account in calculating 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. Compensation paid

to landowners is recognised as land in the balance sheet, see description under 'Compensation'. Investments in facilities that are not operated by Statkraft are depreciated accordingly using an average rate of depreciation. Periodic maintenance is recognised in the balance sheet and depreciated 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.

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 impairments 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 impairment 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.

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 shareholders are recognised using the gross method in line with Statkraft's ownership share. The electricity generated by such power plants is, with the exception of concessionary power, at the direct disposal of the co-owners. Power drawn from partly owned limited companies is included in the figure for gross power sales revenues. Statkraft's share of other operating revenues and operating expenses is included in accordance with the specific shareholders' agreements. The shares are recognised at cost.

Long-term shareholdings All long-term investments are recorded using the cost method in the company's financial statements. Dividends received are treated as financial income.

Inventories Carbon quotas and green certificates held for trading purposes are recognised as inventories. Purchased standard inventories and spare parts relating to operations are classified as current assets and are valued in accordance with FIFO using the lower value principle at portfolio level.

Reservoirs Water held in reservoirs is not recognised in the balance sheet. Information relating to reservoir water levels is disclosed in Note 4.

Receivables Trade receivables and other receivables are recognised at nominal value less provisions for expected bad debts. Provisions for bad debts are recognised 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 recognised at fair value.

Cash and cash equivalents The item cash and cash equivalents also includes certificates and bonds with short residual terms. The market settlement of financial instruments (cash collateral) is recognised in the balance sheet.

Advance payments received are classified as long-term liabilities. The amount prepaid is recognised in income in line with deliveries of the product it is intended to cover. An annual interest expense is calculated and recognised under financial expenses.

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

Restructuring provisions Once it has been decided to implement restructuring measures, provisions are made with respect to expected costs associated with the realisation of the measures. The size of each provision is based on a best estimate and is revised at the close of each period. Expenses incurred during the implementation of restructuring measures are charged against the provision on an ongoing basis.

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).

FINANCIAL INSTRUMENTS

Hedging The accounting treatment of financial instruments is dependent on the purpose of the specific agreement entered into. When it is entered into, each agreement is defined either as a hedging transaction or a commercial transaction. Where an agreement is treated as a hedging transaction in the financial statements, revenues and expenses are accrued and classified in the same way as the underlying position. To the extent that cash flow hedging is performed, unrealised gains/losses on the hedging instrument are not recognised in the balance sheet.

Foreign currencies Balance sheet items in foreign currencies are valued at the exchange rate in force at the balance sheet date. Currency effects are recorded as financial expenses or income.

Interest rates Interest rate instruments are recognised in accordance with the matching principle in the financial statements in the same way as interest on interest-bearing liabilities and receivables. Unrealised gains/losses on fixed interest rate positions that are linked to interest-bearing balance sheet items are not recognised in income since they are considered to be part of the hedging position. In the event that loans are repaid before the end of their fixed term (buyback), the gain/loss is recognised in income. 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 PRESENTATION

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 operating activities, investing activities and financing activities, respectively.

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01 IMPORTANT EVENTS

2008

Operations Statkraft Energi AS experienced stable operations and production in 2008. Svartisen Power Plant was out of operation for the period 31 March to 4 June in connection with the replacement of a generator at the plant. The downtime was of shorter duration than originally planned. No significant operating downtime was experienced in 2008.

There was one serious environmental non-compliance on 27 July following a breakdown at Trollheim Power Plant. This resulted in a stretch of the Surna river experiencing strongly reduced rates of water flow for 3.5 hours. The incident resulted in the stranding of around 20 000 salmon and sea trout alevin. Statkraft Energi AS has contributed to the establishment of two funds intended to reinforce and maintain salmon and sea trout populations in the Surna river and has also ordered a bypass valve to prevent similar incidents in future.

New agreements Under the terms of the agreement with E.ON AG, Statkraft Energi AS has entered into a gas storage contract and a power supply agreement, both with terms of 10 years. The company's operating units have had their operational responsibility extended to encompass the new assets in Sweden, Germany and the United Kingdom.

In October Statkraft Energi AS and Boliden Odda signed two long-term, commercial industrial power agreements for the period 2009 to 2030. The agreement for the supply of around 20 TWh is the largest industrial power agreement Statkraft Energi AS has entered into since 1998. As part of the agreement Statkraft Energi AS will acquire the shares in AS Tyssefaldene held by Boliden Odda, thus increasing Statkraft Energi's shareholding in the company to 60.17%. The agreement will enter into force as soon as a number of factors, including tax-related matters have been clarified.

Baltic Cable AB and European Market Coupling Company (EMCC) have entered into an agreement to introduce market coupling of the Baltic Cable power cable. One of the consequences of the agreement will be that the variable charge for power exchange in Sweden will be removed, which will ensure optimal flow of the cable. EMCC is a joint venture that will help manage bottlenecks via market coupling and thus contribute to increased integration in the European power market.

Other incidents Statkraft Energi AS has a tolling agreement with the owner of the gas-fired power plant at Kårstø. In December the carbon quota allocation for Kårstø was approved. The decision will result in a significant reduction in carbon quotas allocated for Kårstø in the period 2008 to 2012. The number of quotas allocated is 320 000, which corresponds to 2 500 operating hours. This represents 40% of the level of carbon quotas allocated by the European authorities. The tolling agreement was revalued in light of the lower-than-expected quota allocation. Consequently, a write-down of NOK 397 million was recognised for the agreement.

2007

Operations Svartisen Power Plant broke down in 2006 and entered operation again on 12 March 2007. The power plant ran with a technical restriction of 300 MW. As a result of the restriction, water losses were experienced throughout the period until the stator was replaced.

On 2 March the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) imposed a fine of NOK 1.5 million on Statkraft Energi AS and confiscated profits of NOK 2 million as a result of downtime at Trollheim Power Plant in August 2005. Work is being performed to construct a by-pass valve at the station to safeguard water flow in the event of future downtime.

Three new hydropower plants were included in the portfolio during 2007. Pálsbu and Nord-Svorka entered into operation, while Neverdalslåga was taken over from Norsk Hydro. These three plants will generate a total overall increase in production capacity of 40 GWh.

On 1 January 2007 Statkraft Energi AS assumed operational responsibility for the Vrangfoss and Eidsfoss power plants. Five employees were transferred from Norsk Hydro, which maintained operational responsibility for the plants until the end of the year.

New agreements In the third quarter Statkraft AS entered into a series of agreements with the Swedish hygiene and paper company SCA. The agreements primarily relate to long-term power supplies and joint construction of wind power and hydropower facilities at SCA's sites in Sweden. For Statkraft Energi AS this will mean a ten-year power supply of 500 GWh per annum to SCA's Swedish business within the forestry industry.

Statkraft Energi AS took over Trondheim Energi's activities associated with energy optimisation, hedging, trading and relevant support functions with effect from 1 January 2007. The new units are well integrated into the business area's other operations.

Summer of floods in 2007 Heavy rainfall in Eastern Norway in the summer of 2007 resulted in flooding and flood damage in some areas. The Numedal and Telemark watercourses were the worst affected areas. Water was drawn off in advance to reduce the effects of the flooding. Few problems were experienced at Statkraft's own plants and the contingency plans functioned satisfactorily. Statkraft Energi AS used forecasts and water level data to help limit the damage caused by the flooding.

Power purchases from the gas-fired power plants for the business area Statkraft Energi AS has a tolling agreement with Naturkraft AS, which owns the Kårstø gas-fired power plant. Under the terms of the agreement Statkraft Energi AS purchases and supplies gas to the gas-fired power plant in return for generated power. Statkraft Energi AS pays a tolling fee to Naturkraft AS. The first results from the Kårstø gas-fired power plant were recognised in the financial statements in the second half of the year, and the power plant entered commercial operation on 6 December 2007.

Statkraft Energi has power purchase agreements (PPAs) with the German gas-fired power plant operators Herdecke GmbH and Knapsack GmbH. The power purchase agreement with Herdecke is reflected in the financial statements for 2007, while the PPA for Knapsack commenced in 2008.

02

SEGMENT
INFORMATION

The bulk of Statkraft Energi AS' business activities lie within the Generation and Markets segment.

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

03

POWER
SALES

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 performed 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. The required spot purchases are recorded as an adjustment to power sales revenues. Physical and financial contracts are used to hedge underlying production by entering into positions to buy or sell. Short positions are taken to hedge the price of a specific share of the planned future output. Long 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	2008	2007
Net physical power sales	8 002	3 887
Concessionary sales at statutory prices	191	179
Industrial sales at statutory prices	1 957	1 713
Long-term sales contracts	1 747	1 769
Dynamic hedging	1 205	1 675
Trading and Origination	149	147
Other	28	-39
Total	13 280	9 331

Statkraft Energi AS has the following long-term physical sales contracts with power-intensive industry 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:

TWh	2009	2010	2011	2012–2020	2021–
Statutory-priced contracts	8.9	8.9	1.1	0.1	0.0
Concessionary sales	2.3	2.3	2.3	2.3	2.3
Total fixed sales agreements	11.2	11.2	3.4	2.4	2.3

Price and volume of concessionary sales and statutory-priced contracts

	2008	2007
Statutory-priced contracts – Volume (TWh)	8.9	10.3
Statutory-priced contracts – Price (NOK/MWh)	196	166
Concessionary sales – Volume (TWh)	2.3	2.3
Concessionary sales – Price (NOK/MWh)	94	85

Statutory-priced industrial contracts will gradually expire in the period leading up to 2011. As the statutory-priced contracts have expired, they have mainly been replaced by long-term agreements.

04

RESERVOIR LEVELS
AND PRODUCTION
(UNAUDITED)

TWh	Reservoir levels		Maximum capacity	Production ¹⁾		Average
	as of 31 December 2008	2007		2008	2007	
Statkraft Energi AS	24	26.1	34	36	31.8	31.7

¹⁾ After losses

Inflow in 2008 was higher than in a normal year. Reservoir levels were higher than normal at the end of the year.

05

OTHER OPERATING
REVENUES

NOK million	2008	2007
Power plant leasing revenues	128	120
Other leasing and service sales revenues	190	111
Gains/losses on sale of operating assets	2	6
Insurance income	38	269
Total	358	506

Insurance income primarily relates to expected insurance settlements relating to stops in production at Svartisen Power Plant in 2006.

06

SALARIES AND
PAYROLL COSTS

NOK million	2008	2007
Salaries	412	382
Employer's national insurance contributions	52	44
Pension costs	82	81
Other benefits	24	1
Total	570	508

The company's CEO is a member of Statkraft's Group management and is employed by Statkraft AS. The services are purchased from Statkraft AS.

Members of Statkraft AS Group management may retire at the age of 65 with a pension amounting to 66% of their annual salary. During the period between 60 and 65, members of Group management have agreements providing a mutual right to gradually scale back their workload and compensation. Members of Group management, with the exception of the CEO, may qualify for an annual bonus of up to NOK 500 000. Payment of the bonus depends on the achievement of individually established goals. Group management does not have any severance pay agreements in addition to those mentioned above. Nor have any loans or pledges been granted.

Members of the board elected by employees received NOK 55 000 in fees. No other directors' fees were paid to members of the board in 2008. Nor were any loans or pledges granted with respect to board members.

On average the company had the equivalent of 738 full-time employees in 2008.

07

PENSIONS

Occupational pension schemes

The company is obliged to operate an occupational pension scheme in accordance with the Norwegian Mandatory Public Services Occupational Pensions Act. Statkraft Energi AS operates an operational pension scheme for its employees in the Norwegian Public Service Pension Fund scheme. The pension scheme fulfils the statutory requirements. The benefits include retirement, disability, surviving spouse and child's pensions. For individuals qualifying for the full entitlement, the scheme provides pension benefits amounting to 66% of pensionable salary, up to a maximum of 12G (12 times the National Insurance Scheme's basic amount). The company also offers early retirement at the age of 62 under the AFP pension scheme. Pension benefits from the Norwegian Public Service Pension Fund are guaranteed by the Norwegian state (Section 1 of the Norwegian 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.

Unfunded pension liabilities.

In addition to the above, Statkraft Energi AS has entered into pension agreements that provide all employees whose pensionable incomes exceed 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G.

A new pension scheme has been introduced for operations and professional workers that will provide additional benefits to the AFP from 62-65 years. The scheme is compensation for previous agreements on special retirement ages in relation to the Norwegian Public Service Pension Fund.

Breakdown of pension cost for the period

NOK million	2008	2007
Present value of accrued pension entitlements for the year	51	48
Interest costs on pension liabilities	52	48
Yield on pension assets	-32	-29
Recognised effect of plan changes	-	4
Employer's national insurance contributions	11	10
Net pension cost incl. employer's national insurance contributions	82	81

Reconciliation of pension liabilities and pension assets

NOK million	2008	2007
Gross pension liabilities	1332	1174
Pension fund assets in the Norwegian Public Service Pension Fund	-759	-706
Non-amortised estimate deviations	-	-
Non-recognised plan changes	-	-38
Employer's national insurance contributions	77	61
Net pension liabilities	650	491

Breakdown of pension liability recognised in the balance sheet due to the recognition of estimate deviations in equity

NOK million	2008	2007
Cumulative amount recognised directly in equity before tax 1 Jan	388	377
Recognised in the period	136	11
Cumulative amount recognised directly in equity before tax as of 31 Dec	524	388
Recognised in equity after tax	377	279
Recognised in deferred tax	147	109

Financial assumptions

	31.12.08	01.01.08	31.12.07	01.01.07
Annual discount rate	3.70%	4.60%	4.60%	4.40%
Salary adjustment	4.00%	4.00%	4.00%	4.00%
Adjustment of current pensions	3.75%	4.00%	4.00%	4.00%
Adjustment of National Insurance Scheme's basic amount (G)	3.75%	4.00%	4.00%	4.00%
Forecast voluntary exit				
• Up to age 45	2.50%	2.50%	2.50%	2.50%
• Between age 45 and 60	0.50%	0.50%	0.50%	0.50%
• Over age 60	0.00%	0.00%	0.00%	0.00%
Projected yield	3.70%	3.70%	4.60%	4.60%
Rate of inflation	2.00%	2.25%	2.25%	2.25%
Tendency to take early retirement (AFP)	20.00%	20.00%	20.00%	20.00%

The actuarial assumptions are based on those commonly used by the insurance industry with respect to demographic factors.

The following tariffs have been used

Mortality K 2005
Disability IR73

Assumptions as of 1 January 2008 are applied when calculating pension fund assets and liabilities as of 1 January 2008 and costs through the year. Financial assumptions as of 31 December 2008 are applied when calculating pension assets and liabilities as of 31 December 2008. The assumptions are based on the guidelines issued by the Norwegian Accounting Standards Board.

08
PROPERTY TAX
AND LICENCE FEES

NOK million	2008	2007
Property tax	587	557
Licence fees	248	211
Total	835	768

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 present value of current and permanent licence fees related to the company's generating facilities is estimated at NOK 6 200 million and is discounted at an interest rate of 4% in accordance with regulations relating to the adjustment of licence fees.

09
OTHER OPERATING
EXPENSES

NOK million	2008	2007
Materials	55	70
External services	426	329
Costs of power plants operated by third parties	308	127
Compensation payments	237	82
Other operating expenses	509	200
Total	1 535	808

R&D activities are expensed on an ongoing basis. An amount of NOK 13 million was recognised in 2008. The company's research activities are intended to provide further knowledge and develop new methods within hydrology, energy optimisation and maintenance activities.

Annual compensation obligations are estimated at NOK 374 million, see Note 20.

Costs of power plants operated by third parties include the tolling agreement with Naturkraft AS, while other operating expenses includes the write-down of the tolling agreement in the amount of NOK 397 million in 2008.

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FEES PAID TO EXTERNAL AUDITORS

Deloitte AS is Statkraft Energi AS's auditor.
Deloitte also audits the subsidiary Baltic Cable AB.

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

NOK	2008	2007
Statutory auditing	1 500 174	1 476 642
Other certification services	-	79 153
Tax advisory services	-	-
Other services	-	-
Total	1 500 174	1 555 795

11

FINANCIAL INCOME AND FINANCIAL EXPENSES

Financial income

NOK million	2008	2007
Interest received from Group companies	137	103
Other interest income	56	9
Dividends from subsidiaries	154	80
Currency gains	324	-
Other financial income	2	-
Total	673	192

Financial expenses

NOK million	2008	2007
Interest paid to Group companies	534	682
Currency losses	-	3
Other financial expenses	242	2
Total	776	687

12

TAXES

The total tax expense is calculated as follows

NOK million	2008	2007
Income tax	1 924	1 458
Resource rent tax	1 814	577
Corrections relating to previous years	22	1
Change in deferred tax	51	-637
Total tax expense in the income statement	3 811	1 399

Income tax payable:

Tax payable on profit for the year	1924	1458
Tax effect of Group contributions	-979	-1458
Reduction in prepaid natural resource tax relating to previous years	-945	-
Income tax payable	0	0

Tax payable in the balance sheet:

Natural resource tax	461	455
Resource rent tax	1 343	577
Changes relating to previous years	-3	-12
Tax payable in the balance sheet	1 801	1 020

Reconciliation of nominal tax rates and effective tax rates

NOK million	2008	2007
Profit before tax	8 454	5 724
Expected tax expense at a nominal rate of 28%	2 367	1 602
Effect on taxes of:		
Resource rent tax	1 474	-210
Tax-free income	-43	-1
Changes relating to previous years	31	2
Other permanent differences, net	-18	6
Total tax expense	3 811	1 399
Effective tax rate	45%	24%

Specification of temporary differences and tax loss carryforwards

The following table specifies the tax effect of temporary differences and tax loss carryforwards. Deferred tax assets are recognised in the balance sheet to the extent that it is probable that these will be utilised. Net deferred tax assets presented as an intangible asset relate to companies that are treated as a single taxable entity in accordance with the tax regulations.

The company presents deferred tax assets and deferred tax liabilities connected with different regimes individually. Deferred tax relating to resource rent has been reported separately since 2006.

NOK million	2008	2007
Current assets/current liabilities	236	24
Operating assets	-102	5
Pension liabilities	183	137
Other long-term items	-	31
Tax effect of temporary differences and tax loss carryforwards	317	197
Total deferred tax asset	317	197
Tax rates	28%	28%

Specification of temporary differences that cannot be offset

The following is a specification of the tax effects of temporary differences and deferred tax that are not offset against deferred tax assets.

NOK million	2008	2007
Temporary differences, resource rent tax	-458	-302
Resource rent tax carryforward	950	926
Calculated deferred tax liability/asset (30%)	492	624

13
 PROPERTY, PLANT
 AND EQUIPMENT

NOK million	Regu- lation facilities	Turbines, generators etc.	Shares in power plants operated by third parties	Underground facilities, buildings, roads, bridges and quays	Facilities under construction	Other**	Total
Cost 1 Jan 2008	16 936	6 697	2 421	6 680	918	1 095	34 747
Additions 2008	69	81	26	35	443	35	689
Transferred from facilities under construction	179	311	-	8	-540	42	-
Disposals 2008	-	-1	-	-8	-	-13	-22
Cum depr./impairments 31 Dec 2008	-4 631	-3 704	-905	-1 708	-	-662	-11 610
Book value 31 Dec 2008	12 553	3 384	1 542	5 007	821	497	23 804
Depreciation charge for the year	-253	-190	-54	-85	-	-75	-657
Impairments during the year	-	-	-	-	-	-	-
Depreciation period	30–75 years	15–40 years	5–50 years	50–75 years		3–40 years	

**The item Other mainly comprises buildings, office and computer equipment, electrical installations and vehicles.

A more detailed specification of the useful economic lifetimes for the various assets is provided below:

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

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

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

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

Statkraft Energi AS has a right to purchase third-party shares in Grytten in 2035 and in Folgefonn in 2030.

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

NOK million	Shareholding	Share of property, plant and equipment
Aurlandsverkene	7.00%	326
Mørkfoss-Solbergfoss	33.33%	26
Røldal-Suldal Kraft AS ¹⁾	8.74%	-
I/S Sira-Kvina kraftselskap	32.10%	1 190
Total		1 542

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%.

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SHARES IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are recognised in accordance with the cost method.

Shares in subsidiaries (NOK '000)

Company name	Registered office	Shareholding and voting rights	Share capital	Book value	Total equity	Profit in 2008
Baltic Cable AB	Malmö	66.7%	2 552	771 333	250 924	235 737

Statkraft Energi AS pays a monthly rent to use the cable. Rent recognised in the income statement in 2008 amounted to NOK 232 million. Statkraft Energi AS also has a short-term loan with Baltic Cable AB, see Note 22. All agreements are entered into on market terms and conditions.

Shares in associates (NOK '000)

Company name	Shareholding and voting rights	Book value
Aktieselskapet Tyssefaldene	20.3%	101
Aursjøveien AS	33.0%	17
Total		118

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OTHER NON-CURRENT FINANCIAL ASSETS

NOK million	2008	2007
Loans to associates	18	-
Long-term receivables	1	920
Long-term power agreement	1 462	-
Other shares and shareholdings	7	7
Total	1 488	927

Long-term receivables for 2007 include natural resource tax recognised in the balance sheet which was subsequently offset against tax payable in 2008.

16
 INVENTORIES

NOK million	2008	2007
Spare parts	37	38
Carbon quotas held for trading purposes	5	-
Green certificates held for trading purposes	423	157
Gas inventories	-	4
Total	465	199

17
 RECEIVABLES

NOK million	2008	2007
Trade receivables – external	734	940
Trade receivables – intercompany	200	47
Prepaid revenues, etc	767	421
Other receivables	106	107
Current receivables due from Group companies	235	96
Prepaid expenses	221	107
Write-down of power portfolios to market value	-	-46
Total	2 263	1 672

The item Current receivables due from Group companies primarily relates to the Group's group account scheme.

18
 CASH AND CASH
 EQUIVALENTS

The company's liquidity is organised in a group account scheme. This means that the subsidiaries' cash holdings are formally regarded as receivables due from the parent company, and all Group companies are jointly and severally liable for the Group's drawdowns.

The amount of tax payable is secured by guarantee, see Note 24.

19
 EQUITY

NOK million	Paid-in capital	Retained earnings	Total equity
Equity as of 1 January 2007	10 061	-	10 061
Estimate deviations pensions		-7	-7
Transfer of pension liability		4	4
Net profit for the year		4 401	4 401
Proposed dividend for 2007		-646	-646
Group contribution paid		-3 749	-3 749
Equity as of 31 December 2007	10 061	3	10 064
Estimate deviations pensions		-99	-99
Net profit for the year		4 643	4 643
Group contribution paid		-2 518	-2 518
Equity as of 31 December 2008	10 061	2 029	12 090

The company has a share capital of NOK 5.5 billion, divided into 55 million shares, each with a par value of NOK 100. All the shares have the same voting rights and all are owned by Statkraft AS. The company's registered office is in Oslo (PO. Box 200 Lilleaker, 0216 Oslo).

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20 PROVISIONS

NOK million	2008	2007
Pension liabilities	650	491
Provisions for annual compensation payments	374	374
Provision for losses on contracts	397	-
Other provisions	3 918	3 861
Total	5 339	4 726

Pension obligations are described in more detail in Note 7.

The item Other provisions includes prepayments of NOK 3 278 million received in connection with future power sales agreements. The largest of these are the agreement with Elsam and the Rana contract. The liabilities also include a gas agreement that is being amortised until expiry. A gain of NOK 146 million linked to terminated foreign exchange contracts which are amortised in the period leading up to 2010 was also recognised in the balance sheet.

21 LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	2008	2007
Loans from Group companies	4671	4671
Other liabilities	-	9
Total	4 671	4 680

Nominal average interest rate NOK	6.93%	5.16%
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The loans are denominated in NOK and mature in 2018.

22 INTEREST-BEARING SHORT-TERM LIABILITIES

NOK million	2008	2007
Liabilities connected to the Group account scheme	-	772
Loan from Baltic Cable AB	129	33
Total	129	805

23 OTHER INTEREST-FREE LIABILITIES

NOK million	2008	2007
Trade payables – external	205	353
Trade payables – intercompany	95	89
Public charges payable	499	504
Accrued expenses	121	102
Other non-interest bearing liabilities	-	12
Dividend payable	-	646
Current liabilities due to Group companies	4 877	5 249
Total	5 797	6 955

NOK 3 497 million of liabilities due to Group companies for 2008 relates to the Group contribution paid for 2008. In 2007 the Group contribution amounted to NOK 5 207 million.

24 PLEDGES, OBLIGATIONS AND GUARANTEES

Pledges

Under certain circumstances county authorities and publicly owned energy utilities are entitled to a share of the output from power plants belonging to Statkraft Energi AS in return for paying a share of the construction costs, cf. Note 13. To finance the acquisition of such rights, the county authorities/companies have been granted permission to pledge the power plant as security. The mortgage debt raised by the county authorities under this scheme totals NOK 1 762 million. As of 31 December 2008 the book value of the pledged assets in Statkraft Energi AS totalled NOK 6 234 million.

Obligations and guarantees

Statkraft Energi AS has total off-balance-sheet obligations and guarantees amounting to NOK 3 250 million. Of this NOK 1 208 million relates to financial power swap agreements, NOK 2 000 million to Nord Pool, NOK 23 million to guarantees to the tax office and NOK 19 million to other guarantees.

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DERIVATIVES

Statkraft Energi AS trades in financial instruments for various purposes. The treatment of these instruments in the financial statements will depend on their purpose as described in the note on accounting policies.

Currency and interest rate agreements

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

	31.12.08		31.12.07	
	Book value	Fair value	Book value	Fair value
Forward currency agreements	-	60	-	59
Total	-	60	-	59

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

Power trading

Commodity derivatives valued at fair value

NOK million	Fair value 2008	Recognised changes in value 2008	Fair value
			2007
Trading portfolio (external)	32	8	24

With respect to power trading, the trading portfolios are valued at fair value in accordance with Section 5-8 of the Norwegian Accounting Act. The portfolios comprise short-term financial forward and option contracts for power and carbon contracts traded via Nord Pool. The portfolios also comprise bilateral financial contracts normally with identical terms to standardised contracts traded via Nord Pool.

Contracts in the trading portfolios are traded with a short time horizon. As of 31 December 2008, fair value was broken down as follows per future time period:

NOK million	
2009	78
2010	-35
2011	-12
2012	-2
2013	3
Total fair value as of 31 December 2008	32

Commodity derivatives not valued at fair value:

Statkraft Energi AS has four power portfolios within power trading whose financial instruments are not recognised at fair value in the financial statements. All these portfolios consist of both physical and financial contracts. When assessing the risks and value attached to each portfolio, the physical and financial contracts are treated as one item. The fair value of financial power contracts will therefore not be representative of the value of the entire portfolio.

Portfolio	Accounting principles	
Nordic hydropower	Hedging	Norwegian Accounting Act Section 4-1, Para. 1 no. 5
Origination	Lower value principle	Norwegian Accounting Act Section 5-2
Statkraft Financial Energy	Lower value principle	Norwegian Accounting Act Section 5-2
Continental Asset Hedges	Lower value principle	Norwegian Accounting Act Section 5-2

A brief description of some of the main features of the portfolios is presented below.

Nordic hydropower The Nordic hydropower portfolio is intended to cover hydropower production in the Nordic region and the risk associated with this.

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 energy exchanges and bilateral financial contracts. The portfolio is intended to hedge the value of future revenues.

The physical sales obligations comprise statutory-priced industrial power contracts, long-term sales contracts, concessionary power commitments, as well as miscellaneous free power and compensation power contracts. The majority of the statutory-priced industrial power contracts will expire in the period leading up to 2011. The long-term contracts have varying terms, but the longest runs until 31 December 2020. Concessionary power agreements run in perpetuity. For some of these sales obligations, the price is indexed to other market risks such as metals and foreign currencies.

The financial contracts are both contracts traded via energy exchanges and bilateral contracts. These generally have terms of less than five years, though some bilateral financial contracts run until 2020. The perpetual concessionary power contracts have to some degree been renegotiated to provide financial settlement for shorter periods of time.

In 2000 Statkraft Energi AS and Elsam signed a contract converting a physical power exchange agreement signed in 1994 into a financial net settlement between the contract price (indexed against coal, etc) and a market-based reference price (area spot). The contract runs until 30 June 2020 and has an annual volume of 1 462.5 GWh. The Elsam agreement is based on a partnership agreement between several Norwegian energy companies. Statkraft has a 47.97% share of the above-mentioned volume.

Origination portfolios Statkraft Energi AS has various portfolios that are managed independently of the company's expected power 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.

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Origination Statkraft Energi AS 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. As a rule, listed liquid contracts such as system price, area prices and currency are used to reduce the risk associated with trading in structured products and contracts. The majority of contracts in the portfolio have terms of up to five years, but certain contracts run until and including 2018.

As of 31 December 2008 the fair value was higher than cost.

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. Carbon quotas and green certificates are also traded. As a rule, efforts are made to offset the majority of the volume exposure against corresponding standardised financial contracts, so that the portfolio's total net exposure remains relatively moderate.

As of 31 December 2008 the fair value was higher than cost.

Continental Asset Hedges This portfolio comprises hedging contracts related to Baltic Cable AB, the gas-fired power plants and continental assets. The portfolio comprises financial and physical power contracts in both the Nordic 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 oil products, coal, carbon and the electricity price.

As of 31 December 2008 the fair value was higher than cost.

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MARKET RISK,
CREDIT RISK,
LIQUIDITY RISK AND
INSURANCE RISK

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. Risk management at Statkraft focuses on entire portfolios of contracts.

General: Internal market exposure guidelines have been drawn up for both hedging and trading transactions. Responsibility for ongoing follow-up of issued authorisations and frameworks lies with independent organisational units. The frameworks for trading in both financial and physical contracts are continually monitored and regularly reported. Mandate breaches are followed up by management.

Price

Nordic hydropower portfolio: Statkraft Energi AS trades in various physical and financial instruments to hedge its 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 regard to available production. Market strategies have also been established at operating level, which safeguard the consideration of risk based on a PaR (Profit at Risk) method with various potential outcomes. For purposes of risk management, financial and physical contracts are regarded as one item.

Several power contracts in the Nordic hydropower portfolio, both statutory industrial contracts and long-term 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.

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 hedging 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 financial 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 carbon emission allowances.

Continental Asset Hedges Price development in the spot market for electricity, gas, the underlying commodities such as coal and oil and CO₂ 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.

Foreign currency risk Statkraft Energi AS's foreign currency risk primarily relates to power sales revenues denoted in foreign currency. The operational currency for trading on Nord Pool is EUR, and all contracts that are entered into via energy exchanges 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 as a result of hedged power sales (physical contracts and financial trading on Nord Pool).

Exposure to foreign exchange risk is continually followed up by Statkraft AS. 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 bulk of Statkraft Energi's interest rate exposure relates to loans. Interest rate management frameworks have been established 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. Frameworks have 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 foreign exchange risk is continually followed up by Statkraft AS's department for risk in finance. Responsibility for respectively entering into and following up positions is subject to division of responsibility and allocated to separate organisational units. Exposure is regularly reported to Group management via the EVP Finance.

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 loan 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.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will result in a loss for the other party by not fulfilling its obligations. Statkraft Energi AS is exposed to counterparty risk through power trading and physical sales, investing its surplus liquidity and trading in financial instruments.

No counterparty risk is assumed for financial power contracts that are cleared through power exchanges. 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. Statkraft Energi AS also has a separate category for counterparties which - for ethical reasons - the company does not trade with.

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 Energi AS has net-off 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.

Statkraft AS places excess liquidity, primarily 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 Energi AS has efficient follow-up routines in place 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. Historically, Statkraft Energi AS's bad debts have been limited.

The frameworks for exposure for individual counterparties are 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.

LIQUIDITY RISK

Statkraft Energi AS 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). The Statkraft Group 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. The Statkraft Group has good opportunities for borrowing on the Norwegian and European money market 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 4.0. Liquidity capacity in this context is defined as cash and cash equivalents, plus committed drawdown facilities, bank overdrafts and projected receipts for the next six months, divided by projected payments for the next six months.

Exposure to foreign exchange risk is continually followed up by Statkraft AS's department for risk 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. Exposure is also followed up by setting individual target figures for liquidity reserves etc., which are reported to management as part of the Group reporting.

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INSURANCE RISK

Statkraft Energi AS has a considerable risk exposure in its operations related to potential damage/loss relating to its own assets and subsequent production loss, as well as damage to third-parties' persons and property. The company has established insurance schemes that limit the negative effect of key risk exposures. All Statkraft Energi AS' assets are insured to their replacement value. For dams and tunnels, however, a maximum payout per incident has been set, after a thorough assessment of the risk involved, at NOK 400 million and NOK 100 million respectively. Statkraft Energi AS has also taken out water loss insurance, subject to maximum compensation of NOK 500 million per incident.

27 RELATED PARTIES

Operation, production management and energy optimisation of the Group's power plants in Sweden and Finland are coordinated with Statkraft's power plants in Norway through an operating agreement with Statkraft Energi AS. Statkraft Energi AS also has operating responsibility for the Group's Norwegian wind turbine companies and the power plants in Nepal and Laos.

Management of the SFE portfolio and Continental Asset Hedges portfolio is performed by Statkraft Financial Energy AB and Statkraft Markets GmbH respectively.

Statkraft Energi AS purchases administration, office services and IT services from Statkraft AS. Administration of Statkraft Carbon Invest AS is performed by Statkraft Energi AS.

Statkraft Energi AS collaborates with Trondheim Energi Kraft AS within energy optimisation and associated support functions. The collaboration is regulated through a power purchase agreement.

Statkraft Energi AS has a tolling agreement with Naturkraft AS. Statkraft AS owns 50% of Naturkraft AS.

Statkraft Energi AS has entered into agreements to purchase power from the Group companies Knapsack Power GmbH and Kraftwerkgesellschaft Herdecke mbH & Co. Statkraft Markets GmbH resells physical power from the power plants on the German markets.

The agreements are entered into on commercial terms and conditions.

Auditor's
Report**Deloitte.**Deloitte AS
Karenslyst allé 20
Postboks 347 Skøyen
0213 Oslo
Telefon: 23 27 90 00
Telefax: 23 27 90 01
www.deloitte.no

Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Statkraft Energi AS

AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of Statkraft Energi AS as of 31 December 2008, showing a profit of NOK 4.643 millions. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31. desember 2008, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit, is consistent with the financial statements and complies with law and regulations.

Oslo, 16. mars 2009
Deloitte ASAase Aa. Lundgaard (signed)
State Authorised Public Accountant (Norway)

Audit & Advisory • Tax & Legal • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Org.nr.: 980 211 282



Statkraft



STATKRAFT SF
ANNUAL REPORT

2008

TYSSO II IS ONE OF THE POWER PLANTS WITHIN THE TYSSEFALDENE HYDROPOWER SCHEME IN SØRFJORDEN IN THE COUNTY OF HORDALAND. ENERGY HAS BEEN PRODUCED IN TYSSedal SINCE 1908. IT WAS THIS THAT PROMPTED THE DEVELOPMENT OF THE INDUSTRIAL COMMUNITIES AT THE HEAD OF SØRFJORDEN.

GOOGLE MAPS — REPRODUCED WITH PERMISSION

Statkraft SF's Business

Statkraft SF is a Norwegian state-owned enterprise, established and domiciled in Norway. Statkraft SF is wholly owned by the Norwegian state, through the Ministry of Trade and Industry.

The purpose of Statkraft SF is to own all the shares in, and provide loans to, Statkraft AS. In addition, Statkraft SF owns certain assets that for technical reasons may not be owned by Statkraft AS. This applies to power plants that have reverted to state ownership and are leased to third parties and to plants that will be owned by Statkraft on reversion to state ownership, together with certain overseas investments (Asian Power Invest AB and Nordic Hydropower AB).



The consolidated financial statements for Statkraft SF will, with the exception of the retained assets and individual items on the liabilities side, be identical with the consolidated financial statements for the Statkraft AS sub-group.

Report from the Board of Directors

2008 was an eventful year for Statkraft. The agreement with E.ON AG to swap Statkraft's shares in E.ON Sverige AB for assets and shares in E.ON AG that was implemented at the end of the year made Statkraft Europe's largest generator of renewable energy, while the industrial agreements entered into with Boliden Odda confirm Statkraft's role as the largest and most important power supplier to power-intensive industry in Norway. The agreement to increase the company's shareholding in SN Power supports Statkraft's ambitions to develop its role as a global niche player within hydropower and other forms of renewable energy. In addition to the significant profit recognised on the swap deal with E.ON AG, Statkraft posted a strong profit on underlying operations. The high profit is attributable to higher electricity prices, increased generation, efficient operation and excellent results from hedging activities, and not least with significant contributions from the company's employees.

IMPORTANT EVENTS

Statkraft implemented a swap deal with E.ON AG on 31 December 2008 under the terms of which E.ON AG acquired Statkraft's 44.6% shareholding in E.ON Sverige AB and one hydropower plant in Sweden in exchange for 40 hydropower plants and five district heating plants in Sweden, two gas-fired power plants and 11 hydropower plants in Germany, three hydropower plants in the United Kingdom, along with a gas storage contract and a power supply agreement. Statkraft also acquired 4.17% of the shares in E.ON AG. The transaction had a total value of around NOK 44 billion, and resulted in Statkraft recognising a profit of NOK 25 591 million in the fourth quarter. The transaction had a limited effect on liquidity.

Statkraft AS and Norfund agreed a new ownership structure for SN Power in November which saw Statkraft increase its shareholding to 60% with effect from 13 January 2009. The shareholder agreement was also re-negotiated, with Statkraft acquiring an option to purchase up to a total of 67% of SN Power's shares at market price by no later than 2015. Norfund was granted an option to sell all or some of its shares during the same period. A separate company was also established to focus on initiatives in Africa and Central America, in which Norfund participates as a direct owner alongside SN Power.

Statkraft and Agder Energi entered into an agreement in August to establish the company Statkraft Agder Energi Vind DA. The two parties will use the newly established company to implement a joint initiative within onshore wind power in Norway.

In October Statkraft and Boliden Odda signed two long-term, commercial industrial power contracts that will run from 2009 to 2030. The agreement for the supply of around 20 TWh is the largest industrial power agreement Statkraft has entered into since 1998. As part of the agreement Statkraft acquired the shares in AS Tyssefaldene held by Boliden Odda, thus increasing its shareholding to 60.17%. The agreement will enter into force as soon as a number of issues including tax-related matters have been clarified.

Leirfossene Power Plant in Trondheim was opened in October. The new hydropower plant replaces two old power plants, increasing annual output from 150 GWh to 193 GWh.

Commercial operation of Knapsack gas-fired power plant in Germany, which has an installed capacity of 800 MW, commenced on 16 January 2008.

Statkraft and its partner Catamount Energy Corporation decided in March 2008, to construct Blaengwen Wind Farm in Wales, which will have an installed capacity of 23 MW. Construction work started in autumn 2008 and is expected to be completed in early 2010. Statkraft acquired Catamount's shareholding in March 2009, thus becoming the sole owner of the project.

Together with one of its partners in the United Kingdom, Statkraft was in June granted a licence to construct Carraig Gheal Wind Farm near Oban on the west coast of Scotland. The new wind farm's 20 turbines will have an installed capacity of between 46 MW and 60 MW.

Statkraft and the Austrian energy group EVN signed a licence agreement in December to construct hydropower capacity in Albania. The construction of three power plants with a combined installed capacity of 340 MW and an expected annual output of around 1 TWh is planned through a joint-venture. The project is expected to be implemented by 2016.

To be able to implement Statkraft's strategy for continued profitable growth within environmentally friendly and flexible power generation, in February 2009 Statkraft's board submitted a proposal to the state as owner to increase the equity by NOK 8 billion and adjust the dividend policy to lie between 50% and 75%.

FINANCIAL PERFORMANCE ¹

In order to facilitate better understanding of Statkraft's underlying operations, unrealised changes in value and material non-recurring items in the Group and associates are excluded from the financial review of the Group and the segments. Further information on these items can be found in the section "Items not included in the underlying profit".

Annual profit In 2008 the Group posted respective pre- and post-tax profits of NOK 11 857 million (NOK 9 349 million) and NOK 8 365 million (NOK 7 169 million). The improvement in profit is primarily attributable to higher power prices and production, though this was offset to a certain degree by significantly higher financial expenses, lower contributions from associates and a higher tax expense.

Return on investment The Group achieved a return on average capital employed (ROACE)

¹ Comparative figures for 2007 are shown in brackets.

of 26.4% in 2008 (17.8%). The increase of 8.6%-points is primarily attributable to significantly higher operating profits as a result of higher power prices and production.

The return on equity after tax was 17.3% (15.8%), while the total return on capital after tax was 10.0% (8.6%).

Operating revenues At 44.7 EUR/MWh, the average system price in the Nordic market was EUR 16.8/MWh higher in 2008 than in 2007, and 3.8 EUR/MWh lower than the record prices seen in 2006. Precipitation was higher than normal in 2008 in Norway and consumption was also high, despite relatively warm weather. Average monthly prices for 2008 were higher for all the months compared to the previous year, with the exception of December. The average spot price in Germany was also considerably higher in 2008 than in 2007, increasing by EUR 27.8/MWh to EUR 65.8/MWh. With the exception of November, prices were higher in all months of the year in 2008 than in the previous year.

The Group posted gross operating revenues of NOK 25 465 million in 2008 (NOK 17 950 million). The increase of 42% is attributable to higher prices and a rise in output from 44.9 TWh in 2007 to 53.4 TWh in 2008. Gas-fired power generation in Germany contributed 4.1 TWh to the overall increase in output of 8.5 TWh, while the remainder of the increase primarily related to hydropower in Norway. Higher prices and increased levels of production resulted in an increase in net physical spot sales of NOK 7 199 million, which represents a 132% rise. High prices also impacted revenues from end-user activities, which increased by 27% to NOK 4 305 million. At NOK 1 221 million, revenues from hedging activities were slightly lower than the historically strong results witnessed in 2007.

Statutory-priced power sales to industry totalled 8.3 TWh, generating revenues estimated to be NOK 1 438 billion lower than they would have been had the same volume of electricity been sold at spot prices.

Other operating revenues totalled NOK 1 260 million in 2008 (NOK 1 406 million). The decrease is attributable to the recognition of insurance settlements for Svartisen in 2007 and fines relating to the delayed completion of the gas-fired power plants.

Energy purchases amounted to NOK 4 416 million in 2008 (NOK 2 680 million). The increase is primarily attributable to the purchase of gas for the Group's gas-fired power plants.

Costs associated with the transmission of power totalled NOK 1 337 million (NOK 948 million), where the increase is attributable to a rise in the variable portions of the transmission tariff as a result of higher transmission volumes and prices.

Net operating revenues totalled NOK 19 712 million (NOK 14 322 million).

Operating expenses Operating expenses amounted to NOK 7 229 million in 2008 (NOK 6 182 million), which represents a 17% increase against 2007.

Salaries and payroll costs rose by NOK 250 million to NOK 1 854 million. The increase is primarily connected to increased activity levels, normal salary development and increased provisions for pension liabilities.

The increase in depreciation, amortisation and impairments of NOK 257 million primarily relates to the gas-fired power plant at Knapsack. Total depreciation, amortisation and impairments amounted to NOK 1 913 million in 2008.

Property tax and licence fees increased by NOK 96 million, primarily as a result of an increased calculation basis for property tax in Norway and Sweden. In total property tax and licence fees amounted to NOK 1 130 million.

Other operating expenses totalled NOK 2 640 million. The increase of NOK 752 million is primarily attributable to the gas-fired power plants, which contributed NOK 350 million. The remainder of the increase relates to other new business, project development and a general increase in activity levels.

Operating profit Operating profit totalled NOK 12 176 million (NOK 8 140 million), which represents an improvement of 50% against 2007.

Share of profit from associates The share of profit from the Group's associates was NOK 2 190 million in 2008 (NOK 2 682 million), which corresponds to a decrease of 18%.

NOK 284 million of the above-mentioned decrease relates to E.ON Sverige in connection with the swap deal with E.ON AG. The share of profit from E.ON Sverige was not recognised in the period between the Statkraft board's decision to proceed with the swap deal on 18 June 2008 and the time the deal was implemented on 31 December 2008. The share of the profit not recognised is included in the profit that was reported on the implementation of the sale as of 31 December 2008.

Telenor Cincius has posted weaker results than expected and Skagerak Energi recognised a loss share of NOK 239 million in respect of the company for 2008. As a result of the marked negative performance, extensive work is being performed to reorganise the company together with the majority shareholder Telenor. The board emphasises that involvement in the business, which lies in the periphery of the Group's core business, has proven challenging.

Financial items Net financial items totalled NOK -2 510 million in 2008 (NOK -1 472 million).

Year-on-year financial expenses rose by 1 419 million in 2008. The increase primarily relates to the net loss realised on foreign currency contracts previously entered into as well as increased interest expenses on liabilities due to higher market interest rates and higher average liabilities.

Financial income increased by NOK 411 million compared with 2007. Average liquidity was lower than in 2007, while higher market interest rates generated an increased yield from the portfolio.

The Group has three loan portfolios denoted in NOK, SEK and EUR respectively. The portfolios are exposed to both variable and fixed interest rates, where the exposure to variable interest rates is 78%. The average current interest rates for the year on loans denoted in NOK, SEK and EUR were 6.6%, 4.9% and 5.3% respectively.

Statkraft entered into several currency and interest rate hedging relationships that reduced volatility reported in the income statement in 2008. The investment in E.ON Sverige was hedged against changes in SEK, loans in EUR were hedged against changes in market interest rates and a major contract in EUR was hedged against changes in foreign exchange rates (cash flow hedging).

Access to capital has been reduced in the wake of the financial crisis, and access to liquidity is limited through both the securities market and loans from banks. Although Statkraft has benefitted from good access to capital through the certificate market during the crisis, the company is nonetheless aware of the major uncertainty currently pervading the market. Over the last year Statkraft has increased its drawdown facilities by NOK 3 billion and now has a total of NOK 8.45 billion in unused drawdown facilities.

Statkraft has entered into agreements with financial counterparties for the settlement of changes in value of interest rates and foreign currencies that limit counterparty risk resulting from derivative contracts to one week's changes in value.

Statkraft places significant amounts in banks at times, particularly ahead of major payments. Counterparties are continually followed up to reduce the risk of losses.

Items not included in the underlying profit

Total unrealised changes in value and material non-recurring items after tax for the year amounted to NOK 25 165 million (NOK -398 million).

Unrealised changes in the value of energy contracts totalled NOK 4 283 million in 2008 (NOK -739 million). The Group's contracts are indexed against a number of items including various raw materials and foreign currencies. At the end of the year unrealised changes in the value of contracts were in particular impacted by the appreciation of the USD.

Unrealised changes in value in associates and joint ventures amounted to NOK -753 million in 2008 (NOK 279 million).

Unrealised changes in the value of currency and interest rates during the year amounted to NOK -3 102 million (NOK 227 million). The changes in value were attributable to both unrealised foreign currency effects on liabilities denoted in SEK and EUR and currently effects on internal loans, and unrealised effects of foreign currency hedging of future cash flows denominated in EUR. This is due to depreciation of the Norwegian krone against the Swedish krona and the euro by 6.4% and 22.5% respectively in 2008. However, the change in the value of interest rate derivatives contributed positively here.

Non-recurring items excluded from the calculation of the underlying profit amounted to NOK 25 433 million in 2008 (NOK -309 million).

The entire above item in 2007 and an amount of NOK -68 million in 2008 relate to repair costs incurred in E.ON Sverige in connection with storm damage in January 2007 and January/February 2008 respectively.

The figures for 2005 include write-downs recognised for the Smøla and Hitra wind farms. These were reversed in the fourth quarter of

2008, resulting in the recognition of non-recurring income of NOK 307 million. The write-downs were reversed on the basis of updated price assumptions, a broader experience basis for estimating production, and a slight extension in the wind farms' projected lifetimes.

The investment in Naturkraft was written down by NOK 397 million in the fourth quarter of 2008 following the significant reduction in carbon quotas allocated to Kårstø gas-fired power plant for the period 2008-2012.

In connection with the swap deal with E.ON AG Statkraft recognised a profit of NOK 25 591 million in the fourth quarter of 2008, which has been excluded from the underlying result.

Taxes Taxes on the underlying profit comprised NOK 3 492 million (NOK 2 180 million), which equates to an effective tax rate of 29.5% (23.3%). The effect of unrealised changes in value and non-recurring items on the tax expense in 2008 was NOK 696 million (NOK -144 million).

The tax expense recognised in 2008 totalled NOK 4 186 million (NOK 2 037 million).

In 2008 resource rent tax amounted to NOK 1 883 million (NOK 758 million), which equates to 45.0% of the Group's total tax expense (37.2%). The increase in resource rent tax as a share of the Group's total tax expense is attributable to higher production and area prices.

The tax expense for 2007 was impacted by changes in the regulatory framework for resource rent taxation, which resulted in a positive net effect in the form of a reduced recognised tax expense of NOK 525 million. This was primarily due to more power plants being taxable than previously. Combined with an increased tax rate, this generated higher negative resource rent carryforwards and thus an increase in recognised deferred tax assets.

Cash flow and equity Operating activities generated a cash flow of NOK 8 571 million in 2008 (NOK 4 396 million). Changes in short-term and long-term tied capital generated a negative liquidity effect of NOK 1 432 million (NOK 327 million), while dividends from associates totalled NOK 2 607 million (NOK 1 448 million). The net cash flow from operations thus amounted to NOK 9 746 million (NOK 6 171 million).

Investments totalled NOK 3 046 million (NOK 4 002 million) and primarily related to maintenance, increases in capacity and investment in other companies. The largest items comprised capital payments into SN Power and Energy Future Invest AS of NOK 200 million and NOK 137 million respectively, and investments of NOK 105 million in Leirfossene Power Plant and purchases of shares worth NOK 73 million in the Swedish wind company Arise AB.

New borrowings totalled NOK 6 525 million, including NOK 5 570 million in certificate loans, while debt repayments amounted to NOK 7 551 million was repaid in liabilities. A further NOK 6 757 million was paid in dividends and Group contributions.

There was a negative change in net liquidity of NOK 1 083 million, and at the end of the year the Group's cash and cash equivalents totalled NOK 2 290 million, compared with NOK 3 344 million at the start of the year.

At the end of the reporting period interest-bearing liabilities totalled NOK 43 541 million, compared with NOK 40 034 million at the end of the previous year. The net increase is attributable to a marked depreciation of the Norwegian krone towards the end of 2008. The interest-bearing debt ratio was 38.3%, against 49.0% at the end of 2007. The decrease of 10.7%-points is due to the fact that recognised equity increased as a result of the significant increase in value of Statkraft's shares in E.ON Sverige realised following the swap deal with E.ON AG. The share of debt denominated in EUR increased in 2008, while the share of debt denominated in SEK was reduced by a corresponding amount. This measure was taken in order to align the liabilities with increased investments in EUR in connection with the swap agreement with E.ON AG.

An overarching aim for Statkraft's financing is to establish and maintain financial flexibility and secure an even allocation of debt maturities. The maturity profile is now balanced. Significant debts are, however, due to mature in the coming years.

At the end of the reporting period current assets, excluding cash and cash equivalents, totalled NOK 25 506 million, while short-term interest-free liabilities amounted to NOK 19 732 million. Of these amounts derivatives comprised NOK 12 806 million and NOK 11 299 million respectively, compared with

respective amounts of NOK 8 326 million and NOK 12 454 million 12 months previously.

At the end of 2008 Statkraft had equity of NOK 70 221 million (NOK 41 650 million). This corresponds to 48.3% of total capital. The increase of 10.6%-points since the start of the year is attributable to a rise in equity following the swap deal with E.ON AG.

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 was the 14th largest electricity generator in Europe, but Europe's largest generator of renewable energy in 2007. The Group generates and develops hydropower, wind power, gas power and district heating and is a major player on the European energy exchanges with specialist expertise within physical and financial power trading. Statkraft also focuses strongly on innovation and development of solar power, marine energy, osmotic power and other new environmentally friendly energy solutions. The Group supplies electricity and heat to around 600 000 customers, has around 270 000 distribution grid customers, and is the largest supplier of power to the Norwegian processing industry. Outside Europe Statkraft engages in power generation and development of new generating capacity through its subsidiary SN Power. The Group also has shareholdings in other energy companies in both Norway and the Nordic region, as well as a 4.17% shareholding in the German energy company E.ON AG.

In order to secure an effective structure for continued growth and profitability, the Statkraft Group's operational structure was reorganised with effect from 1 July 2008. In connection with the introduction of the new management structure, Statkraft decided to implement IFRS 8 before the mandatory deadline of 1 January 2009. IFRS 8 classifies the segments in accordance with the organisation of the business for internal management purposes, which is essentially based on the premise that the information that management uses to make decisions internally should also be reflected in segment reporting. The new organisational structure was chosen to accommodate the major changes that will ensue in the wake of

increased growth and internationalisation. The aim is to achieve a more flexible and dynamic organisation where new prioritisations and growth areas can be highlighted and made visible as separate business units with clear results responsibilities. At the same time we are establishing a basis for an efficient management and control structure.

Statkraft's business is now organised into six segments – Generation and Markets, Wind Power, Emerging Markets, Skagerak Energi, Customers and Industrial Ownership. There is also the Other segment, which includes Southeast Europe Hydro, Solar Power, Small-Scale Hydro, Innovation and Growth, and the investment in E.ON Sverige AB, Group functions and eliminations. The shareholding in E.ON Sverige was sold to E.ON AG on 31 December 2008. The 4.17% shareholding in E.ON AG has been included in the Other segment since 31 December 2008.

Generation and Markets is the largest segment and is responsible for the operation and maintenance of hydropower plants in the Nordic region, gas-fired power plants in Europe, and physical and financial trading in Europe. These business units are organised into one segment due to the close integration between operations, maintenance and energy optimisation. In particular initiatives relating to the development, construction and ownership follow-up of wind power, and development of new growth markets in areas outside Europe, will be followed up by management and be reported and displayed as separate segments in the respective Wind Power and Emerging Markets areas. Activities in Skagerak Energi are followed up as a joint activity by management and reported as a separate segment. The Customers segment covers distribution grid, district heating and power sales activities owned by Trondheim Energi whilst Industrial Ownership includes the shareholdings in BKK, Agder Energi and Fjordkraft.

Strategy and vision

Vision Statkraft updated its vision in 2008.

As Europe's leader in renewables we will meet the world's need for pure energy.

We wish to leverage our expertise and experience to help satisfy global climate and energy challenges.

Strategy In 2008 Statkraft prepared a new strategy for the period leading up to 2015. The strategy paves the way for continued

profitable growth within environmentally friendly and flexible power production both nationally and internationally.

The strategy states three main directions for further development.

Industrial developer in Norway Statkraft is the most important player in the efforts to supply clean energy to consumers and businesses in Norway. The company shall be a driving force behind developments in the Norwegian power industry, and through this create profitable workplaces and help meet the world's need for clean energy.

The major values connected to the hydropower plants shall be managed in a responsible manner. The ambitions are to generate further growth by developing new hydro and wind power and meeting industry's need for long-term power agreements. New growth areas shall be developed, while activities within distribution grid, power sales and district heating and shareholdings in other power companies shall also be developed.

European flexible producer Statkraft shall further develop integrated market operations by establishing a strong position within flexible assets in Western Europe.

Existing power plants shall be expanded and upgraded, and the power plants' inherent flexibility shall be leveraged to supply the market with environmentally friendly energy when fluctuations in demand and prices make this attractive. Specialist expertise within market analysis, energy optimisation, trading in energy products and operation and maintenance shall be leveraged and further developed.

Green global developer The world needs to develop much more renewable energy to counter global energy and climate challenges. To benefit from the commercial opportunities presented by these developments, Statkraft is endeavouring to establish a strong niche position within international hydropower and renewable energy sources in Europe.

We will generate growth within hydropower in Southeast Europe and in selected countries in Asia, South America and Africa, step up our focus within onshore and offshore wind power and establish a basis for growth within solar power and marine energy.

Corporate governance Statkraft's principles for corporate governance regulate the

relationship between its owner, board of directors and management. To the extent that it is applicable to Statkraft's organisation and ownership, the company complies with the Norwegian Code of Practice for Corporate Governance. Recommendations relating to non-discrimination of shareholders, tradability of shares and the general meeting are not relevant for Statkraft as the company is not listed and the state is the sole owner.

Statkraft has an Audit Committee that performs preparatory work in respect of the board's deliberations and decisions regarding the company's financial reporting, internal control and auditing. The company also has a Compensation Committee, which makes recommendations to the board with regard to the salary and other benefits paid to the President and CEO as well as on matters of principle related to salary levels, incentive schemes and pension terms for the company's employees.

The work of the Board of Directors There were no changes in the composition of the board of directors in 2008. The chair and board members of Statkraft AS are identical to the chair and board members of Statkraft SF. The board met 11 times during the year. In 2008 the board carried out a review of the company's strategy.

In addition to monitoring ongoing operations, the board dedicated much of its time in 2008 to the swap deal with E.ON AG and the agreement with Norfund on a new ownership structure for SN Power.

Risk and internal control Statkraft's key risk factors are connected to market operations, financial management, operating activities and framework conditions. Risk management at Statkraft is important for value creation and represents an integrated part of all business activities. This is followed up within the respective units using procedures for the monitoring and mitigation of risk.

Significant volume and price risk attaches to power production and trading. Precipitation levels and winter temperatures are of great significance in the Nordic market and result in considerable fluctuations in both prices and output volumes. Power prices are also impacted by gas, coal and oil prices, and carbon quota prices. Gas-fired power generation is directly exposed to gas, oil and carbon quotas. Statkraft manages this market risk by trading physical and financial instruments in several markets. Closer

integration of the energy markets is having a significant impact on business models and risk management. Consequently, significant emphasis is placed on the interrelationship between the various markets. Internal mandates and frameworks are established for all trading activities and followed up on an ongoing basis.

The Group's central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity. Forward currency contracts, interest rate swaps and forward interest rate agreements are the most important instruments used. Foreign exchange and interest rate risk are regulated through mandates. Limits have also been established for liquidity and counterparty risk. Market risk and other financial risk, as well as exposure connected to the issued mandates, are followed up by independent middle office functions, and are regularly reported to Group management and the board.

Operational risk is largely managed using detailed procedures, contingency plans and insurance. A comprehensive system for registering and reporting hazardous conditions, undesired incidents and damage and injuries has also been established, and these are analysed on an ongoing basis.

Other risk is primarily associated with general framework conditions and political decisions. Climate changes can present both threats and opportunities, and are of importance for all the risks described above. Statkraft therefore closely monitors consequences relating to climate changes.

The board attaches importance to further strengthening internal controls within the Group. To this end a management system has been established that gathers all governing documents and facilitates more efficient, systematic and uniform management of the Group incorporating adequate formalisation, documentation and compliance. An internal control system that will comprise risk assessment, control measures and monitoring of compliance is being prepared. The system is scheduled to be completed by the end of 2009. The status of compliance with the management system is included as a part of management's review in accordance with ISO 9000 and ISO 14000 certification.

The financial crisis that started in the second half of 2008 is having a direct impact on Statkraft's financial risk profile and is also

indirectly affecting prices and structural changes in the company's key markets. The resulting increased risks are managed within the framework of financial risk, though are now being accorded greater attention and followed up more closely than in the past.

Business principles 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. Safeguarding life and health
2. Safeguarding the environment
3. Safeguarding against the loss of trust of the market and society
4. Safeguarding against financial loss
5. Safeguarding critical business systems

These business principles are guiding for the Statkraft Group's 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 who are business partners of the Group.

SUSTAINABLE VALUE CREATION

Ethical business operation The Group emphasises the importance of sound business practice, and the company's ethical guidelines apply to employees and everyone who acts on behalf of the Group. Statkraft encourages employees to notify censurable conditions. The Group's Corporate audit department is an independent notification channel with the right and obligation to report to the board. The guidelines that describe the employer's duties on receiving such notification were prepared in 2008.

Initiatives within ethics were strengthened as a result of Statkraft establishing itself in new markets. This increased focus covers a number of factors, including the establishment of an ethics programme that covers the revision of principles and guidelines relating to ethics, training programmes for all employees along with the reinforcement of the subject of ethics in the Group's management training programme.

Corporate social responsibility Statkraft focuses on renewable energy and climate challenges, and works to develop new production capacity that can contribute to long-term, reliable energy supplies, including into the future. The Group places great emphasis

on operational safety and responding rapidly to any serious unplanned incidents.

Statkraft generated a total added value of NOK 43 566 million in 2008. NOK 10 000 million of this amount was returned to the company's owner as dividends and Group contributions. Central and local government taxes totalled NOK 5 524 million. Statkraft's total investments in 2008 amounted to NOK 2 573 million (excluding loans granted). NOK 1 758 million of which were made in Norway and NOK 815 million outside Norway. 46% of these investments related to the expansion of production capacity.

Environmental matters One serious environmental non-compliance was recorded in the Group in 2008. On 27 July a stretch of the Surna river experienced strongly reduced rates of water flow for 3.5 hours after an unforeseen breakdown at Trollheim Power Plant. The incident resulted in the stranding of around 20 000 salmon and sea trout alevin. Statkraft has contributed to the establishment of two funds intended to reinforce and maintain salmon and sea trout populations in the Surna river. Statkraft had previously decided to install a bypass valve at Trollheim Power Plant. The valve is scheduled to be installed and enter operation in spring 2010. This will significantly reduce the risk of undesired downtime and reduced water flow in Surna river.

A further 27 less serious environmental non-compliances were recorded in 2008. Most of these related to brief violations of minimum water flow requirements and minor oil emissions.

In 2008 Statkraft's greenhouse gas emissions totalled 1 605 000 tonnes. This represents an increase of 292 000 tonnes compared with 2007. This increase is primarily attributable to the fact that 2008 was the first full year that CO₂ emissions from the gas-fired power plant at Knapsack in Germany were included in the sustainability statement.

The Group will purchase carbon quotas on the voluntary carbon market to offset greenhouse gas emissions from fuel consumption, business travel and accidental emissions in 2008 for the part of the business that is not subject to quota schemes.

In 2008 electricity consumption at Statkraft totalled 828 GWh. All the Group's electricity consumption is certified as renewable in

accordance with RECS (Renewable Energy Certificate System). In 2008 Statkraft generated 34 300 tonnes of hazardous waste which was treated in line with the applicable regulations. The recycling rate (material and heat recycling) of other waste produced in the Generation and Markets segment was 82% in 2008.

The subsidiaries Statkraft Energi AS and Statkraft Development AS are certified according to the ISO 14001:2004 environmental standard. A project intended to develop a Group-wide environmental management system is now in its final phase, and the new system will be implemented across the Group in 2009.

A SAFE AND HEALTHY CORPORATE CULTURE

Organisation The Statkraft Group was reorganised in 2008 to cater for the strong international growth currently being experienced by the business. At the end of 2008 the Group employed 2 633 full-time equivalents, which represents an increase of 346 compared with at the end of 2007. 217 employees (183 full-time equivalents) were transferred from E.ON to Statkraft in connection with the swap deal with E.ON AG. These are included in the company's headcount as of 31 December 2008 but not in other key figures. The average age of employees in the Statkraft Group is 45, and the average length of service is 14 years. Excluding retirement, Statkraft had a staff turnover rate of 4.0% in 2007.

The company's sickness absence rate was 3.9% in 2008 (3.9%). The company aims to have a sickness absence rate of less than 4%. All the Group's Norwegian companies participate in the government's Inclusive Working Life (IA) scheme, which involves the active follow-up of those on sick leave and close cooperation with the company's health service.

Statkraft is endeavouring to achieve a better gender balance within the Group and a higher proportion of women in management positions. In 2008 24% of the Group's employees were women (24%). The percentage of women in management positions was 21% in 2008 (24%), while the number of women on the board was 44%. This board follows up work to secure balanced gender distribution, including ensuring compliance with statutory requirements relating to gender balance on the boards of subsidiaries and companies in which Statkraft holds major shareholdings. Statkraft embraces workforce diversity and

pursues a policy of non-discrimination with regard to recruitment and personnel issues. The Group employs staff in more than 20 countries.

Safety Statkraft aims to avoid injuries and health problems in connection with the Group's activities. Health and safety aspects shall be identified and evaluated ahead of all operating and maintenance activities. All injuries, near misses and hazardous conditions are registered, analysed and followed up in a systematic manner.

A Group-wide management system for health, safety and the environment is being prepared. The work includes the establishment of Group-wide requirements for categorisation, analysis and follow-up of HSE non-compliances, and revision of the Group's HSE requirements for partners and suppliers.

In 2008 the H1 absence indicator was 4.6 (5.9), while the H2 injury indicator was 12.1 (16.5). The improvement is generally accredited to an increased focus on reporting and analysis of incidents, near misses and hazardous conditions, along with more stringent requirements concerning examination of hazardous conditions. The Group has expressed a desire to learn from all injuries, near misses and hazardous conditions. 4 524 hazardous conditions were recorded in the Group in 2008.

There were nine fatalities at SN Power in 2008 and three to date in 2009. Six of the fatalities occurred on the Allain Duhangan construction project in India, in which SN Power has a 43% shareholding. A total of 13 people have died since the start of construction on the Allain Duhangan project. Most of the fatalities were connected to transportation activities, landslides or avalanches. Statkraft and SN Power regard the situation as very serious and have implemented a series of measures; including the engagement of international experts and new HSE management, and ongoing monitoring. Statkraft will further strengthen its efforts to improve safety following its increased shareholding in SN Power.

Statkraft works continuously to increase understanding of, and compliance with safety requirements on all development projects in which the Group is involved. Health and safety work and performance are directly followed up on the projects and by the respective boards.

FRAMEWORK CONDITIONS

Statkraft's existing activities in Norway are impacted by a number of framework conditions including tax regulations, changes in the regime for grid rental charges, revisions of minimum water flow rates and other instructions from the Norwegian Water Resources and Energy Directorate (NVE), as well as restrictions in the transmission grid, general support schemes and regulations for industry. The framework conditions can impact Statkraft's production, revenues and profitability. Statkraft is similarly exposed to framework conditions and regulations through its activities within the EU and in international growth markets.

The EU's recently adopted Renewables Directive will have major impact on Statkraft in the years to come. The Directive establishes a binding target that 20% of energy consumption shall be generated from renewable energy by 2020. European power prices in themselves are not sufficiently high to render new renewable technologies commercially viable. Most countries therefore have support systems to secure growth within these technologies. The support systems are national and vary significantly in both their form and support levels. There are two main types of support systems: feed-in tariffs and green certificates. Statkraft is exposed to support schemes connected to the development of clean energy in a number of markets. Both established technologies such as onshore wind power and new technologies including offshore wind, wave and tidal power will require financial support if they are to be realised. Uncertainty attaching to the future scope and size of various countries' support systems is accorded significant importance in investment decisions and will be critical in the long-term to be able to develop new technologies.

The financial crisis could result in some countries questioning whether to spend

money on expensive support schemes for a period. However, there is also evidence to suggest that an economic downturn could result in increased support for renewable energy. It could be proposed that funds be specifically channelled into activities within environmentally friendly energy in order to stimulate economic activity levels.

ALLOCATION OF PROFIT FOR THE YEAR

In its national budget for 2009 the Norwegian government requires Statkraft to pay the Norwegian state a dividend of NOK 10 billion. The dividend will be paid from Statkraft SF. To enable Statkraft SF to pay this dividend the board proposes the following allocation of the profit for the year in Statkraft AS.

AMOUNT IN NOK MILL	
Net profit as per Statkraft AS's financial statements	10 279
Allocation of profit for the year:	
Dividend	10 000
Transferred to other equity	279

At the end of the year the parent company's unrestricted equity was 774 million.

OUTLOOK

High reservoir levels at the start of 2009 and higher than normal precipitation levels have resulted in a robust resource situation in the Nordic region. The average system price was significantly higher in 2008 than in 2007, but forward prices indicate that prices will be lower in the future. Together with the increase in generating capacity facilitated by the swap deal with E.ON, this will form the basis for a relatively high level of power generation during 2009 and increases in revenues from ongoing power sales. However, major uncertainty attaches to the further development of power prices and the hydrological resource situation. It is expected that prices and demand for power could fall in the short and

medium-term as a result of the financial crisis. The long-term consequences are more uncertain.

At the end of the year the Group presented an enhanced strategy for the period 2009 to 2015. The new strategy states three main directions for further development – Industrial developer in Norway, European flexible producer and green global developer. The former involves Statkraft being a driving force behind developments in the Norwegian power industry, and through this creating profitable workplaces and helping meet the world's need for clean energy. As a European flexible producer, Statkraft will generate growth within flexible power production in Western Europe and further develop its market positions. As a green global developer Statkraft wishes to establish a strong niche position within international hydropower and renewable energy sources in Europe.

The strategy accommodates investments in the region of NOK 80 billion – NOK 100 billion in this period. 85% of these investments are expected to relate to renewable energy, while the remainder will relate to maintenance, gas and other environment-enhancing measures. Just under half of the total investments are planned for Norway. Overall Statkraft's strategy is based on a growth rate in the period leading up to 2015 similar to the Group's average growth rate over the last five years. In order to be able to implement Statkraft's strategy of continued profitable growth within environmentally friendly and flexible power generation, Statkraft's board has proposed to the state that it should increase the equity by NOK 8 billion and adjust its dividend policy. The board estimates that the overall requirement for equity will be met through a combination of new equity and an average dividend level in the period leading up to 2015 of between 50% and 75%.

The Board of Directors of Statkraft SF
Oslo, 18 March 2009

Arvid Grundekjøn
Chair

Ellen Stensrud
Deputy chair

Berit Rødseth

Halvor Stenstadvold

Aud Mørk

Egil Nordvik

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
President and CEO

**RESPONSIBILITY
 STATEMENT**

We confirm to the best of our knowledge that the consolidated financial statements for 2008 have been prepared in accordance with IFRS as adopted by the EU, as well as additional information requirements in accordance with the Norwegian Accounting Act, and that the financial statements for the parent company for 2008 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements gives a true and fair view of the Company's and Group's assets, liabilities, financial position and result for the period viewed in their entirety, and that the Board of Directors' report gives a true and fair view of the development, performance and financial position of the Company and Group, and includes a description of the principle risks and uncertainties.

The Board of Directors of Statkraft SF
 Oslo, 18 March 2009

Arvid Grundekjøn
 Chair

Ellen Stensrud
 Deputy chair

Berit Rødseth

Halvor Stenstadvold

Aud Mork

Egil Nordvik

Thorbjørn Holøs

Astri Botten Larsen

Odd Vanvik

Bård Mikkelsen
 President and CEO

→ Income statement

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Income Statement

STATKRAFT SF GROUP

NOK million	NOTE	2008	2007
Sales revenues	7	24 205	16 544
Other operating revenues	8	1 260	1 406
Gross operating revenues		25 465	17 950
Energy purchases	9	-4 416	-2 680
Transmission costs		-1 336	-948
Unrealised changes in value of energy contracts	10	4 282	-739
Net operating revenues		23 995	13 583
Salaries and payroll costs	11	-1 853	-1 604
Depreciation, amortisation and impairments	17,18	-1 606	-1 656
Property tax and licence fees	13	-1 130	-1 034
Other operating expenses	14	-2 640	-1 889
Operating expenses		-7 229	-6 183
Operating profit		16 766	7 400
Share of profit from associates and joint ventures	19	972	2 652
Financial income	15	26 384	411
Financial expenses	15	-3 303	-1 884
Unrealised changes in value currency and interest contracts	15	-3 104	230
Net financial items		19 977	-1 243
Profit before tax		37 715	8 809
Taxes	16	-4 186	-2 037
Net profit		33 529	6 772
Of which minority interest		250	166
Of which majority interest		33 279	6 606

Income statement

Balance Sheet ←

Statement of Cash Flow
Statement of Changes in Equity
Notes
Auditor's Report


Balance Sheet

STATKRAFT SF GROUP

NOK million	NOTE	31.12.08	31.12.07
ASSETS			
Intangible assets	17	2 895	1 657
Property, plant and equipment	18	75 756	56 957
Investments in associates and joint ventures	19	14 693	32 332
Other non-current financial assets	20	24 151	1 930
Non-current assets		117 495	92 876
Inventories	21	699	303
Receivables	22	11 652	5 096
Short-term financial investments	23	349	347
Derivatives	24	12 806	8 326
Cash and cash equivalents	25	2 290	3 344
Current assets		27 796	17 416
Assets		145 291	110 292
EQUITY AND LIABILITIES			
Paid-in capital		29 250	29 250
Retained earnings		38 199	9 583
Minority interests		2 772	2 817
Equity		70 221	41 650
Provisions	26	11 797	9 603
Long-term interest-bearing liabilities	27	33 389	33 111
Long-term liabilities		45 186	42 714
Short-term interest-bearing liabilities	28	10 152	6 923
Taxes payable	16	2 796	2 901
Other interest-free liabilities	28	5 637	3 650
Derivatives	24	11 299	12 454
Current liabilities		29 884	25 928
Equity and liabilities		145 291	110 292

The Board of Directors of Statkraft AS
Oslo, 18 March 2009


Berit Rødseth


Arvid Gundekjøn
Chair

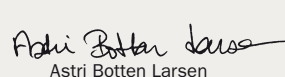

Ellen Stensrud
Deputy chair


Halvor Stenstadvoid


Aud Mork


Egil Nordvik


Thorbjørn Holøs


Astri Botten Larsen


Odd Vanvik


Bård Mikkelsen
President and CEO

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Cash Flow**

STATKRAFT SF GROUP

NOK million	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	37 715	8 809
Profit/loss on sale of non-current assets	-12	-9
Depreciation, amortisation and impairments	1 606	1 656
Profit from the sale of shares	-25 591	-
Share of profit from associates and joint ventures	-972	-2 652
Unrealised changes in value	-1 178	509
Taxes	-2 996	-3 917
Cash flow from operating activities	8 572	4 396
Change in long-term items	2 526	-355
Changes in short-term items	-3 959	682
Dividend from associates	2 607	1 448
Net cash flow from operating activities	9 746	6 171
	A	
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment, maintenance	-796	-571
Investments in property, plant and equipment, new capacity	-1 196	-1 443
Proceeds from sale of non-current assets	13	25
Loans to third parties	-486	-212
Investments in other companies	-581	-1 800
Net cash flow from investing activities	-3 046	-4 001
	B	
CASH FLOW FROM FINANCING ACTIVITIES		
New debt	6 525	11 786
Repayment of debt	-7 551	-6 236
Capital increase	-	24
Dividend and Group contribution paid	-6 757	-6 274
Net cash flow from financing activities	-7 783	-700
	C	
Net change in cash and cash equivalents during the year	-1 083	1 470
	A+B+C	
Currency effect on cash flows	29	-6
Cash and cash equivalents 01.01	3 344	1 880
Cash and cash equivalents 31.12	2 290	3 344
Unused committed credit lines	8 450	5 450
Unused overdraft facilities	600	600

The swap agreement with E.ON AG was settled without cash consideration in 2008.

Statement of Changes in Equity

STATKRAFT SF GROUP

NOK million	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED TRANSLATION DIFFERENCES	TOTAL MAJORITY	MINORITY INTEREST	TOTAL EQUITY
Equity 01.01.07	29 250	9 429	741	39 420	2 934	42 354
Net profit for the period	-	6 606	-	6 606	166	6 772
Change in translation differences on investments	-	-	-1 677	-1 677	-21	-1 698
Change in value of hedging instruments	-	-	821	821	-	821
Estimate deviations pensions	-	-118	-	-118	-39	-157
Equity holdings in associates	-	-357	-	-357	-	-357
Dividend and Group contribution paid	-	-5 857	-	-5 857	-417	-6 274
Capital increases	-	-	-	-	24	24
Change as a result of acquisitions	-	-5	-	-5	170	165
Equity 31.12.07	29 250	9 698	-115	38 833	2 817	41 650
Net profit for the period	-	33 279	-	33 279	250	33 529
Change in translation differences on investments	-	-	3 486	3 486	-18	3 468
Change in value of hedging instruments	-	-	-12	-12	-	-12
Translation differences included in profit calculations	-	-	-931	-931	-	-931
Estimate deviations pensions	-	-417	-	-417	-100	-517
Equity holdings in associates	-	-229	-	-229	-	-229
Dividend and Group contribution paid	-	-6 560	-	-6 560	-197	-6 757
Capital increases	-	-	-	-	20	20
Equity 31.12.08	29 250	35 771	2 428	67 449	2 772	70 221

At the board meeting on 18 March 2009, a dividend distribution of NOK 10 000 million was proposed.

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ACCOUNTING
POLICIES**GENERAL INFORMATION**

Statkraft SF is a Norwegian state-owned enterprise, established and domiciled in Norway. Statkraft SF is wholly owned by the Norwegian state, through the Ministry of Trade and Industry.

Basis of preparation of the financial statements Statkraft's consolidated financial statements for 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as approved by the EU.

Changes to accounting policies, new accounting standards and interpretations These financial statements have been prepared in accordance with all mandatory standards issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Standards adopted in 2008:

- IFRS 8 – Operating Segments. The standard requires segment allocation to be based on management reporting. The standard was effective on 1 January 2009. However, Statkraft used the opportunity to implement the standard early in connection with the internal reorganisation effective from 1 July 2008.
- International Accounting Standard (IAS) 23 – Borrowing Costs. The standard has been updated and prescribes the mandatory capitalisation of construction-related borrowing costs effective from 1 January 2009. Statkraft is already applying this policy.

Relevant standards and interpretations issued at the time of presentation of the financial statements, however not adopted by Statkraft:

- IFRS 3 – Business Combinations. This standard has been updated and will, affect the way in which acquisitions are recognised effective from 1 July 2009. The main effects

relate to the presentation and measurement of assets and liabilities connected to acquisition transactions and the treatment of transaction costs. The standard will thus affect Statkraft's future acquisitions.

- IFRIC 12 – Service Concession Arrangements. The interpretation provides guidance on the recognition of private companies' involvement in public infrastructures.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. The interpretation has been updated and will impact how the hedging of net investments in foreign operations can be treated as hedge accounting due to the fact that the hedging instrument is a financial instrument held by the same foreign operation that is identified as a hedged item.
- IFRIC 18 – Transfers of Assets from Customers. The interpretation will impact the manner in which assets transferred from customers are recognised.
- Amendment to IAS 27 – Consolidated and Separate Financial Statements. The amendment to the standard addresses the presentation of the parent company financial statements compared with the consolidated financial statements.

The amendments to IAS 27, IFRIC 12, IFRIC 16 and IFRIC 18 have yet to be approved by the EU. It is expected that these will have consequences for Statkraft, though the exact effects have not yet been assessed.

Other new standards and interpretations are not expected to have any significant consequences for Statkraft.

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 POLICIES**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 SF 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 forms the basis for determining 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 completion date. The cost price of shares in subsidiaries is eliminated against equity at the date of acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair value. Any differences 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 policies, are shown on a separate line in the consolidated income statement. Such investments are classified as non-current assets in the balance sheet and are recognised at cost price adjusted for the accumulated share of the companies' profit or loss, dividends received, currency adjustments, and equity holdings in the companies.

The accounting policies applied for the acquisition of associates and joint ventures are the same as those applied 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 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 fair value 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 activities 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 a revenue surplus/shortfall. Revenue surpluses and shortfalls are not recognised in the balance sheet. The size of this is disclosed in Note 41.

Dividend Dividends received from companies other than subsidiaries, associates and joint ventures are recognised in income to the extent that the distribution of the dividend has been finally declared 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 proceeds with the residual book value of the sold operating 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 amount recognised in the balance sheet. Subsequent depreciation and impairments 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 in foreign currencies are valued at the exchange rate in effect 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
Instruments compulsorily valued at fair value through profit or loss Derivatives are financial instruments that must be valued at fair value in the balance sheet. Other financial instruments held for trading purposes must also be valued 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 change in the 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

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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 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** 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 remains the same over the entire term of the instrument.
- 3) **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 at fair value through profit or loss, or are designated as available for sale.
- 4) **Available-for-sale assets** are assets that are designated as available for sale, or which are not included in any of the above categories.
- 5) **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 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 instruments in cases where an instrument qualifies for recognition in more than one category of instruments.

Instruments compulsorily valued at fair value through profit or loss Derivatives must always be recognised in the category designated at fair value through profit or loss. Financial contracts for the purchase and sale of energy and CO₂ quotas must always be designated as derivative financial instruments. Physical contracts for the purchase and sale of energy and CO₂ 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 at fair value through profit or loss. Physical contracts for the purchase and sale of energy, CO₂ 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 voluntarily designated 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 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 within equity instruments connected to CO₂ fund investments are to be automatically designated as such. Statkraft will normally not designate financial liabilities 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 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 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 power exchanges 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 contracts are presented on a separate line under revenues, while changes in the value of interest rate and foreign currency contracts are presented on a separate line under financial items.

Taxes

General Group companies that are engaged in power generation in Norway are subject to the special rules for 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 year's taxable income. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the values for accounting and taxation purposes and the effect of tax losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the asset will be realised in the future. Tax related to equity transactions is 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 tax can be carried forward with interest to subsequent years, and is recorded as prepaid tax.

Resource rent tax Resource rent tax is a profit-dependent tax that 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 a tax-free allowance are deducted from the calculated revenue in order to arrive at the net resource rent revenue tax base. The tax-free allowance is set each year on the basis of the taxable value of the power plant's operating assets, multiplied by a normative interest rate set by the Ministry of Finance. The normative interest rate for 2008 was set at 5.2%. The regulations for establishing resource rent revenue were changed with effect from the 2007 fiscal year. From 2007 onwards 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 are 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 linked to other temporary differences are calculated by power plant on the basis of whether it is probable that the deferred tax asset will be realised 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 capitalised to the extent that a future financial benefit can be identified 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 impairments. 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 decommissioning obligations, with the balancing entry to increase the recognised value of the relevant investment, which is subsequently depreciated over the licence period.

Costs incurred for own plant 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 are 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 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.

Impairments Property, plant and equipment and intangible assets that are depreciated 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 are subject to an annual impairment test. Impairments are 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, non-current assets are grouped into the lowest level of identifiable assets that can generate independent cash flows (cash-generating units). With the exception of goodwill, the possibilities of reversing previous impairment on non-current assets are assessed at each reporting date.

Inventories CO₂ 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 CO₂ quotas are deemed to be held for trading purposes and are recognised as inventories. Inventories of CO₂ 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 the FIFO (first in, first out) method.

Cash and cash equivalents The item Bank deposits, cash and cash equivalents also includes certificates and bonds

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with short residual terms at the time of acquisition. The margin payments of derivatives connected with financial activities (cash collateral) is recognised in the balance sheet.

Equity Dividends proposed at the time of approval of the financial statements are classified as equity. Dividends are reclassified as current liabilities once they have been declared.

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 present values 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 as 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 within the industry for concessionary power contracts with financial settlement differs. Statkraft has elected not to include such concessionary contracts in the financial statements. The capitalised value of future concessionary power obligations is estimated and reported in Note 2.

Licence fees are paid annually to central and local government authorities for the increase in generating capacity that is obtained from regulated watercourses and catchment transfers. These licence fees are charged as expenses as they accrue. The value of future licence fees recognised in the balance sheet is estimated and disclosed in Note 13.

The Group pays compensation to landowners for the right to use waterfalls and land. In addition, compensation is paid to others for damage caused to forests, land, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensational 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 provision.

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 recognised in the balance sheet which relates to the defined benefit scheme is the present value of the future retirement benefits that have accrued at the bal-

ance 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 have retrospective effect, i.e. where the right is not contingent on future service, are recognised directly in the income statement. Changes that are not issued with retrospective effect are recognised in the income statement over the remaining service time.

Net retirement benefit fund assets for overfunded schemes are classified as non-current 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 total of the retirement benefits accrued during the period, the interest on the estimated liability and the projected yield on pension fund assets.

Defined contribution schemes A defined contribution scheme is a retirement benefit scheme where the Group pays fixed contributions to a fund manager without incurring further obligations for Statkraft once the payment has been made. The payments are expensed as salaries and payroll costs.

Segments Statkraft has implemented an internal reorganisation, and in this connection chose to implement IFRS 8 early. The mandatory deadline for the application of the standard was 1 January 2009. The figures for 2007 have been restated for comparative purposes.

Following the reorganisation, the Group now reports in accordance with the way in which Group management makes, follows up and evaluates its decisions. This differs from the previously adopted segmentation. The operating segments have been identified on the basis of internal management information that is periodically reviewed by management and used for resource allocation and key performance review.

The new organisational structure was chosen to accommodate the major changes arising from increased growth and internationalisation. The aim is to achieve a more flexible and dynamic organisation where new prioritisations and growth areas can be highlighted and achieve visibility as separate business units with clear performance targets. At the same time the Group is establishing a basis for an effective management and control structure.

Cash flow statement The cash flow statement has been prepared using the indirect method. The statement starts with the Group's net result for the year in order to show cash flow generated by operating activities, investing activities and financing activities respectively. Dividends paid to the owner and to minority interests are presented under financing activities.

02

ACCOUNTING
JUDGMENTS,
ESTIMATES AND
ASSUMPTIONS**ACCOUNTING JUDGMENTS**

In applying the Group's accounting policies, the company's management has exercised judgement in the following areas of material importance with regard to the amounts that have been recognised in the consolidated income statement and 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 net financially settled. Using its best judgement, 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 the income statement, while those contracts that are not covered by the definition are mainly recognised on delivery.

Concessionary power contracts Recognising concessionary power contracts with financial settlement in accordance with IAS 39 would have led to these contracts being recognised at fair value in the balance sheet with changes in fair value being recognised through the income statement. At the end of 2008 concessionary power contracts with financial settlement had a total volume of around 500 GWh and an average price of NOK 92/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 2008 would have been around NOK -6 700 million, while the change in fair value recognised in 2008 would have been around NOK -2 500 million.

ESTIMATES AND ASSUMPTIONS

The most important assumptions regarding future events and other significant sources of uncertainty in relation to the estimates at the balance sheet date that can have a significant risk of material changes to the amounts recognised in future financial periods are discussed below.

03

IMPORTANT
EVENTS AND EVENTS
SINCE THE BALANCE
SHEET DATE**2008**

Asset swap deal On 31 December Statkraft AS and E.ON AG completed an asset swap deal. The swap deal involved E.ON AG acquiring Statkraft's 44.6% shareholding in E.ON Sverige AB together with a hydropower plant in Sweden in exchange for 40 hydropower plants and five district heating plants in Sweden, two gas-fired power plants and 11 hydropower plants in Germany and three hydropower plants in the United Kingdom, along with a gas storage contract and a power delivery contract. The acquired production assets have an installed capacity of around 2 500 MW. In addition, Statkraft received a 4.17% shareholding in E.ON AG. The total value of the transaction was around EUR 4.5 billion. The fair value at the time of acquisition amounted to NOK 45.3 billion. This deviates slightly from the previously stated amount due to currency exchange rates and estimates of pro and contra settlements, and gave Statkraft a recognised profit after tax of NOK 25.6 billion.

Increased shareholding in Statkraft Norfund Power Invest AS (SN Power) In November Statkraft AS and Norfund agreed on a new ownership structure for SN Power. The agreement was effective from 13 January 2009 and Statkraft increased its shareholding to 60% through the purchase of 10% of Norfund's shareholding. Statkraft was offered a further option to increase its shareholding to 67% at market price, by no later than 2015. Norfund was granted an option to sell all or some

Property, plant and equipment Property, plant and equipment is depreciated over its expected useful life, which in turn forms the basis for annual depreciation recognised in the income statement. Expected useful life is estimated based on experience, historical data and accounting judgements, and is adjusted in the event of any changes to such estimates. Residual values are taken into account in calculating depreciation. The evaluation of residual values is also subject to estimates.

Impairments Significant investments are made in property, plant and equipment, intangible assets, associates and joint ventures. These non-current 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 or 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.

Deferred tax assets Deferred tax assets associated with 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 period of ten years. The period 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 judgement in making assessments relating to future power prices and other conditions that determine future resource rent revenues.

Pensions Calculation of pension liabilities involves the use of judgement and estimates across a range of parameters. Refer to Note 12 for a more detailed description of the assumptions used. 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-party analyses and other methods that are considered appropriate.

of its shares during the same period. A separate company was also established to focus on initiatives in Africa and Central America, in which Norfund participates as a direct owner alongside SN Power.

New industrial power agreement In October Statkraft and Boliden Odda signed two long-term, commercial industrial power contracts for the period 2009 to 2030. The agreement for the delivery of around 20 TWh is the largest industrial power agreement Statkraft has entered into since 1998. As part of the agreement Statkraft will acquire Boliden Odda's shares in AS Tyssefeldene and Statkraft's shareholding in the company will increase to 60.17%. The agreement will enter into force as soon as a number of matters, including tax conditions, have been resolved.

Hydropower Leirfossene power plant in Trondheim was opened in October. The new hydropower plant replaces two old power plants and will result in an increase in annual production from 150 GWh to 193 GWh.

In 2008 Småkraft AS commissioned five small-scale hydropower plants. By the end of the year 12 small-scale power plants were in operation with a combined annual production of 129 GWh, and 13 power plants were under construction. During 2008 the company was granted nine new licences and now has a total of 11 construction licences.

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In December Statkraft and the Austrian energy group Energi Versorgung Niederösterreich (EVN) signed a licence agreement for hydropower construction in Albania. A joint venture will be established to construct three power plants with a combined installed capacity of 340 MW and an expected annual output of around 1 TWh.

Together with its local partner Aboitiz, Statkraft acquired in 2008 two hydropower plants with a combined capacity of 175 MW in the Philippines.

On 18 March 2009 Statkraft entered into an agreement to purchase 95% of the company Yesil Enerji from the Turkish company Global Investment Holdings. Yesil Enerji has a total portfolio of seven hydropower projects. The entire project portfolio has a planned total installed capacity of 633 MW and an average production capacity of 2.1 TWh per annum. The shares are scheduled to be transferred in June this year. The agreement is subject to the approval of the relevant authorities.

Onshore wind power In August Statkraft and Agder Energi entered into an agreement to establish the company Statkraft Agder Energi Vind DA. The two parties will use the newly established company to implement a joint initiative within onshore wind power in Norway. The collaboration covers all new projects relating to the development, construction, operation and maintenance of wind farms in Norway and their associated power sales. The wind farms that are currently in operation are not covered by this collaboration. The establishment of Statkraft Agder Energi Vind DA is subject to the approval of the competition authorities.

In March Statkraft decided to construct the Blaengwen Wind Farm in Wales, which will have an installed capacity of 23 MW. The construction work started in autumn 2008 and is expected to be finished in early 2010. The wind farm was originally a 50/50 collaboration with the US company Catamount Energy Corporation. However, in March Statkraft acquired Catamount's shareholding, giving Statkraft 100% ownership of the wind farm.

In June, together with its partner GreenPower, Statkraft was awarded a licence for the construction and operation of a wind farm on the west coast of Scotland.

In December Statkraft SCA Vind AB submitted an application for a licence for six wind farms in Sweden, with a total installed capacity of at least 1 100 MW and an expected annual production of around 2.5 TWh. The company is owned 60% by Statkraft and 40% by the Swedish company SCA.

In May and October Statkraft acquired shares amounting to 11.8% in Arise Windpower AB, which develops onshore wind power projects in Southern Sweden and has a wind farm under construction.

In June SN Power decided to start the construction of the company's first wind farm. The wind farm, which will have a total installed capacity of 46 MW, is being constructed in Chile together with a local partner (SN Power shareholding: 80%).

Offshore hydropower Statkraft and StatoilHydro have entered into a consortium with the UK-based Airtricity and RWE Npower Renewables to build offshore wind power capacity in zones off the United Kingdom coast. The application relates to the British authorities' third round of licence awards.

Solar power At the end of March Statkraft and its joint-venture partner Norsk Solkraft were granted a licence to develop a 3 MW photovoltaic solar energy plant in Italy.

Innovation and new technologies The ocean energy programme in collaboration with leading universities in Norway, Sweden and Denmark continued, with a funding commitment of NOK 80 million over four years.

In March Statkraft signed a collaboration agreement with NorWind in relation to offshore wind power. Under this agreement, NorWind is to complete a concept study for a large-scale, fixed-base offshore wind farm.

In June, together with partners, Statkraft established WindSea AS (49% shareholding), which is developing a concept for offshore wind power based on a floating construction.

Together with two local partners, Statkraft established Thetis Energy Ltd (51% shareholding), which will develop tidal power in Northern Ireland.

Statkraft started construction of the world's first prototype osmotic power plant in Hurum outside Oslo.

Statkraft has entered into collaboration initiatives with several Norwegian industrial businesses for energy optimisation within the industry. A licence application was submitted for an energy recovery plant in collaboration with Eramet Sauda.

2007

New gas-fired power plants Three gas-fired power plants that have 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 around 400 MW. The total construction costs for Statkraft's share amounted to NOK 5.2 billion.

Asset swap deal In October Statkraft AS and E.ON AG signed a letter of intent by which E.ON AG would 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, as well as shares in E.ON AG.

Agreements on power supply and collaboration in the construction of renewable energy In September Statkraft and the Swedish paper and hygienic products company SCA entered into a series of power supply and collaboration agreements 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 will cost approximately NOK 14 billion. The companies will also jointly investigate conditions for possible hydropower projects with a potential of 650 GWh.

Small-scale hydro The Pålbu 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 constructed eight new small-scale hydropower plants (115 GWh per annum in total) during 2007.

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 (2008).

International focus SN Power, which is 50% owned by Statkraft, purchased the Peruvian company Electroandes SA. The acquisition made 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 other 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 made a capital injection of NOK 1 200 million into SN Power in 2007.

New bond loans under the EMTN scheme Statkraft issued four loans under the EMTN scheme. Two loans, amounting to 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, amounting to NOK 1.5 billion each and with respective terms of 3 and 15 years, are quoted on the Oslo Stock Exchange. The new borrowings were made to finance loan maturities and new investments in general.

04

ACQUISITIONS AND
BUSINESS
COMBINATIONS**BUSINESS COMBINATIONS**

Swap deal with E.ON On 24 July 2008 Statkraft AS and E.ON AG entered into a swap deal. In exchange for shares in E.ON Sverige AB Statkraft received renewable and flexible power production assets and shares in E.ON AG. The swap deal has a total value of NOK 45 346 million. On the completion date of 31 December 2008, Statkraft's shareholding in E.ON Sverige AB and a Swedish hydropower plant were exchanged for a third of E.ON Sverige's hydropower production capacity (40 hydropower plants), five Swedish district heating plants, two gas-fired power plants and 11 hydropower plants in Germany, three hydropower plants in the United Kingdom and shares in E.ON AG. Statkraft also received a structured gas storage contract and a power delivery agreement. Statkraft increased its total production capacity by around 2 500 MW, and acquired 217 employees, primarily in connection with acquired business in Germany and district heating business in Sweden.

Following the deal Statkraft will be one of the four largest power generators in Sweden. Increased flexible power production in Germany and the United Kingdom will reinforce Statkraft's position as a significant player in Northern Europe and provide the company with a solid platform for future growth in these core markets.

Prior to the transaction E.ON Sverige AB was 55.365%-owned by E.ON AG, 44.631%-owned by Statkraft AS and 0.004%-owned by other shareholders. The transaction released the major increase in the value of Statkraft's investment in E.ON Sverige AB, and at the same time converted these values to a 100% shareholding in strategic assets in core markets. In addition, some of the value will be transferred to shares in E.ON AG, corresponding to around EUR 2 180 million. Following the transaction Statkraft acquired the following shareholdings: Statkraft Sverige Vattendel 3 AB (100%), Harrsele AB (50.57%), Statkraft Värme AB (100%), Statkraft Energy Ltd (100%), Emden Biofuel (30%), Landesbergen Biofuel (50%) and E.ON AG (4.17%).

The voting rights in the acquired companies correspond to the shareholding.

The swap deal was made at fair value and no cash is included in the agreement with the exception of the final settlement which will be made during the first quarter of 2009 and is estimated to amount to NOK 2 300 million in Statkraft's favour. The initial purchase price allocation was made by the Group's own specialists and management, in collaboration with external experts. The allocation for the acquired business is deemed to be provisional pending the completion of the final valuation of the acquired assets and liabilities. The purchase price of the acquired business and assets will also be adjusted following the final settlement.

The total value of the swap deal is NOK 45 346 million. The provisional calculation of the fair value of assets and liabilities included in the swap deal is allocated as follows:

Assets	Book value at time of acquisition	Fair value adjustments	Fair value
NOK million			
Goodwill	274	151	425
Property, plant and equipment	4 859	12 273	17 132
Investments in associates	181	-	181
Non-current financial assets	21 285	1 840	23 125
Total non-current assets	26 599	14 264	40 863
Cash	339	-	339
Receivables	2 883	-	2 883
Inventories	73	-	73
Derivatives	1 350	358	1 708
Total current assets	4 645	358	5 003
Purchased assets	31 244	14 622	45 866
Liabilities	405	-	405
Deferred tax	9	106	115
Total liabilities	414	106	520
Net value of purchased assets	30 830	14 516	45 346

Costs connected with the swap agreement were in the region of NOK 98 million, of which NOK 32 million has been expensed.

Goodwill arising on the purchase amounts to NOK 425 million and amounts to NOK 151 million from the district heating business in Sweden and NOK 274 million from the hydropower and gas-fired power plants in Germany. Goodwill connected to the district heating business includes also the customer portfolios. Once the purchase price has been finally allocated, the customer portfolios will be reported as a separate item under intangible assets. Other goodwill relates to synergies and expected future earnings capacity that have been identified without being able to link the value to other intangible assets, as well as the recognition of deferred tax liabilities at nominal value.

If the swap deal with E.ON AG had been completed on 1 January 2008, the consolidated sales revenues would have been NOK 30 812 million, and the profit after tax NOK 7 681 million. Management has adjusted for the following matters to arrive at these pro forma figures:

- added sales revenues and the result for the acquired entities in Sweden, Germany and the United Kingdom as well as estimated amortisation on the fair value adjustments.
- added its share of the dividend from E.ON AG for 2008
- excluded the share of profit from the investment in E.ON Sverige AB
- excluded the profit on the sale of shares under the terms of the swap deal with E.ON AG
- adjusted for costs in connection with the acquisition

ACQUISITION IMPLEMENTED AFTER THE BALANCE SHEET DATE BUT PRIOR TO APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS BY THE BOARD

Statkraft Norfund Power Invest AS (SN Power) On 11 November 2008 Statkraft AS and Norfund agreed a new ownership structure for SN Power. Statkraft increased its shareholding from 50% to 60% on the completion date of 13 January 2009. The increased shareholding in SN Power supports Statkraft's ambitions of developing its role as a global niche player within hydro-power and other renewable energy. SN Power's market positions in Asia and South America provide a strong starting point for a long-term, global focus. Statkraft purchased 10% of the shares in SN Power for NOK 1 100 million. Statkraft also obtained a purchase option for a further 7% of the shares in 2015, or when the investment portfolio in Africa reaches 500 MW.

At the same time Norfund is guaranteed the opportunity to sell its residual shareholding in SN Power through a put option on its remaining shares in 2010, 2013, 2014 and 2015. The pricing of the shares, and thus Statkraft's financial obligation to Norfund, will be based on guidelines in the agreement calculated in accordance with recognised valuation models at the time of sale. The options will be recognised at fair value in the balance sheet. Norfund can sell up to half of its remaining shareholding in SN Power (20%) to new investors, with the exception of international competitors of Statkraft, before the end of 2010.

Together with Norfund, SN Power will establish a separate company to invest in Africa and Central America, in which SN Power will own 51% and Norfund 49%.

SN Power employs more than 400 staff within power production and construction projects in India, Nepal, Sri Lanka, the Philippines, Peru and Chile, in addition to a head office in Norway and offices in Singapore and Brazil. In 2008 SN Power had 621 MW of operating capacity and 320 MW under construction through wholly and partly owned plants. The ambition is to increase the installed capacity to 4 000 MW by 2015 through acquisitions and expansion in existing and selected new markets.

The purchase sum for the shares including transaction costs was NOK 1 100 million and was settled by NOK 276.4 million in cash and a private placement where Statkraft paid in NOK 2 billion.

The voting rights in the companies that are being acquired correspond to the shareholding. However, some decisions require the approval of all shareholders.

Overview of assets, liabilities and obligations acquired in the acquisition:

Assets	Book value at time of acquisition
NOK million	
Intangible assets	213
Waterfall rights	1 879
Other non-current assets	2 173
Investments in associates	2 403
Total non-current assets	6 668
Cash	1 346
Receivables	640
Total current assets	1 986
Purchased assets	8 654
Long-term liabilities and obligations	2 084
Current liabilities	527
Total liabilities	2 611
Net value of purchased assets	6 043

Prior to the transaction SN Power was accounted for as an associate in accordance with the equity method. The company will be fully consolidated in Statkraft's consolidated financial statements from the first quarter of 2009. The acquisition has recently been completed and work on the allocation of the purchase price has started. Since some material values are still to be allocated, fair values have not been reported above.

05 CONSOLIDATED COMPANIES

SHARES IN CONSOLIDATED SUBSIDIARIES

Name	Registered office	Country	Parent company	Shareholding and voting rights
Asian Power Invest AB	Stockholm	Sweden	Statkraft SF	100.00%
Nordic Hydropower AB ¹	Stockholm	Sweden	Statkraft SF	100.00%
Statkraft AS	Oslo	Norway	Statkraft SF	100.00%
Statkraft Energi AS	Oslo	Norway	Statkraft AS	100.00%
Baltic Cable AS	Malmø	Sweden	Statkraft Energi AS	66.67%
Statkraft Carbon Invest AS	Oslo	Norway	Statkraft AS	100.00%
Statkraft Financial Energy AB	Stockholm	Sweden	Statkraft AS	100.00%
Statkraft Germany GmbH	Düsseldorf	Germany	Statkraft AS	100.00%

(Cont.) Name	Registered office	Country	Parent company	Shareholding and voting rights
Statkraft Markets GmbH	Düsseldorf	Germany	Statkraft Germany GmbH	100.00%
Statkraft Markets Hungaria LLC	Budapest	Hungary	Statkraft Markets GmbH	100.00%
Statkraft South East Europe EOOD	Sofia	Bulgaria	Statkraft Markets GmbH	100.00%
Statkraft Romania SRL	Bucuresti	Romania	Statkraft Markets GmbH	100.00%
Statkraft Energy Austria GmbH	Wien	Austria	Statkraft Markets GmbH	100.00%
Statkraft Markets BV	Amsterdam	The Netherlands	Statkraft Markets GmbH	100.00%
Statkraft Markets Financial Services GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Holding Knapsack GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Knapsack Power GmbH & Co KG	Düsseldorf	Germany	Statkraft Holding Knapsack GmbH	100.00%
Knapsack Power Verwaltungs GmbH	Düsseldorf	Germany	Knapsack Power GmbH & Co KG	100.00%
Statkraft Holding Herdecke GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Trading GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Germany Drei GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Germany Vier GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Germany Fünf GmbH	Düsseldorf	Germany	Statkraft Markets GmbH	100.00%
Statkraft Suomi Oy	Kotka	Finland	Statkraft AS	100.00%
Ahviokoski Oy	Kotka	Finland	Statkraft Suomi Oy	100.00%
Statkraft Sverige AB	Stockholm	Sweden	Statkraft AS	100.00%
Graning AB	Stockholm	Sweden	Statkraft Sverige AB	100.00%
Gidekraft AB	Stockholm	Sweden	Statkraft Sverige AB	91.00%
Statkraft Sverige Vättendel 3 AB	Stockholm	Sweden	Statkraft Sverige AB	100.00%
Vättendel 2	Stockholm	Sweden	Statkraft Sverige AB	100.00%
Statkraft Agder Energi Vind DA	Kristiansand	Norway	Statkraft AS	66.00%
Statkraft Development AS	Oslo	Norway	Statkraft AS	100.00%
Smøla Vind AS	Oslo	Norway	Statkraft Development AS	100.00%
Hitra Vind AS	Oslo	Norway	Statkraft Development AS	100.00%
Kjøllefjord Vind AS	Oslo	Norway	Statkraft Development AS	100.00%
Statkraft UK Ltd	London	United Kingdom	Statkraft AS	100.00%
Fairwind Statkraft Orkney Ltd	Orkney	United Kingdom	Statkraft UK Ltd	75.00%
Statkraft Energy Limited	London	United Kingdom	Statkraft UK Ltd	100.00%
Thetis Energy Limited	Belfast	United Kingdom	Statkraft UK Ltd	51.00%
Statkraft Western Balkans d.o.o.	Belgrade	Serbia	Statkraft AS	100.00%
Statkraft d.o.o. Banja Luka	Banja Luka	Republika Srpska	Statkraft AS	100.00%
Wind Power Bulgaria OOD	Sofia	Bulgaria	Statkraft AS	60.00%
Statkraft Albania LLC	Tirania	Albania	Statkraft AS	100.00%
Statkraft Montenegro	Podgorica	Montenegro	Statkraft AS	100.00%
Statkraft Treasury Centre SA	Brüssel	Belgium	Statkraft AS	100.00%
Statkraft SCA Vind AB	Stockholm	Sweden	Statkraft AS	60.00%
Renewable Energies and Photovoltaics Spain S.L.	Malaga	Spain	Statkraft AS	70.00%
Statkraft Värme AB	Kungsbacka	Sweden	Statkraft AS	100.00%
Statkraft Industrial Holding AS (tidligere Statkraft Regional Holding AS)	Oslo	Norway	Statkraft AS	100.00%
Skagerak Energi AS	Porsgrunn	Norway	Statkraft Regional Holding AS	66.62%
Skagerak Kraft AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Skagerak Nett AS	Sandefjord	Norway	Skagerak Energi AS	100.00%
Metor AS ²	Porsgrunn	Norway	Skagerak Energi AS	60.00%
Telekraft AS	Porsgrunn	Norway	Skagerak Nett AS	100.00%
Skagerak Elektro AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Skagerak Varme AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Skagerak Fibernett AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Grenland Fibernett AS	Porsgrunn	Norway	Skagerak Energi AS	100.00%
Energimåling AS	Skien	Norway	Skagerak Energi AS	85.00%
Skien Fjernvarme AS	Skien	Norway	Skagerak Varme AS	51.00%
Grunnåi Kraftverk AS	Porsgrunn	Norway	Skagerak Energi AS	55.00%
Trondheim Energi AS	Trondheim	Norway	Statkraft Regional Holding AS	100.00%
Trondheim Energi Fjernvarme AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Kraft AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Kraftsalg AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Nett AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Trondheim Energi Eiendom AS	Trondheim	Norway	Trondheim Energi AS	100.00%
Sluppen Eiendom AS	Trondheim	Norway	Trondheim Energi Eiendom AS	100.00%
Statkraft Forsikring AS	Oslo	Norway	Statkraft AS	100.00%
Fjordkraft AS ³	Bergen	Norway		
Småkraft AS ⁴	Oslo	Norway		

¹ Nordic Hydropower AB is owned 50% by Statkraft SF and 50% by Asian Power Invest AB.

² Metor AS is owned by Skagerak Energi AS (60% shareholding) and Trondheim Energi AS (40%).

³ Fjordkraft AS is owned by Statkraft Regional Holding AS (3.15%), Skagerak Energi AS (48%) and Bergenshalvøens Kommunale Kraftselskap AS (48.85%). Fjordkraft AS has been consolidated since 1 January 2007.

⁴ 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

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06

SEGMENT INFORMATION

The new segment structure following the Group restructuring in 2008 is specified below:

Generation and Markets The Generation and Markets segment is the largest segment and is responsible for the operation and maintenance of hydropower plants and gas-fired power plants in Europe, as well as physical and financial trading in energy and energy-related products in Europe. These business units are organised into one segment due to the close integration between operations, maintenance and energy optimisation.

Wind Power The Wind Power segment is responsible for developing, constructing, operating and following up the ownership of onshore and offshore wind farms in Norway and the rest of Europe, as well as developing and commercialising offshore wind power technology.

Emerging Markets The Emerging Markets segment is responsible for managing and developing shareholdings outside Europe, and comprises the shareholdings in SN Power (50% shareholding until 13 January 2009), which Statkraft owns together with Norfund. In addition Theun Hinboun Power Company (THPC) is managed on behalf of Statkraft SF. THPC is not included in the segment's financial figures.

Skagerak Energi Activities in Skagerak Energi are followed up as a joint activity by management and reported as a separate segment. This segment focuses on the generation and sale of power and district heating, and distribution grid activities. Other businesses cover fibre and electrical contractor and settlement activities.

Customers The Customers segment comprises the distribution grid, district heating and power sales activities owned by Trondheim Energi.

Industrial Ownership The Industrial Ownership segment is responsible for managing and developing Norwegian shareholdings where Statkraft has an industrial perspective. The segment comprises Fjordkraft, BKK and Agder Energi. The shareholding in E.ON AG has been included in this segment since 31 December 2008.

Other The Other segment includes the Southeast Europe Hydro, Solar Power, Small-Scale Hydro and Innovation and Growth business units, along with the investment in E.ON Sverige AB and Group functions and eliminations. The shareholding in E.ON Sverige was sold to E.ON AG on 31 December 2008.

ACCOUNTING SPECIFICATION PER SEGMENT

Segments	Statkraft SF Group	Generation and Markets	Wind Power	Emerging Markets	Skagerak Energi	Customers	Industrial Ownership	Other
Amounts in NOK million								
2008								
Operating revenues external	25 465	17 447	13	-	2 197	1 684	3 508	616
Operating revenues internal	-	804	235	-	1 037	47	2	- 2 125
Gross operating revenues	25 465	18 251	248	-	3 234	1 731	3 510	- 1 509
Operating profit	16 766	15 570	276	- 1	1 630	171	- 78	- 802
Share of profit from associates and joint ventures	972	- 302	- 38	87	- 247	9	530	933
Profit before financial items and tax	17 738	15 268	238	86	1 383	180	452	131
Balance sheet 31 Dec 2008								
Investments in associates and joint ventures	14 693	1 224	91	2 737	88	249	9 884	420
Other assets	130 598	74 936	1 512	200	14 955	4 612	24 729	9 654
Total assets	145 291	76 160	1 603	2 937	15 043	4 861	34 613	10 074
Depreciation, amortisation and impairments	- 1 606	- 1 069	233	-	- 480	- 155	- 33	- 102
Maintenance investments	796	490	-	-	202	84	-	20
Investments in new generating capacity	1 196	567	39	-	214	82	-	294
Investments in shares	581	26	178	200	26	3	-	148
2007								
Operating revenues external	17 950	11 432	16	-	1 808	1 335	2 758	601
Operating revenues internal	-	608	166	-	402	147	-	- 1 323
Gross operating revenues	17 950	12 040	182	-	2 210	1 482	2 758	- 722
Operating profit	7 400	6 700	- 32	-	827	184	77	- 356
Share of profit from associates and joint ventures	2 652	451	-	158	- 108	7	829	1 315
Profit before financial items and tax	10 052	7 151	- 32	158	719	191	906	959
Balance sheet 31 Dec 2007								
Investments in associates and joint ventures	32 332	1 318	11	2 173	84	293	10 338	18 115
Other assets	77 960	51 349	1 297	-	14 826	5 934	1 220	3 334
Total assets	110 292	52 667	1 308	2 173	14 910	6 227	11 558	21 449
Depreciation, amortisation and impairments	- 1 656	- 917	- 68	-	- 433	- 143	- 33	- 62
Maintenance investments	571	316	-	-	207	48	-	-
Investments in new generating capacity	1 443	967	16	-	163	221	-	76
Investments in shares	1 800	462	-	1 200	129	8	-	1

SPECIFICATION PER PRODUCT

Refer to Note 7.

SPECIFICATION PER GEOGRAPHICAL AREA

External sales revenues are allocated on the basis of the geographical origin of generating assets or activities.

Non-current assets exclude financial instruments, deferred tax and pension assets and are allocated on the basis of the country of origin of generating assets or activities.

Geographical areas Amounts in NOK million	Statkraft SF					
	Group	Norway	Germany	Sweden	Finland	Other
2008						
External sales revenues	24 205	19 424	4 211	156	4	410
Non-current assets as of 31 Dec	76 786	50 075	6 387	18 769	911	644
2007						
External sales revenues	16 544	15 041	1 383	109	5	6
Non-current assets as of 31 Dec	57 589	49 024	3 013	4 810	739	3

INFORMATION ON IMPORTANT CUSTOMERS

No external customers account for 10% or more of the Group's operating revenues.

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. Such spot purchases are recorded as a correction to power sales. Physical and financial contracts are used to hedge underlying production in the form of purchase and sales positions. Sales positions are taken to hedge the price of a specific part of the planned future output. Purchasing positions are taken to adjust the hedging level if assumptions change and Statkraft considers its hedged position to be too high. All contracts are recognised as adjustments to the underlying revenue from production based on the margin between the contract price and the spot price (system price for financial contracts).

NOK million	2008	2007
Net physical spot sales, including green certificates	12 668	5 469
Concessionary sales at statutory prices	234	213
Industrial sales at statutory prices	1 624	1 713
Long-term commercial contracts	1 758	1 582
Dynamic hedging	1 221	1 593
Trading and origination	447	623
Distribution grid	1 426	1 535
End-users	4 305	3 390
District heating	370	315
Other/eliminations	152	111
Sales revenues	24 205	16 544

Statkraft has 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 for industrial and concessionary sales at statutory prices

TWh	Industrial power	Concessionary power	Total
2009	9.3	2.8	12.1
2010	9.3	2.8	12.1
2011	1.5	2.8	4.3
2012	0.5	2.8	3.3
2013	0.5	2.8	3.3
2014	0.5	2.8	3.3
2015	0.5	2.8	3.3
2016	0.5	2.8	3.3
2017	0.5	2.8	3.3
2018	0.5	2.8	3.3
Total	23.6	28.0	51.6

Price and volume of industrial and concessionary sales at statutory prices

	2008	2007
Industrial power – Volume (TWh)	8.7	10.3
Industrial power – Price (NOK/MWh)	191	166
Concessionary power – Volume (TWh)	2.5	2.9
Concessionary power – Price (NOK/MWh)	94	88

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

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In addition, Statkraft has other physical contractual obligations of varying duration to both domestic and international customers.

Statkraft has entered into long-term agreements to purchase gas from StatoilHydro and WINGAS. Statkraft has no other material long-term physical purchasing obligations.

08 OTHER OPERATING REVENUES

NOK million	2008	2007
Power plant leasing revenues	536	450
Other leasing and service revenues	482	427
Other	242	529
Total	1 260	1 406

LEASED POWER PLANTS

As a result of agreements relating to accelerated reversion to state ownership entered into in the period from 1957 to 1966, Statkraft SF owns waterfall rights to the Saudefaldene, Tyssefaldene and Svelgen power plants. These power plants and waterfall rights and leased to third parties on statutory terms and conditions.

The Tysso II and Sauda IV power plants, which the respective third party lessees have constructed in accordance with the accelerated reversion agreements, revert back to Statkraft at the end of their concession periods. Tysso II reverted to Statkraft in 2007 while Sauda IV will revert to Statkraft in 2010. These two plants have a mean output totalling 1,1 TWh and are/will be leased to the previous owners from the day the plants revert to Statkraft until 31 December 2030.

Restrictions apply to the use of power from the leased power plants. Power from Tysso II must be used by two industrial businesses in Odda in accordance with an allocation established by the Ministry of Petroleum and Energy. Power from the leased plants in Svelgen must be used for industrial production in the Elkem group while power from the leased plants in Saudefaldene must be used at Eramet's smelting plants in Sauda and for industrial production in the Elkem group.

In 2006, Eramet Norway AS entered into a commercial agreement with Statkraft Energi AS with regard to future power supplies and has terminated all statutory-priced power agreements, including (with effect from 1 January 2011) an agreement with Saudefaldene for the delivery of 436 GWh/year. This means that Saudefaldene, in accordance with its agreement with Statkraft, will from 1 January 2011 deliver back to Statkraft SF a power volume of 436 GWh/year that corresponds to the volume that Eramet would have taken from Saudefaldene.

Saudefaldene has the first right of refusal to develop the leased plants in accordance with the Norwegian Parliament's Proposition No. 52 (1998-99) and related agreements. Concession for this development has been given and the project is now under construction. At the end of the lease period, Statkraft SF is obliged to acquire the new plants and pay Saudefaldene an amount corresponding to the plants taxable residual value. The agreement also gives Saudefaldene a sole right to terminate the agreement with three year's notice upon which Statkraft must then acquire the plants and pay the taxable residual value.

The discounted value of the estimated amount that Statkraft will pay on the acquisition of the new plants has been accounted for in the balance sheet as property, plant and equipment and as provisions.

AS Saudefaldene and Statkraft SF have been involved in a legal dispute in connection with the construction of Sauda. This was an extension of the previously settled dispute about responsibility for the costs relating to the phasing out of the forge-welded pipes at the leased power plants at Sauda. Statkraft won the case at the Oslo City Court. The appeal case was heard at the Court of Appeal in September 2007. Statkraft was ordered to cover approximately two-thirds of Saudefaldenes' claim. Both parties appealed to the Supreme Court but on 6th February 2008 both appeals were rejected. The judgement from the Court of Appeal was therefore legally binding.

In 2008, Statkraft made a compensation payment of NOK 209 million, including inflation and interest. This compensation payment will partly be offset against the payment that Statkraft will make on the acquisition of the new plant and has been capitalised as part of this payment.

09 ENERGY PURCHASES

NOK million	2008	2007
Gas purchases	2 053	425
End-user activities	2 363	2 255
Total	4 416	2 680

10

UNREALISED
CHANGES IN THE
VALUE OF ENERGY
CONTRACTS

Unrealised changes in the value of energy contracts are classified by portfolio in the table below. The individual portfolios are described in Note 32.

NOK million	2008	2007
Nordic hydropower portfolio excluding industrial power	382	-1 515
Industrial power contracts in Nordic hydropower portfolio	2 335	407
Trading and Origination	312	-401
Baltic Cable and continental assets	233	122
End-user portfolio	-71	53
Gas power activities	1 091	595
Total	4 282	-739

Contracts indexed against various commodities, currencies and indices had a positive unrealised change in value in 2008. This was due in particular to higher coal and gas prices and the rising dollar exchange rate, and changes in volume.

11

SALARIES AND
PAYROLL COSTS AND
NUMBER OF FULL-TIME
EQUIVALENTS

NOK million	2008	2007
Salaries	1 331	1 178
Employer's national insurance contributions	200	172
Pension costs	236	205
Other benefits	86	49
Total	1 853	1 604

The Group employed an average of 2 460 full-time equivalents in 2008. The corresponding figure for 2007 was 2 187. The number of full-time equivalents increased by 183 as of 31 December 2008 in connection with the swap deal with E.ON AG.

Pension costs are discussed in more detail in Note 12.

12

PENSIONS

DEFINED BENEFIT SCHEMES

Occupational pension schemes in the Group 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 Pension Service Pension Fund Transfer Agreement and the regulatory framework governing public service pensions. 2 475 employees and 1 201 pensioners were covered by benefit schemes as of 31 December 2008. The Skagerak Energi Group holds its pension plans in a separate pension fund. Fjordkraft AS is a member of BKK's Pension Fund. With the exception of Småkraft AS, the rest of the Group operates its pension plans through the Norwegian Public Service Pension Fund (SPK). Pension payments from SPK are guaranteed by the Norwegian state (Section 1 of the Norwegian Pension Act). The occupational pension schemes cover retirement, disability, surviving spouse and child's pension. The retirement schemes provide pension benefits amounting to 66% of pensionable income, up to 12G (12 times the National Insurance Scheme's basic amount).

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

Companies with schemes in the SPK pay an annual premium to the Norwegian Public Service Pension Fund and are responsible for the financing of the scheme. The SPK scheme is not asset based, but management of the pension fund assets (fictitious assets) is simulated as though the assets were invested in government bonds. In this simulation it is assumed that the bonds are held to maturity. The pension assets are guaranteed by the Norwegian state. Up to 35% of the pension fund assets can be invested in the Norwegian Government Pension Fund, which is a real fund where yields are linked to the market situation.

Employees who leave the company before pensionable age receive a deferred pension entitlement. In schemes that are part of SPK, participating companies are not responsible for these obligations. Deferred entitlements in Skagerak's Pension Fund and for Fjordkraft in BKK's pension fund are carried forward as a pension fund liability.

Unsecured pension obligations In addition to the above, some Group companies in Norway have 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. Agreements have also been entered into to provide some members of Group management with a surviving spouse and child's pension. In addition, Statkraft has a surviving relative scheme, which is a continuation of the Statkraft Pension Fund (which was terminated in 2003). These pensions are funded out of the company's current operations.

Employees who leave the company before pensionable age receive a deferred pension entitlement for the scheme above 12G.

Actuarial calculations – benefit schemes The 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 estimate assumptions as of 31 December 2008. Calculations are based on staff numbers and salary data at the end of the year.

Actuarial losses in 2008 are primarily attributable to changes in the pension liability as of 31 December 2008 as a result of updated assumptions, staff numbers and actual salary increases. As of 31 December 2008 the discount rate was changed from 4.6% to 3.7%.

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Pension obligations in connection with the transfer of employees from E.ON AG The swap deal with E.ON AG resulted in Statkraft assuming pension obligations for 15 employees in the UK and 169 employees in Germany. The pension liabilities are included in Statkraft's balance sheet as of 31 December 2008.

A separate pension scheme has been established for employees in the UK (Rheidol 2008 Pension Scheme), which maintains and continues the pension scheme that was previously in place for this group. The pension scheme is administered by Rheidol 2008 Trustee Ltd. Pension rights for employees who have been transferred from E.ON AG in Germany have been assumed by Statkraft.

DEFINED CONTRIBUTION SCHEMES

Group companies in Sweden, Finland and Belgium operate defined contribution schemes in accordance with local legislation. Other employees in the UK, who are not covered by the defined benefit scheme mentioned above, also have defined contribution schemes.

Explanation of the background for selected assumptions/risk table The discount rate is set at 3.7% 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 nominal salary increase of 1.75%, inflation of 2.0% and career progression increase of 0.25%. 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 expected salary increases. For demographic factors the K 2005, GAB 07 and IR 73 tariffs are used to establish mortality and disability risks.

The following assumptions are used

	31.12.08	01.01.08	31.12.07	01.01.07
Annual discount rate	3.7%	4.6%	4.6%	4.4%
Salary adjustment	4.0%	4.0-4.5%	4.0-4.5%	4.0%
Adjustment of current pensions	3.75%	4.0%	4.0%	4.0%
Adjustment of National Insurance Scheme's basic amount (G)	3.75%	4.0%	4.0%	4.0%
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	3.7%	4.6-6.0%	4.6-6.0%	4.4-6.0%
Rate of inflation	2.0%	2.25%	2.25%	2.25%
Tendency to take early retirement (AFP)	20.0%	20.0%	20.0%	20.0%

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 pension costs for the year.

Breakdown of net defined benefit pension liability

NOK million	2008	2007
Present value of accrued pension entitlements for funded defined benefit schemes	4 267	3 558
Fair value of pension assets	2 525	-2 463
Actual net pension liability for funded defined benefit schemes	1 742	1 095
Present value of accrued pension entitlements for unfunded defined benefit schemes	267	223
Cost of pension entitlements relating to previous years not recognised in the balance sheet	-	-38
Employer's national insurance contributions	266	181
Net pension liabilities in the balance sheet (see Note 26)	2 275	1 461

Movement in defined benefit pension liability during the year

NOK million	2008	2007
Defined benefit pension liabilities 1 Jan	3 743	3 221
Increase in liabilities for new subsidiary/new members	148	90
Reduction in liabilities as a result of transfer of employees	-12	-
Present value of accrued pension entitlements for the year	180	160
Interest expenses	169	146
Actuarial losses/(gains) on liabilities	399	224
Cost of pension entitlements relating to previous years	-	4
Paid benefits	-93	-102
Gross defined benefit pension liabilities 31 Dec	4 534	3 743

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

NOK million	2008	2007
Fair value of pension assets 1 Jan	2 463	2 103
Projected yield on pension assets	129	113
Actuarial gains/(losses) on pension assets	-234	78
Total contributions	187	200
Increase in pension assets through new subsidiary	-	54
Reduction in assets as a result of transfer of employees	-4	-
Paid benefits	-90	-85
Change in the classification of pension assets	74	-
Fair value of pension assets 31 Dec	2 525	2 463

Pension assets comprise

	31.12.08		31.12.07	
Equity instruments	248	10 %	310	13 %
Interest-bearing instruments	2 075	82 %	1 868	76 %
Other	202	8 %	285	11 %
Fair value of pension assets	2 525	100 %	2 463	100 %

For pension schemes in the SPK, the pension assets comprise a fictitious fund that is invested in 1, 3, 5 or 10-year Norwegian government bonds or a combination of these. In 2008 some of the companies reinvested a small share of the pension fund assets from the fictitious asset fund to the Norwegian Government Pension Fund.

Skagerak Energi has its own pension fund which has invested its pension assets in a diversified portfolio of Norwegian and foreign interest-bearing securities, beneficiary mortgages, shares (max. 25%), hedge funds (max. 7%) and property (max. 10%) through external managers. Fjordkraft, which is a member of BKK's Pension Fund, has invested the pension funds in Norwegian interest-bearing securities and Norwegian and foreign shares (max. 30%).

Movement in actuarial (gains)/losses recognised directly in equity

NOK million	2008	2007
Cumulative amount recognised directly in equity before tax 1 Jan	1 241	1 038
Cumulative amount recognised directly in equity before tax new subsidiary/new members	-4	36
Recognised in the period	722	168
Cumulative amount recognised directly in equity before tax 31 Dec	1 959	1 242
Deferred tax related to actuarial (gains)/losses recognised directly in equity	548	348
Cumulative amount recognised directly in equity after tax 31 Dec	1 411	894

Pension cost recognised in the income statement

NOK million	2008	2007
Defined benefit schemes		
Present value of accrued pension entitlements for the year	180	160
Interest expense	169	146
Projected yield on pension assets	-129	-112
Cost of pension entitlements relating to previous years	-	4
Employee contributions	-17	-19
Employer's national insurance contributions	29	24
Pension cost defined benefit schemes	232	203
Defined contribution schemes		
Employer payments	4	2
Total pension cost (see Note 11)	236	205

Sensitivity analysis regarding changes in assumptions	Discount rate		Annual salary increase	
	+1%	-1%	+1%	-1%
Increase (+)/decrease (-) in net pension cost for the period	-53	70	74	-59
Increase (+)/decrease (-) in net pension liability 31 Dec	-773	1 011	526	-420

Sensitivity analysis regarding changes in assumptions	Increase in G		Staff turnover rate	
	+1%	-1%	+1%	-1%
Increase (+)/decrease (-) in net pension cost for the period	29	-30	-17	14
Increase (+)/decrease (-) in net pension liability 31 Dec	440	-382	-84	63

13 PROPERTY TAX AND LICENCE FEES

NOK million	2008	2007
Property tax	825	768
Licence fees	305	266
Total	1 130	1 034

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 future licence fee obligations for the group that are not provided for in the annual financial statements is estimated to be NOK 7 600 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	2008	2007
Purchase of third-party services	922	637
Materials	377	217
Costs of power plants operated by third parties	334	199
Compensation payments	53	88
Other	954	748
Total	2 640	1 889

The increase in other operating expenses from 2007 to 2008 is attributable to generally higher activity levels and the swap deal with E.ON AG.

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FINANCIAL
ITEMS

2008

NOK million	Assessment basis						Fees	Total
	Voluntarily designated at fair value through profit or loss	Compulsorily designated at fair value through profit or loss	Amortised cost	Available for sale	Held for sale			
Financial income								
Profit on the sale of shares	-	-	-	-	25 591	-	-	25 591
Interest income liquidity	349	-	-	-	-	-	-	349
Interest income other	-	-	60	-	-	-	-	60
Bank accounts and loans, realised currency gains/losses	-	-	70	-	-	-	-	70
Dividend	-	-	-	19	-	-	-	19
Other financial income	-	-	11	284	-	-	-	295
Total	349	-	141	303	25 591	-	-	26 384
Financial expenses								
Interest expenses	-	-	-2 399	-	-	-	-	-2 399
Guarantee premiums	-	-	-	-	-	-65	-	-65
Financial derivatives, realised currency gains/losses	-	-776	-	-	-	-	-	-776
Bank accounts and loans, realised currency gains/losses	-	-	-36	-	-	-	-	-36
Securities liabilities, gains/losses, realised	29	-	-	-	-	-	-	29
Other financial expenses	-	-	-32	-24	-	-	-	-56
Total	29	-776	-2 467	-24	-	-65	-	-3 303
Unrealised changes in value of currency and interest contracts								
Financial interest rate swaps, unrealised change in value	-	298	-	-	-	-	-	298
Financial currency and interest rate swaps, unrealised change in value	-	-229	-	-	-	-	-	-229
Forward exchange contracts, unrealised change in value	-	-1 241	-	-	-	-	-	-1 241
Foreign currency loans, unrealised change in value	-	-393	-1 550	-	-	-	-	-1 943
Securities liquidity, gains/losses, unrealised	11	-	-	-	-	-	-	11
Total	11	-1 565	-1 550	-	-	-	-	-3 104
Total financial items	389	-2 341	-3 876	279	25 591	-65	-	19 977

2007

NOK million	Assessment basis				Fees	Total
	Voluntarily designated at fair value through profit or loss	Compulsorily designated at fair value through profit or loss	Amortised cost	Available for sale		
Financial income						
Interest income liquidity	293	-	-	-	-	293
Interest income other	-	-	52	-	-	52
Bank accounts and loans, realised currency gains/losses	-	-	12	-	-	12
Securities liquidity, gains/losses, realised	26	-	-	-	-	26
Dividend	-	-	-	4	-	4
Other financial income	-	-	24	-	-	24
Total	319	-	88	4	-	411
Financial expenses						
Interest expenses	-	-	-1 727	-	-	-1 727
Guarantee premiums	-	-	-	-	-73	-73
Financial derivatives, realised currency gains/losses	-	-81	-	-	-	-81
Bank accounts and loans, realised currency gains/losses	-	-	31	-	-	31
Securities liabilities, gains/losses, realised	-3	-	-	-	-	-3
Other financial expenses	-	-	-30	-	-	-30
Total	-3	-81	-1 726	-	-73	-1 884
Unrealised changes in value of currency and interest contracts						
Financial interest rate swaps, unrealised change in value	-	-410	-	-	-	-410
Financial currency and interest rate swaps, unrealised change in value	-	-263	-	-	-	-263
Forward exchange contracts, unrealised change in value	-	372	-	-	-	372
Foreign currency loans, unrealised change in value	-	-	532	-	-	532
Securities liquidity, gains/losses, unrealised	-1	-	-	-	-	-1
Total	-1	-301	532	-	-	230
Total financial items	315	-382	-1 106	4	-73	-1 243

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TAXES

The total tax expense is calculated as follows

NOK million	2008	2007
Income tax	3 242	2 007
Resource rent tax	1 735	805
Correction relating to previous years	2	42
Change in deferred tax	-793	-816
Tax cost in the income statement	4 186	2 037

Income tax payable

NOK million	2008	2007
Income taxes payable on the Group's profit for the year	3 147	3 591
Effect of Group contributions on tax liability	-983	-1 596
Reduction in prepaid natural resource tax relating to previous years	-1 114	-
Income tax payable before offsetting against natural resource tax for the year	1 050	1 995

Tax payable in the balance sheet

NOK million	2008	2007
Natural resource tax	600	592
Resource rent tax	1 735	805
Income tax exceeding natural resource tax	450	1 400
Correction tax	-	75
Tax due from previous financial years	11	29
Tax payable in the balance sheet	2 796	2 901

Prepaid tax in the balance sheet

NOK million	2008	2007
Prepaid natural resource tax	31	1 073
Prepaid correction tax	85	75
Prepaid tax in the balance sheet	116	1 148

Reconciliation of nominal tax rate and effective tax rate

NOK million	2008	2007
Profit before tax	37 715	8 809
Expected tax expense at a nominal rate of 28%	10 560	2 467

Effect on taxes of

Resource rent tax	1 893	609
Difference in tax rates from Norway	267	260
Change in tax rate/tax regulations	-	-576
Share of profit from associates	-272	-742
Tax-free income	-7 930	-14
Changes relating to previous years	2	20
Other permanent differences, net	-334	13
Total tax expense	4 186	2 037
Effective tax rate	11,1%	23,1%

BREAKDOWN OF DEFERRED TAX

The following table provides a breakdown of the net deferred tax liability. Deferred tax assets and liabilities connected with different tax subjects/regimes are presented separately 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	01.01.2007	Recognised in the period	Recognised in equity	Acquisitions and sales of companies	Other	31.12.2007
Current assets/current liabilities	-777	-601	-4	-	415	-1 006
Property, plant and equipment	3 778	277	-107	14	-	3 962
Pension liabilities	-370	16	-46	-14	-	-414
Other long-term items	477	63	-	53	-	593
Tax loss carryforward/compensation	-193	167	-	-	-	-26
Deferred tax, resource rent tax	1 939	72	-	-	-	2 011
Negative resource rent tax carryforward	-307	-810	-	-	-	-1 117
Total net deferred tax asset	4 547	-816	-157	53	415	4 003
Of which recognised as deferred tax assets – see Note 17	1 493					1 025
Of which recognised as deferred tax liabilities – see Note 26	6 040					5 067

NOK million	01.01.2008	Recognised in the period	Recognised in equity	Acquisitions and sales of companies	Other	31.12.2008
Current assets/current liabilities	-1 006	99	-138	-	1 540	495
Property, plant and equipment	3 962	207	-102	32	-	4 099
Pension liabilities	-414	-40	-162	-	-	-616
Other long-term items	593	-206	-	-	-	387
Tax loss carryforward/compensation	-26	-999	-	-	-	-1 025
Deferred tax, resource rent tax	2 011	-31	-	-	-	1 980
Negative resource rent tax carryforward	-1 117	177	-	-	-	-940
Total deferred tax asset	4 003	-793	-402	32	1 540	4 380
Of which recognised as deferred tax assets, see Note 17	1 025					1 864
Of which recognised as deferred tax liabilities, see Note 26	5 067					6 244

The item Other primarily relates to the effects of Group contributions.

Deferred tax recognised directly in equity

NOK million	2008	2007
Estimate deviations pensions	-162	-46
Hedging instruments	-261	-43
Translation differences	21	-68
Total deferred tax recognised in equity	-402	-157

Tax rates used in the calculation of deferred tax:

- 26% – Company tax rate in Finland
- 28% – Company tax rate in Sweden (26.3% from 2009)
- 28% – Company tax rate in Norway
- 31.4% – Company tax rate in Germany
- 30% – Resource rent tax rate in Norway
- 58% – Marginal tax rate in Norway (resource rent tax rate + company tax rate)

17 INTANGIBLE ASSETS

NOK million	2008	2007
Deferred tax assets	1 864	1 025
Goodwill	632	207
Other	399	425
Total	2 895	1 657

Deferred tax is discussed in more detail in Note 16.

NOK million	Goodwill	Other
2007		
Cost 1 Jan 2007	365	498
Accumulated amortisation and impairment 1 Jan 2007	-158	-4
Book value 1 Jan 2007	207	494
Additions	-	1
Transferred	-	-322
Additions on consolidation of new companies	-	512
Exchange differences	-	-4
Amortisation	-	-20
Accumulated amortisation on additions	-	-236
Book value 31 Dec 2007	207	425
Cost 31 Dec 2007	365	685
Accumulated amortisation and impairments 31 Dec 2007	-158	-260
Book value 31 Dec 2007	207	425
2008		
Book value 1 Jan 2008	207	425
Additions	-	7
Additions on consolidation of new companies	425	-
Exchange differences	-	10
Amortisation	-	-43
Book value 31 Dec 2008	632	399
Cost 31 Dec 2008	757	752
Accumulated amortisation and impairments 31 Dec 2008	-125	-353
Book value 31 Dec 2008	632	399
Expected economic lifetime		10–15 years

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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 2008 and 2007 primarily related to research. Total respective amounts of NOK 157 million and NOK 98 million were recognised in the income statement in respect of research and development activities in 2008 and 2007.

18 PROPERTY, PLANT AND EQUIPMENT

NOK million	Water regulation facilities	Turbines, generators etc	Distribution grid facilities	Shares operated by third parties	Land, underground facilities, buildings, roads, bridges and quays	Facilities under construction	Other ¹	Total
Cost 1 Jan 2007	27 603	19 008	9 766	3 146	12 360	4 615	2 895	79 393
Accumulated depreciation and impairment 1 Jan 2007	-5 230	-8 710	-4 410	-873	-2 006	-	-1 411	-22 640
Book value 1 Jan 2007	22 373	10 298	5 356	2 273	10 354	4 615	1 484	56 753
2007								
Book value 1 Jan 2007	22 373	10 298	5 356	2 273	10 354	4 615	1 484	56 753
Additions	53	168	196	10	68	1 147	284	1 926
Transferred from facilities under construction	165	2 656	-	-	644	-3 985	842	322
Disposals	-	-20	-74	-	-34	-27	-	-155
Capitalised loan expenses	103	7	-	-	-	1	2	113
Currency effects	-53	-24	-74	-	-285	-81	47	-470
Depreciation/impairments	-301	-541	-335	-75	-126	-	-257	-1 635
Accumulated depreciation/impairments on disposals	-	-	68	-	14	-	21	103
Book value 1 Jan 2007	22 340	12 544	5 137	2 208	10 635	1 670	2 423	56 957
Cost 31 Dec 2007	27 871	21 795	9 814	3 156	12 753	1 670	4 068	81 127
Accumulated depreciation and impairments 31 Dec 2007	-5 531	-9 251	-4 677	-948	-2 118	-	-1 645	-24 170
Book value 31 Dec 2007	22 340	12 544	5 137	2 208	10 635	1 670	2 423	56 957
2008								
Book value 1 Jan 2008	22 340	12 544	5 137	2 208	10 635	1 670	2 423	56 957
Additions	157	217	186	29	78	1 488	357	2 512
Additions on purchase of new subsidiaries	4 781	5 239	-	-	6 444	63	605	17 132
Transferred from facilities under construction	260	520	87	-	264	-1 131	-	-
Disposals	-3	-25	-1	-	-352	-38	-36	-455
Capitalised loan expenses	-	1	-	-	-	8	3	12
Currency effects	44	530	49	-	423	35	4	1 085
Depreciation/impairments	-333	-391	-334	-76	-108	-39	-281	-1 562
Accumulated depreciation/impairments on disposals	-	10	-	-	-	38	27	75
Book value 31 Dec 2008	27 246	18 645	5 124	2 161	17 384	2 094	3 102	75 756
Cost 31 Dec 2008	33 109	28 329	10 192	3 185	19 641	2 094	5 005	101 555
Accumulated depreciation and impairments 31 Dec 2008	-5 863	-9 684	-5 068	-1 024	-2 257	-	-1 903	-25 799
Book value 31 Dec 2008	27 246	18 645	5 124	2 161	17 384	2 094	3 102	75 756
Depreciation period (years)	30-75	15-40	25-35	5-50	25-75		3-40	

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 useful economic lifetimes of 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 facilities	
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 fixtures	5
– other mechanical installations	15	Land	perpetual
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 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 134 million, and the properties have been recognised in the financial statements at a book value of NOK 14 million. Market value has been established on the basis of financial considerations in the form of cash flow analyses performed by an independent valuer in 2007. This was primarily based on local market knowledge gained from reviewing the individual properties' abilities to generate current and future rental income, along with the properties' development potential, location, condition and knowledge of the interested parties' (purchasers') required rates of return.

19 ASSOCIATES AND JOINT VENTURES

COMPANIES RECOGNISED IN ACCORDANCE WITH THE EQUITY METHOD

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

Navn	Office	Eierandel	Stemmeandel
Joint ventures:			
Statkraft Norfund Power Invest AS	Oslo	50.0%	50.0%
Naturkraft AS	Bærum	50.0%	50.0%
Luster Småkraft AS	Gaupne	50.0%	50.0%
Viking Varme AS	Porsgrunn	50.0%	50.0%
RA1 S.r.l.	Milan	50.0%	50.0%
RA2 S.r.l.	Milan	50.0%	50.0%
Kraftwerksgesellschaft Herdecke. GmbH & Co. KG	Hagen	50.0%	50.0%
Biomassheizkraftwerk Landesbergen GmbH	Landesbergen	50.0%	50.0%
Catamount Cymru Cyf	Cardiff	50.0%	50.0%
Catamount Energy Ltd	St. Albans	50.0%	50.0%
Greenpower Carraig Gheal Ltd	Sterling	50.0%	50.0%
Greenpower Little Law Ltd	Sterling	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 Røan AB	Stockholm	50.0%	50.0%
Associates:			
Theun Hiboun Power Company Ltd	Laos	20.0%	20.0%
Hydra Tidal Energy Technology AS	Oslo	28.3%	28.3%
Energy Future Invest AS	Oslo	34.0%	34.0%
Windsea AS	Sandvika	49.0%	49.0%
Midt Norge Kraft AS	Rissa	40.0%	40.0%
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%
Larvik Fibernett AS	Larvik	34.0%	34.0%
Skagerak Fibernett Vestfold AS	Porsgrunn	49.0%	49.0%
Energi og Miljøkapital AS	Skien	35.0%	35.0%
Thermokraft AS	Porsgrunn	22.2%	22.2%
Biomassheizkraftwerk Emden GmbH	Emden	30.0%	30.0%
Rullestad og Skromme Energi AS	Etne	35.0%	35.0%
Bergenshalvøens Kommunale Kraftselskap AS (BKK)	Bergen	49.9%	49.9%
Agder Energi AS	Kristiansand	45.5%	45.5%
Istad AS	Molde	49.0%	49.0%
Ecopro AS	Steinkjer	25.0%	25.0%
Baillie Wind Farm Ltd	Thurso	33.0%	33.0%

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

NOK million	Telenor				
	BKK	Agder	Cinclus	SN Power	Naturkraft
Opening balance	6 193	4 146	1	2 173	1 075
Share of profit	378	232	-203	87	66
Amortisation of excess value	-15	-65	-	-	-
Impairment ³	-	-	-36	-	-397
Investment/sale	-	-	-	200	-
Dividend	-451	-329	-	-	-
Translation differences ¹	-	-	-	296	-
Change in hedging instruments	-	-	-	-17	-
Equity transactions booked directly in the company	-90	-115	-	-	-
Other ²	-	-	238	-	-
Closing balance	6 015	3 869	-	2 739	744
Excess value 31 Dec 2008	2 362	2 461	-	-	-
Of which unamortised waterfall rights	1 818	333	-	-	-

NOK million	E.ON Sverige						Total
	E.ON Sverige	Istad	Herdecke	THPC	Other		
Opening balance	17 914	269	243	200	117		32 331
Share of profit	988	27	31	45	-54		1 596
Amortisation of excess value	-92	-12	-	-7	-		-191
Nedskrivning ³	-	-	-	-	-		-433
Investment/sale	-17 925	-	185	-	265		-17 275
Dividend	-1 780	-14	-	-28	-5		-2 607
Translation differences ¹	1 062	-	21	88	-		1 467
Change in hedging instruments	-176	-	-	-	-		-193
Equity transactions booked directly in the company	-	-24	-	-	-		-229
Other ²	9	-	-	-	-29		227
Closing balance	-	246	480	307	294		14 693
Excess value 31 Dec 2008	4 588	110	-	-	-		9 521
Of which unamortised waterfall rights	1 729	-	-	-	-		3 880

¹ Unrealised gains/losses resulting from foreign exchange changes on investments are recognised as translation differences in equity. Unrealised gains/losses on loans in foreign currency, made in connection with foreign investments, are recognised accordingly as translation differences in equity as these are deemed to be hedging of net investments in a foreign operation. Cumulative translation differences for E.ON Sverige AB were reversed from equity in connection with the swap deal with E.ON AG.

² Other comprises the waiving of liabilities due from Skagerak Energi AS.

³ As a result of a significant reduction in allocated carbon quotas for the period 2008-2012 for Kårstø gas-fired power plant, the investment in Naturkraft was written down by NOK 397 million.

COMPANIES RECOGNISED IN ACCORDANCE WITH THE EQUITY METHOD – 100% BASIS

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

Income statement (unaudited)	E.ON Sverige (SEK)		Agder		BKK	
	2008	2007	2008	2007	2008	2007
NOK million						
Operating revenues	-	30 908	7 211	5 032	4 121	3 818
Operating expenses	-	-25 363	-5 509	-3 733	-1 742	-2 262
Operating profit	-	5 545	1 702	1 299	2 379	1 556
Profit before tax and minority interests	-	5 381	1 150	1 141	1 523	1 611
Net profit for the year	-	3 972	510	846	762	997

Balance sheet (unaudited)

NOK million	E.ON Sverige		Agder		BKK	
	2008	2007	2008	2007	2008	2007
Non-current assets	-	90 852	11 906	11 430	14 813	14 440
Current assets	-	12 109	3 088	1 570	3 754	2 398
Assets	-	102 961	14 994	13 000	18 567	16 838
Equity	-	35 164	3 007	3 481	7 516	7 835
Minority interests	-	634	14	2	19	22
Long-term liabilities and obligations	-	48 970	6 616	6 143	3 183	2 558
Current liabilities	-	18 193	5 357	3 374	7 849	6 423
Equity and liabilities	-	102 961	14 994	13 000	18 567	16 838

The investment in E.ON Sverige AB was disposed of on 31 December 2008 in connection with the swap deal with E.ON AG. See Note 4 for further information.

JOINT VENTURES

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

Name	Shareholding
Grytten	88,00%
Vikfalli	88,00%
Følgefonn	85,06%
Kobbelv	82,50%
Ulla-Førre	73,50%
Svartisen	70,00%
Eidfjord	65,00%
Leirdøla	65,00%
Harrsele AB	50,57%
Svorka	50,00%
Kraftverkene i Orkla	48,60%
Sira-Kvina Kraftselskap DA	46,70%
Mørkfoss-Solbergfoss	33,33%
Tyssefaldene	20,29%
Røldal-Suldal Kraft AS*	8,74%
Aurlandsverkene	7,00%

* Statkraft owns 8,74% of the shares in Røldal-Suldal Kraft AS, which in turn owns 54,79% of the Røldal-Suldal plants. Statkraft's indirect shareholding in the power plants is thus 4,79%.

20OTHER NON-CURRENT
FINANCIAL ASSETS

NOK million	2008	2007
Valued at amortised cost:		
Loans to associates	481	284
Prepaid natural resource tax	31	1 073
Bonds and other long-term receivables	109	243
Total valued at amortised cost	621	1 600
Voluntarily designated at fair value:		
Equity investment CO ₂ fund	127	147
Available for sale:		
Other shares and shareholding	23 403	183
Total	24 151	1 930

The item other shares and shareholdings includes the shareholding in E.ON AG amounting to NOK 23 125 million.

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INVENTORIES

NOK million	2008		2007	
	Recognised value	Cost price	Recognised value	Cost price
Valued at net realisable value:				
Green certificates	440	423	187	157
CO ₂ quotas	117	74	42	16
Total inventories valued at net realisable value	557	497	229	173
Valued at the lower of cost and net realisable value:				
Spare parts	83		42	
Other	59		32	
Other inventories are valued at the lower of cost and net realisable value	142		74	
Total	699		303	

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RECEIVABLES

NOK million	2008	2007
Accounts receivable	2 665	2 264
Accrued revenues etc.	3 380	1 310
Interest-bearing restricted funds	1 910	502
Other receivables	3 697	1 020
Total	11 652	5 096

The change in receivables from 2007 to 2008 is due to increased activity and sales within the Group. Other receivables includes NOK 2 827 million relating to the final settlement in connection with the swap deal with E.ON AG.

Maturity schedule, receivables

2008	NOK million	Not yet due	Non-impaired receivables, due		Receivables past due, impaired	Total
			Within 90 days	After 90 days		
Accounts receivable	2 353	253	47	12	2 665	
Other receivables	8 957	26	4	-	8 987	
Total	11 310	279	51	12	11 652	

Impairments for the year 15

2007	NOK million	Not yet due	Non-impaired receivables, due		Receivables past due, impaired	Total
			Within 90 days	After 90 days		
Accounts receivable	1 933	308	15	8	2 264	
Other receivables	2 494	281	57	-	2 832	
Total	4 427	589	72	8	5 096	

Impairments for the year 9

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SHORT-TERM
FINANCIAL
INVESTMENTS

NOK million	2008	2007
Bonds	175	156
Fixed income funds	109	126
Shares and other investments	65	65
Total	349	347

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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 included in the table below are the recognised values of contracts which in accordance with IAS 39 fall under the definition of financial instruments. There can be significant deviations between the accounting values and the underlying real economic values due to the fact that the portfolios contain contracts that are both covered and not covered by IAS 39.

Derivatives – assets

NOK million	2008	2007
Energy derivatives		
Nordic hydropower portfolio excluding industrial power	586	947
Industrial power contracts in Nordic hydropower portfolio	1 630	773
Trading & Origination	5 250	5 224
Baltic Cable and continental assets	2 018	-
End-user portfolio	261	97
Gas power activities	266	-
Total	10 011	7 041

Currency and interest rate derivatives

Interest rate swaps	627	493
Forward exchange rate contracts	754	216
Combined interest rate and currency swaps	1 414	576
Total	2 795	1 285

Total derivative – assets 12 806 8 326

Derivatives – liabilities

NOK million	2008	2007
Energy derivatives		
Nordic hydropower portfolio excluding industrial power	1 611	2 504
Industrial power contracts in Nordic hydropower portfolio	1 406	2 582
Trading & Origination	4 529	5 344
Baltic Cable and continental assets	311	-
End-user portfolio	330	101
Gas power activities	136	955
Total	8 323	11 486

Currency and interest rate derivatives

Interest rate swaps	183	444
Forward exchange rate contracts	2 783	81
Combined interest rate and currency swaps	10	443
Total	2 976	968

Total derivative – liabilities **11 299** 12 454

Baltic Cable and continental assets comprise a gas storage contract and power delivery contract that were acquired in connection with the swap deal with E.ON AG. Forward exchange rate contracts for the sale of EUR against NOK have fallen in value from 2007 to 2008 as result of the appreciation of the EUR against the NOK.

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BANK DEPOSITS,
CASH IN HAND ETC.

NOK million	2008	2007
Cash in hand and bank deposits	2 280	2 930
Money market funds, certificates, promissory notes, bonds	10	414
Total	2 290	3 344

Book value of assets pledged as guarantees for obligations

The following amounts in cash and cash equivalents are pledged as security for/from counterparties:

NOK million	2008	2007
Cash collateral for financial derivatives	-534	174
Deposit account in connection with power sales on energy exchanges	494	218
Total	-40	392

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

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PROVISIONS

NOK million	2008	2007
Deferred tax	6 244	5 067
Pension liabilities	2 275	1 461
Other provisions	3 278	3 075
Total provisions	11 797	9 603

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 15 year term of the agreement.

NOK million	Rana	Other	Total
Opening balance 1 Jan 2007	1 906	1 218	3 124
New provisions in the period	-	225	225
Amount utilised in the period	-147	-88	-235
Unused amount written back in the period	-	-39	-39
Closing balance 31 Dec 2007	1 759	1 316	3 075
New provisions in the period	-	488	488
Amount utilised in the period	-147	-164	-311
Currency effects	-	26	26
Closing balance 31 Dec 2008	1 612	1 666	3 278

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INTEREST-BEARING LONG-TERM LIABILITIES

NOK million	2008	2007
Bond loans from the Norwegian market	15 735	18 388
Other loans from non-Norwegian markets	14 664	10 846
Overdraft facilities	2 750	2 750
External loans in subsidiaries and other loans	240	1 127
Total	33 389	33 111

Total interest bearing liabilities increased from NOK 40 billion in 2007 to NOK 44 billion in 2008 (see Notes 27 og 28). This was despite the fact that the Group's net repayment of debt amounted to NOK 1 billion. The increase can mainly be explained by the increase in exchange rates on foreign currency loans.

For more information, see Notes 29-34.

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CURRENT LIABILITIES

Short-term interest-bearing liabilities

NOK million	2008	2007
Certificate loans	6 532	900
First year's instalment of long-term liabilities	1 676	4 958
Debt connected to cash collateral	1 385	714
Overdraft facilities	531	351
Other short-term loans	28	-
Total	10 152	6 923

See comments in Note 27.

Other interest-free liabilities

NOK million	2008	2007
Trade payables	2 302	851
Indirect taxes payable	825	828
Other interest-free liabilities	2 510	1 971
Total	5 637	3 650

The item Other interest-free liabilities includes an estimated final settlement in connection with the swap deal with E.ON AG.

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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 currency swaps and forward exchange contracts. Financial instruments used in energy trading primarily comprise financial and physical agreements for the purchase and sale of electricity and gas, as well as embedded derivatives in physical energy sale agreements. In addition to the above, other financial instruments exist in the form of accounts receivable, trade payables, cash, short-term financial 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 hedged items are often assets in foreign currency, future cash flows or financial instruments valued at amortised cost, while hedging instruments are recorded 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. Hedge accounting in accordance with IFRSs has been used in certain cases. This applies to selected loan arrangements where the interest rate has been swapped from fixed to floating rates (fair value hedging), to the hedging of net investments in a foreign unit and to cash flow hedging of contracts. To isolate 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 energy trading activities. In addition, a series of financial instruments is 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 physical contracts that are not as such covered by IAS 39. Energy derivatives are valued at fair value with changes in value being recognised through profit or loss. In light of the significant volumes connected with 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 isolate the unrealised effects of energy 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.

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HEDGE
ACCOUNTING**GENERAL DESCRIPTION OF HEDGE ACCOUNTING AT STATKRAFT**

Fair-value hedging Only one loan arrangement is treated as a fair value hedge. A bond loan is designated as a hedging object 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 entity In 2008 some investments in SEK were hedging objects covered by hedge accounting for net investments in a foreign operation. A set of financial instruments was designated as hedging instruments in this hedging relationship. The hedging arrangement ceased on 31 December 2008 in connection with the implementation of the swap deal with E.ON AG. Statkraft has not used hedge accounting for any other foreign operations.

Cash flow hedging One cash flow hedging arrangement was in place during 2008. The opportunities for other hedge accounting are assessed on an ongoing basis on the finance side. Hedge accounting will normally be used in cases where the efficiency of hedging 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 the accounting profit. Consequently, no on-going assessment is made of opportunities to document hedge accounting connected to power generation.

More detailed description of cash flow hedging The hedging object was the purchase contract in EUR for the E.ON AG shares, which was part of the swap deal with E.ON AG. The hedging instruments were forward foreign exchange contracts for the sale of EUR and loans in EUR that were not swapped into other currencies. The hedged risk in the hedging relationship was foreign currency risk connected to exposure in EUR. The critical terms of the hedging object and hedging instrument were deemed to be the same, and 100% hedging efficiency was 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 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 rate 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 six months EURIBOR floating. The hedged risk in the hedging relationship is interest rate risk. The critical terms of the hedging object 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 operation Parts of the investment in SEK in the associate E.ON Sverige AB were designated as a hedging object in hedge accounting of net investments in a foreign operation. A set of financial instruments was designated as hedging instruments in this hedging relationship. These instruments comprised currency swaps from SEK to NOK, and forward exchange contracts for the sale of SEK. The hedged risk in the hedging relationship was foreign currency risk connected to exposure in SEK. The critical terms of the hedging object 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. The hedging relationship was concluded on 31 December 2008 and foreign currency gains and losses recognised in the balance sheet were subsequently recognised as part of the profit on the swap deal with E.ON AG.

Fair value of hedging instruments

NOK million	2008	2007
Hedging instruments used in fair value hedging	438	-27
Hedging instruments used to hedge net investments in a foreign operation	-	225
Total fair value of hedging instruments	438	198

Other information on fair value hedging

NOK million	2008	2007
Gains and losses on hedging instruments	438	-27
Gains and losses on hedging objects, in relation to the hedged risk	-438	27

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FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE OF ENERGY DERIVATIVES

The following parameters and assumptions are applied in the fair value valuation of energy derivatives:

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

Other bilateral electricity contracts are valued on the basis of a market price curve. Closing rates on energy exchanges 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 in the market, and broker quotes for corresponding contracts. For time periods of more than 10 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 energy exchanges. The price is adjusted for the expected rate of inflation for contracts that extend beyond the periods quoted on energy exchanges.

Foreign currency Several electricity contracts have prices in different currencies. Current market prices are obtained from the ECB (European Central Bank) and major financial institutions for such currencies. If quotes are not available for the entire time period, the foreign currency price curve for this area is set as the latest quoted price.

Commodities Some electricity contracts have a contract price that is linked to the price development of various commodities including gas. These are valued using forward prices from relevant commodity exchanges and major financial institutions. If quotes are not available for the entire time period, the commodity prices are adjusted for inflation based on the most recent quoted price in the market.

CO₂ CO₂ contracts are priced based on the forward price of EUA quotas and CER quotas. Statkraft uses the closing rate on commodity exchanges to price CO₂ contracts.

For certain power sale agreements that are recognised at fair value, the value is dependent on CO₂ costs at the Group's gas power plants. Here it has been assumed that the power plants will not be allocated free CO₂ quotas following 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 derivatives. This is obtained from major financial institutions. In cases where the credit risk is relevant, the interest rate curve is adjusted upwards.

FAIR VALUE OF CURRENCY AND INTEREST RATE DERIVATIVES

Interest swaps, foreign currency swaps and forward exchange contracts Interest swaps are valued using valuation techniques where expected future cash flows are discounted to 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 valued 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 CO₂ FUND

Equity investments in the CO₂ fund are voluntarily designated at fair value through profit or loss and are valued 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.

NOK million	Note	2008 Recognised value	2008 Fair value	2007 Recognised value	2007 Fair value
Financial assets compulsorily designated at fair value					
Energy derivatives	24	10 011	10 011	7 041	7 041
Currency and interest rate derivatives	24	2 795	2 795	1 285	1 285
Total		12 806	12 806	8 326	8 326
Financial assets voluntarily designated at fair value					
Equity investment CO ₂ fund	20	127	127	147	147
Bonds	23	175	175	156	156
Shares and financial investments	23	65	65	65	65
Fixed income funds	23	109	109	126	126
Money market funds, certificates, promissory notes, bonds	25	10	10	414	414
Total		486	486	908	908
Financial assets valued at amortised cost					
Loans to associates	20	481	480	284	284
Prepaid natural resource tax	20	31	31	1 073	1 073
Bonds and other long-term receivables	20	109	109	243	243
Accounts receivable	22	2 665	2 665	2 264	2 264
Accrued revenues etc.	22	3 380	3 380	1 310	1 310
Interest-bearing restricted funds	22	1 910	1 910	502	502
Other receivables	22	3 697	3 697	1 020	1 020
Cash in hand and bank deposits	25	2 280	2 280	2 930	2 930
Total		14 553	14 552	9 626	9 626
Available-for-sale financial assets					
Other shares and shareholdings	20	23 403	23 403	183	183
Total		23 403	23 403	183	183
Financial liabilities compulsorily designated at fair value					
Energy derivatives	24	-8 323	-8 323	-11 486	-11 486
Currency and interest rate derivatives	24	-2 976	-2 976	-968	-968
Total		-11 299	-11 299	-12 454	-12 454
Financial liabilities valued at amortised cost					
Bond loans from the Norwegian market	27	-15 735	-16 825	-18 388	-18 764
Other loans from non-Norwegian markets	27	-14 664	-14 352	-10 846	-11 152
Overdraft facilities	27	-2 750	-2 754	-2 750	-2 816
External loans in subsidiaries and other loans	27	-240	-240	-1 127	-1 223
Debt connected to cash collateral	28	-1 385	-1 385	-714	-714
Certificate loans	28	-6 532	-6 607	-900	-914
Overdraft facilities	28	-531	-531	-351	-351
First year's instalment of long-term liabilities	28	-1 676	-1 677	-4 958	-4 931
Other short-term loans	28	-28	-28	-	-
Trade payables	28	-2 302	-2 302	-851	-851
Indirect taxes payable	28	-825	-825	-828	-828
Other interest-free liabilities	28	-2 510	-2 510	-1 971	-1 971
Total		-49 178	-50 036	-43 684	-44 515
Total		-9 229	-10 088	-37 095	-37 926

The fair value that is presented is calculated on the basis of valuation techniques where expected future cash flows are discounted to present value. Expected cash flows are calculated and discounted using observed market interest rates for the various currencies (swap interest rate curve) adjusted upwards for credit risk and observed exchange rates.

Unrealised changes in value		2008	2007
NOK million	Note		
Energy contracts	10	4 282	-739
Currency and interest rate contracts	15	-3 104	330
Total		1 178	-509

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MARKET RISK
IN THE GROUP**GENERAL COMMENTS ON RISK CONNECTED TO 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 electricity price risk, CO₂ prices, gas price risk, interest rate risk and foreign currency risk. Risk management at Statkraft focuses on 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 market 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 some physical contracts are valued at fair value. The physical contracts that are valued at fair value are contracts with volume options 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 energy exchanges and bilateral financial contracts. The portfolio's objective is to hedge the value of future revenues.

The physical sales obligations include statutory-priced industrial contracts, long-term sales contracts, concessionary power obligations, as well as miscellaneous free power and compensation power contracts. The majority of the statutory-priced industrial contracts will expire in the period leading up to 2011. The long-term 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 energy exchanges and bilateral contracts. These generally have terms of less than five years, though some financial contracts run until 2020. To some extent 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 term changes in the market values of energy, as well as gains on non-standard contracts, 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 financial forward and option contracts for electricity and CO₂ contracts traded on energy exchanges. The portfolio also contains bilateral financial contracts, normally with identical terms to standardised contracts traded on energy exchanges.

Trading (Continent) This 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 APX (the Netherlands), contracts for physical deliveries still dominate the bilateral market in continental Europe. The portfolio also includes physical gas contracts traded on the most liquid marketplaces, such as the NBP (National Balancing Point) in the UK, Zeebrugge in Belgium and TTF (Title Transfer Facility) in the Netherlands.

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 and contracts. The majority of the contracts in the portfolio have terms of up to five years, though some contracts run until 2018.

Origination (Continent) This portfolio consists of structured contracts. The Origination portfolio also includes trading in international transport capacity in order to profit from international price differences. A separate sub-portfolio has been created for virtual power plant contracts. The most important of these contracts is an agreement with a Swiss hydropower producer which runs until 2013.

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. CO₂ and green certificates are also traded. Efforts are generally made to offset most of the volume exposure by entering into corresponding standardised financial contracts, so that the portfolio's total net exposure remains relatively moderate at all times.

Continental Asset Hedges This portfolio comprises hedging contracts relating to Baltic Cable AB, the gas-fired power plants and continental assets. The portfolio comprises financial and physical power contracts with both the Nordic power market and the European power market. The objective of the portfolio is to hedge price differences with a time perspective of 0 to 5 years. Risk connected to the gas-fired power plants is hedged using forward contracts for oil products, coal, CO₂ and the electricity price.

CO₂/green certificates CO₂/green certificates cover trading in various green certificates and CO₂ quotas as well as documentation of the physical flows of environmentally friendly power.

End-user sales The Group has two portfolios connected with end-user activities. These are found 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 authorities/government agencies or private businesses and industry, though not major industrial businesses. Contracts with the latter are contained in the Nordic hydropower 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 energy exchanges 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 authorities 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. Mandate breaches are reported to the President and CEO.

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 is otherwise associated with total power sale revenues. The purpose of hedging, which takes into account the company's current and future generation capacity, is to secure an optimal contract position in relation to the company's risk profile. Statkraft is exposed to both price and volume risk, because both future price and inflow are unknown. Authorities for power trading are based on annual volume thresholds and available production. Individual market strategies have also been established at the operating level, which also safeguard 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 hedging at any one time is limited. Authorities for power trading are based on amount thresholds for any losses. Risk management at the operative level focuses on minimising such potential losses.

Origination portfolios The risk in this business is largely 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 approved guidelines. As a rule, listed liquid contracts (system price, area prices, CO₂ 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 CO₂.

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 energy exchanges. Efforts are normally made to eliminate the bulk of the electricity price risk, and frameworks have been established for maximum exposure within various delivery period intervals. The existing exposure in relation to the established frameworks is reported to management. The 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 are made of the volumes that can be expected to be consumed and for which hedging relationships must therefore be made.

COMMODITIES RISK

Several power contracts in the Nordic hydropower portfolio, both statutory industrial contracts and long-term 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 authorities have been established in connection with the products that are traded in the forwards market. Product-price dependent power contracts are included in the overall risk assessment for the hydropower portfolio.

GAS PRICE RISK

The Group has shareholdings in five gas-fired power plants, four in Germany and one in Norway, and has in this connection entered into long-term supply contracts for natural gas. The purchase price for these contracts is indexed to coal and oil. Price development in the spot market for electricity, gas, the underlying commodities included in the indexing and CO₂ therefore affect the gas 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 CO₂ costs. The company's risk management department follows up exposures and hedging deals on an ongoing basis. The responsibility for ongoing follow-up of issued authorities and frameworks lies with independent organisational units in Oslo and Düsseldorf.

FOREIGN EXCHANGE 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 exposure to foreign exchange risk in the form of transaction risk primarily relates to power sales revenues in foreign currencies, as well as balance sheet risk connected to shareholdings in foreign subsidiaries in countries such as Belgium, Sweden, Germany and the UK, and in some associates.

The operational currency for trading on energy exchanges is EUR, which means that all contracts that are entered into via energy exchanges are denoted in EUR and are thus exposed to EUR. Statkraft hedges the EUR exposure connected with cash flows as a result of hedged power sales (physical contracts and financial trading on energy exchanges). 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 currency exposure is regularly reported to Group management through the CFO in relation to established frameworks in the finance strategy.

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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 mix 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 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, 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 currency positions that are to be entered into are assessed 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 interest rate exposure per currency is regularly reported to Group management via the CFO 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 loan 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 in connection with the Trading and Origination portfolios. Statkraft is also 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 related revenues are linked to the interest rate market.

The Statkraft Group quantifies risk as deviations from expected post-tax results with a given confidence level. Market risk is included in these calculations, which 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 targets for market risk shall have a 95% probability of covering all potential losses (deviations from expected results) connected with the 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 period for the calculations is one year. For contracts with exposure of more than one year, only the uncertainty relating to 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 as at 31 December 2008 was calculated at NOK 2 562 million, where the main risk relates to energy optimisation. The increase in the risk for energy utilisation from 31 December 2007 to 31 December 2008 should be viewed in conjunction with the fact that production capacity and prices were higher at the end of 2008 than in 2007, and that the downside (risk) was therefore also greater. However, increased volatility on the energy markets also contributed to the increased risk. The increase in interest rate and foreign currency risk is primarily attributable to increased volatility in the interest rate and foreign currency markets.

NOK million	2008	2007
Market risk, energy optimisation	2 532	1 548
Market risk, trading and origination	237	193
Market risk, interest rates and foreign currency	319	91
Market risk, distribution grid revenues	25	15
Market risk, end-user activities	30	40
Diversification effects	-581	-325
Total market risk	2 562	1 562
Diversification effect as percentage	19 %	17 %

Breakdown of debt by currency by loan¹

NOK million	2008	2007
Loans in NOK	25 956	18 241
Loans in SEK	5 408	13 882
Loans in EUR	8 734	3 941
Total	40 098	36 064

¹ Includes certificates, interest rate and currency swaps

Breakdown of interest per currency¹

	2008	2007
Average nominal interest rate, NOK	6,6%	5,1%
Average nominal interest rate, SEK	4,9%	3,7%
Average nominal interest rate, EUR	5,3%	4,8%

¹ Includes certificates, interest rate and currency swaps

Fixed-interest loan portfolio¹

NOK million	Future interest rate adjustments:				Total
	2009	1–3 years	3–5 years	5 years and later	
Loans in NOK	8 274	2 966	2 624	12 092	25 956
Loans in SEK	5 408	-	-	-	5 408
Loans in EUR	4 387	487	-	3 860	8 734
Total	18 069	3 453	2 624	15 952	40 098

¹ Includes certificates, interest rate and currency swaps

Liquid funds – bonds per debtor category

NOK million	2008	2007	2008	
			Duration	Av. interest rate (%)
Commercial/savings banks	67	82	1,04	5,42
Industry	23	32	3,34	4,55
Public sector	85	42	4,17	5,05
Total	175	156		

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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 to another party by not fulfilling its obligations. Statkraft is exposed to counterparty risk through power trading and physical sales, investing its surplus liquidity and trading in financial instruments.

No counterparty risk is assumed for financial power contracts that are cleared through energy exchanges. 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. Statkraft also has a separate category for counterparties with whom no trading is performed on ethical grounds.

In some cases, bank guarantees are used to reduce the credit risk on 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 and the debtor pays the net amount owing to the contract counterparty. Settlement normally takes place on a monthly basis.

Excess liquidity is primarily placed with institutions with BBB ratings or higher. A potential loss on the non-fulfilment of the contract by the counterparty is calculated for financial instruments. Statkraft has entered into agreements 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 financial means to fulfil their obligations is regarded as limited. Historically Statkraft's bad debts have been limited.

The maximum credit risk associated with energy derivatives is approximately the same as the book values recognised in the balance sheet.

The frameworks for exposure to 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 pledged parent company guarantees for subsidiaries and associates (Note 39). Statkraft has not guaranteed any loans, or issued guarantees in any other way. Maximum exposure for credit risk does not exceed the recognised values of financial assets already recognised. Gross exposure for credit risk relating to financial assets is partly reduced by the use of collateral. Where relevant collateral of material importance has been pledged, this is stated below.

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NOK million	Note	2008	2007
Gross exposure credit risk:			
Other non-current financial assets	20	24 151	1 930
Derivatives	24	12 806	8 326
Receivables	22	11 652	5 096
Short-term investments	23	349	347
Cash and cash equivalents	25	2 290	3 344
Total		51 248	19 043
Exposure reduced by security (guarantees, cash collateral etc.):			
Other non-current financial assets		-	-
Derivatives		-1 334	-1 522
Receivables		-	-
Short-term financial investments		-	-
Cash and cash equivalents		-	-
Total		-1 334	-1 522
Net exposure credit risk		49 914	17 521

In the case of financial derivatives, the credit risk for most counterparties and derivatives is reduced by the provision of security 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 on 31 December. There could therefore be an outstanding credit risk at the year-end.

Frameworks for exposure to individual counterparties have been adopted in the case of short-term financial investments.

All cash and cash equivalents are receivables due from banks.

LIQUIDITY RISK

Statkraft assumes a liquidity risk because the term of its financial obligations is not matched to the cash flows generated by its assets, and because of variations in security requirements linked to both financial contracts in the forward market (energy exchanges) and cash collateral requirements. Statkraft has long-term credit ratings from Standard & Poor's and Moody's Investor Service of BBB+ and Baa1 respectively, both with a "stable outlook". Statkraft has traditionally enjoyed good opportunities for borrowing from the Norwegian and European money markets and in the banking market. The new market situation is resulting in greater uncertainty than in the past. Drawdown facilities have been established 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 4.0. Liquidity capacity in this context is defined as cash and cash equivalents, plus committed drawdown facilities, overdrafts 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. Exposure is regularly reported to Group management via the CFO 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 balanced scorecard.

The finance department prepares the liquidity forecasts, which are 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 drawdown facilities will be Statkraft's buffer against unforeseen events with significant cash flow 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 balanced scorecard.

Maturity schedule, external long-term liabilities

NOK million	2009	2010	2011	2012	2013	After 2013
Repayments of bond loans from the Norwegian market	3 494	5 618	2 672	-	418	11 138
Repayments of other loans	206	2 864	751	162	3 317	6 448
Interest payments	1 823	1 432	1 142	1 031	954	2 935
Sum	5 523	9 914	4 565	1 193	4 689	20 521

Allocation of non-discounted values per period

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.

NOK million	2009	2010	2011	2012	2013	After 2013
Energy derivatives	2 957	2 253	921	624	370	1 812
Interest rate and foreign currency derivatives	2 324	312	189	5	3	213
Total derivatives	5 281	2 565	1 110	629	373	2 025

35 MANAGEMENT OF CAPITAL STRUCTURE

The main aim of the Group's management of its capital structure is to maintain a reasonable balance between the company's debt/equity ratio, its ability to expand and its maintenance a strong credit-rating.

Tools for long-term management of capital structure primarily comprise of the draw down and repayment of long-term liabilities and payments of share 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 2008.

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 capital included in management of capital structure

NOK million	Note	2008	2007
Long-term interest-bearing liabilities	27	33 389	33 111
Short-term interest-bearing liabilities	28	10 152	6 923
Cash and cash equivalents and short-term financial investments	23,25	-2 639	-3 691
Net liabilities		40 902	36 343

36 BENEFITS PAID TO EXECUTIVE MANAGEMENT AND THE BOARD

Statkraft is organised into business units and support functions. The managers of these units are members of the Management Team, and report to the Executive Management Team, which comprises the executive vice presidents (EVPs) and President and CEO. Group management also 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 *	3 361 530	-	248 358	3 609 888
Jørgen Kildahl, executive vice president	2 275 703	189 000	187 293	2 651 996
Jon G. Brandsar, executive vice president	1 868 993	160 000	154 664	2 183 657
Siri Hatlen, executive vice president	2 058 436	-	150 688	2 209 124
Eli Skrvøset, executive vice president**	414 750	189 000	38 636	642 386
Stein Dale, executive vice president	1 912 644	234 000	154 278	2 300 922
Ragnvald Nærvø, executive vice president	1 852 725	224 000	184 387	2 261 112

* Bård Mikkelsen is a board member of E.ON AG, for which he received directors' fees of NOK 22 661 in 2008.

** Eli Skrvøset resigned her position at the end of March 2008. The salaries and other benefits stated above reflect her service time as EVP.

*** The bonus was earned in 2007 but paid out in 2008. The bonus amount reflects the individual EVPs' periods in office during 2007.

Members of Group management, with the exception of the President and CEO, can qualify for an annual bonus of up to NOK 250 000. The bonus is paid out based on the achievement of individually established targets. The maximum bonus amount has been increased to NOK 500 000 from 2008.

Group management has not received any remuneration or financial benefits from other companies in the same Group other than those shown above. No additional remuneration for special services over and above their normal managerial functions has been provided.

The total salaries and other benefits paid to executive management in 2007 amounted to NOK 15 714 583.

Directors' fees and fees paid to the Audit Committee and Compensation Committee

NOK	Directors' fees	Audit Committee	Compensation Committee
Arvid Grundekjøn, board chair	333 000	-	40 000
Ellen Stensrud, vice chair	277 000	-	-
Halvor Stenstadvold, board member	220 500	72 500	-
Aud Mork, board member	220 500	-	25 000
Astri Botten Larsen, employee-elected board member	220 500	52 500	-
Thorbjørn Holøs, employee-elected board member	220 500	-	-
Odd Vanvik, employee-elected board member	220 500	-	25 000
Egil Nordvik, board member	220 500	-	-
Berit J. Rødseth, board member	220 500	52 500	-

The board has no remuneration agreements other than the directors' fee and remuneration for participation in committee work, nor have any loans or pledges been granted to board members.

Total remuneration paid to the board, Audit Committee and Compensation Committee in 2007 was NOK 2 052 000, NOK 170 000 and NOK 45 000 respectively

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Pension provisions – executive management

NOK	Pensions **
Bård Mikkelsen, President and CEO	3 757 921
Jørgen Kildahl, executive vice president	1 297 771
Jon G. Brandsar, executive vice president	667 889
Eli Skrøvset, executive vice president *	133 212
Stein Dale, executive vice president	587 767
Ragnvald Nærø, executive vice president	1 437 283
Siri Hatlen, executive vice president	911 100

* Eli Skrøvset resigned her position at the end of March 2008. The salaries and other benefits stated above reflect her service time as EVP

** Pension scheme cost 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 President and 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 2007 the total pension provision for executive management amounted to NOK 8 622 102.

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FEES PAID TO EXTERNAL AUDITORS

Deloitte AS is the Statkraft Group's auditor and audits all the Group's subsidiaries. Total fees paid to the Group auditors for auditing and other services was as follows:

NOK	2008	2007
Statutory auditing	10 414 000	8 107 000
Other certification services	250 000	620 000
Tax consultancy services	1 131 000	391 000
Other services	292 000	1 841 000
Total	12 087 000	10 959 000

The increase in statutory auditing and tax consultancy expenses between 2007 and 2008 is primarily attributable to services in connection with the swap deal with E.ON AG.

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RELATED PARTIES

All 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 are members of Group management or the board and are also related parties of Statkraft.

In accordance with IAS 24, Astri Botten Larsen has been identified as a related party through her spouse, who is a general manager of and has a 28% shareholding in Norsk Radiokommunikasjon AS. In 2008 Norsk Radiokommunikasjon sold goods and services to Statkraft Energi AS worth NOK 367 000 kroner on market terms and conditions.

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 transactions or outstanding balances of significance with related parties.

The table below shows the transactions with related parties that are associates or joint ventures that are not eliminated in the consolidated financial statements.

NOK million	2008	2007
Revenues	205	56
Expenses	1 422	1 243
Receivables at the end of the period	419	284
Liabilities at the end of the period	102	159

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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. 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 1 916 million. As of 31 December 2008, the book value of the pledged assets in

Statkraft Energi AS totalled NOK 4 730 million. Other subsidiaries have a total of NOK 1 351 million in pledged assets.

Obligations and guarantees

The Statkraft Group has the following off-balance-sheet obligations and guarantees

NOK million	2008
Parent company guarantees	3 997
Nord Pool guarantees	2 536
Financial power exchange agreement	1 852
Overdraft facilities guarantee	600
Contingent tax obligation for intragroup transfer of assets	515
Regress guarantee	231
Other	770
Total	10 501

The Statkraft Group had off-balance-sheet obligations and guarantees totalling NOK 8 413 million in 2007.

CONTRACT OBLIGATIONS

Statkraft has entered into long-term agreements to purchase gas from StatoilHydro and WINGAS respectively.

A third of the production volume in the Knapsack gas power plant is pre-sold to the Dutch energy company Essent, through an agreement with a term of 15 years.

40 LEASES

The total of future minimum lease payments in relation to non-cancellable leases for each of the following periods is

NOK million	Within 1 year of the end of the year	Within between 1 and 5 years of the end of the year	More than 5 years from the end of the year	Total
Property rental agreements	81	302	660	1 043
Other leases	9	8	9	26
Total	90	310	669	1 069

The lease amount connected to leases recognised in the period and specified in the following manner is:

NOK million	Minimum lease	Variable lease	Sublease payments
Property rental agreements	76	-	21
Other leases	13	-	-
Total	89	-	21

There are no other material operating leases. The company has no leases that qualify for treatment as finance leases.

41 CONTINGENCIES, DISPUTES ETC.

REVENUE 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 a revenue shortfall. Revenue 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	2008	2007
Cumulative revenue surplus transferred to subsequent years	137	102
Cumulative revenue shortfall transferred to subsequent years	-8	-23
Net revenue surplus/shortfall	129	79

DISPUTES

Statkraft has extensive business activities and is consequently likely to be involved in disputes of varying magnitude at any one time. At the time of the approval of the financial statements, there were no disputes that could have a material effect on Statkraft's results or liquidity.

42 SHARES AND SHARE- HOLDER INFORMATION

The parent company is a Norwegian state-owned enterprise, established and registered in Norway. Statkraft SF is 100% owned by the Norwegian state, through the Ministry of Trade and Industry.

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STATKRAFT SF

NOK million	NOTE	2008	2007
Sales revenues	1	405	335
Other operating expenses	4	-198	-153
Depreciation and impairments	8	-53	-16
Operating expenses		-251	-169
Operating profit		154	166
Financial income	6	10 743	9 080
Financial expenses	6	-989	-979
Net financial items		9 754	8 101
Profit before tax		9 908	8 267
Taxes	7	371	-1 269
Profit after tax		10 279	6 998
Disposal of profit for the year			
Dividend payable	13	10 000	6 560
Transfer to (+)/from (-) other equity	13	279	438


Balance Sheet

STATKRAFT SF

NOK million	NOTE	31.12.08	31.12.07
ASSETS			
Deferred tax asset	7	246	-
Intangible assets	8	68	68
Property, plant and equipment	8	1 203	730
Investments in subsidiaries and associates	9	32 450	32 450
Other non-current financial assets	10	5 195	6 034
Non-current assets		39 162	39 282
Receivables	11	12 541	13 196
Cash and cash equivalents	12	33	175
Current assets		12 574	13 371
Assets		51 736	52 653
EQUITY AND LIABILITIES			
Paid-in equity	13	29 250	29 250
Retained earnings	13	774	495
Equity		30 024	29 745
Provisions	14	371	135
Long-term interest-bearing liabilities	15	8 964	9 798
Long-term liabilities		9 335	9 933
Short-term interest-bearing liabilities	16	2 027	4 786
Taxes payable	7	62	1 318
Other interest-free liabilities	17	10 288	6 871
Current liabilities		12 377	12 975
Equity and liabilities		51 736	52 653

The Board of Directors of Statkraft SF
Oslo, 18 March 2009


Berit Rødseth


Arvid Gundeckjøn
Chair


Ellen Stensrud
Deputy chair


Halvor Stenstadvold


Aud Mork


Egil Nordvik


Thorbjørn Holøs


Astri Botten Larsen


Odd Vanvik


Bård Mikkelsen
President and CEO

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Cash Flow**

STATKRAFT AS

NOK million	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	9 908	8 267
Depreciation and impairments	53	16
Taxes paid	-63	-1 616
Cash flow from operating activities	9 898	6 667
Change in other short-term items	-10 474	-8 205
Dividends and Group Contributions received	6 994	7 478
Net cash flow from operating activities	6 418	5 940
	A	
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-	-24
Proceeds from sale of non-current assets	-	19
Loans to third parties	4 915	3 945
Net cash flow from investing activities	4 915	3 940
	B	
CASH FLOW FROM FINANCING ACTIVITIES		
New long-term debt	-4 915	-3 950
Dividend and Group contribution paid	-6 560	-5 857
Net cash flow from financing activities	-11 475	-9 807
	C	
Net change in cash and cash equivalents during the year	-142	73
	A+B+C	
Cash and cash equivalents 01.01	175	102
Cash and cash equivalents 31.12	33	175

Accounting Policies

STATKRAFT SF

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

Statkraft SF is a Norwegian state-owned enterprise, established and domiciled in Norway. Statkraft SF is wholly-owned by the Norwegian state, through the Ministry of Trade and Industry.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Shares in subsidiaries, associates and joint ventures are recognised in accordance with the cost method in Statkraft SF's financial statements. Group contributions received are recognised under dividends from subsidiaries.

VALUATION AND CLASSIFICATION PRINCIPLES

Uncertainty relating to 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.

Recognition of revenues and expenses Revenues derived from the sale of goods and services are recognised when they are earned, while expenses are recognised in accordance with the matching principle. Dividends and Group contributions from subsidiaries are recognised in income in the year they are earned, while dividends from other companies are recognised in accordance with the cash principle. Profits/losses on the sale of ordinary non-current assets are treated as operating revenues or expenses.

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 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 realised 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 non-current 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.

Non-current assets are recognised at cost and are written down to fair value when any impairment in value is not considered to be temporary in nature. Non-current assets with a limited useful economic life are depreciated or amortised. Long-term liabilities are recognised 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 recognised 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 recognised 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 asset 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 and associates are recognised using the cost method. Investments are recognised at the cost 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 impairment 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 accounted for using the cost method in the single entity financial statements. Dividends received are treated as financial income.

Receivables Trade receivables and other receivables are recognised at nominal value less provisions for expected losses. Provisions for losses are recognised on the basis of an individual assessment of the receivables concerned.

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

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

Contingent liabilities Contingent liabilities are recognised 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 accounting 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 trading transaction when it is entered into.

Where agreements are treated as hedging transactions in the financial statements, revenues and costs are accrued and classified in the same way as the underlying position. If cash flow hedging is undertaken, unrealised gains/losses on the hedging instrument are not recognised in the balance sheet.

Foreign currency Balance sheet items denominated 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 accrued 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 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 for the year in order to show cash flow generated by ordinary operating activities, investing activities and financing activities, respectively.

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STATKRAFT SF

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OPERATING
REVENUES

Operating revenues comprise revenues from leased power plants and is described further in note 8 to the group financial statements.

02

SALARIES AND OTHER
PAYROLL COSTS

The company had no employees in 2008.

For information about salaries and payroll costs for group management and the board of directors, see note 36 to the group financial statements.

03

RELATED
PARTIES

Statkraft has ownership interests in several power companies. For further details see note 9. Transactions with these power companies are conducted on market terms and conditions.

Statkraft Energi AS has, in addition, operational responsibility for the power plants in Laos in which Statkraft SF has an indirect ownership interest. These agreements are entered into on market terms and conditions.

04

OTHER
OPERATING
EXPENSES

NOK million	2008	2007
Materials	-	20
Purchase of third party services	9	18
Other operating expenses	189	115
Total	198	153

05

FEES PAID TO
EXTERNAL
AUDITORS

Deloitte AS is the auditor of the Statkraft group and Statkraft SF. The total fees to Statkraft SF for the audit and other services in 2008 amounted to:

NOK	2008	2007
Statutory auditing	505 000	524 000
Tax consultancy services	2 000	-
Total	507 000	524 000

06
FINANCIAL
INCOME AND
EXPENSES

Financial income

NOK million	2008	2007
Interest income from Group companies	688	790
Interest income	4	33
Other financial income	10 051	8 257
Total	10 743	9 080

Other financial income in 2008 mainly includes a Group contribution without tax effect of NOK 10 000 million.

Financial expenses

NOK million	2008	2007
Interest expenses paid to Group companies	64	22
Interest expenses	902	953
Other financial expenses	23	4
Total	989	979

07
TAXES

The total tax expense is calculated as follows

NOK million	2008	2007
Income tax	-	1 240
Resource rent tax	28	47
Adjustment relating to previous years	-29	-17
Change in deferred tax	-370	-1
Total tax expense in the income statement	-371	1 269

Income tax payable

Effect of Group contributions on tax liability	-	1 239
Income tax payable	-	1 239

Tax payable in the balance sheet

NOK million	2008	2007
Natural resource tax	30	30
Resource rent tax	28	47
Income tax exceeding natural resource tax	-	1 209
Tax due from previous financial years	4	32
Tax payable in the balance sheet	62	1 318

Reconciliation of nominal tax rate and effective tax rate

NOK million	2008	2007
Profit before tax	9 908	8 267
Expected tax expense at a nominal rate of 28%	2 774	2 315

Effect on taxes of

Resource rent tax	28	38
Changes in tax rate/tax regulations	-	11
Tax-free income	-2 826	-949
Changes relating to previous years	-29	-17
Other permanent differences, net	-318	-129
Total tax expense	-371	1 269
Effective tax rate	-4%	15%

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.

NOK million	2008	2007
Current assets/current liabilities	-11	-11
Property, plant and equipment	211	245
Other long term items	61	76
Tax losses carried forward	-1 232	-
Total temporary differences and tax loss carryforwards	-971	310
Temporary differences resource rent tax	229	245
Negative resource rent carryforwards	-136	-120
Total temporary differences and resource rent carryforwards	-878	435
Total deferred tax liability (+)/deferred tax asset (-)	-246	124
Applied tax rate	30%/28%	30%/28%

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08

PROPERTY,
PLANT AND
EQUIPMENT AND
INTANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT

NOK million	Water regulation facilities	Turbines gene- rators etc	Shares in power plants operated by third parties	Lands, underground facilities, buildings, roads, bridges and quays	Facilities under construction	Other	Total
Cost 01.01.2008	704	102	43	362	7	5	1 223
Additions 2008	-	-	-	-	526	-	526
Transferred from facilities under construction	-	5	-	-	-5	-	-
Cumulative depreciation and impairments 31.12.2008	-412	-76	-43	-16	-	-	-547
Book value 31.12.2008	292	31	-	346	529	5	1 203
Depreciation for the year	-39	-14	-	-	-	-	-53
Depreciation period	30-75 years	15-40 years	5-50 years	50 years- perpetual		3-40 years	

Additions in 2008 is the discounted value of the payment that Statkraft SF is obliged to make on the acquisition of the plant at Saudefaldene. For more information, see note 8 to the group financial statements.

INTANGIBLE ASSETS

Licences, waterfall rights etc

NOK million	2008	2007
Cost 01.01.2008	68	391
Transfer	-	-323
Book value 31.12.2008	68	68

09

SHARES IN
SUBSIDIARIES
AND ASSOCIATES

NOK million	Registered office	Shareholding and voting rights	Book value
Subsidiaries			
Statkraft AS	Oslo	100%	32 284
Asian Power Invest AB	Stockholm	100%	166
Nordic Hydropower AB ¹	Stockholm	100%	-
Total			32 450

¹ Nordic Hydropower AB is 50% owned by Statkraft SF and Asian Power Invest AB.

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OTHER NON-CURRENT
FINANCIAL ASSETS

NOK million	2008	2007
Loans to Group companies	5 165	6 034
Other long term financial assets	30	-
Sum	5 195	6 034

11

RECEIVABLES

NOK million	2008	2007
Other receivables	19	196
Current receivables from Group companies	12 522	13 000
Total	12 541	13 196

No provision for doubtful debts was required at 31 December 2008.

Current receivables from Group companies mainly comprised dividends and Group contributions from Group companies of NOK 10 037 million, as well as first year instalments of group loans of NOK 2 023 million.

12
BANK DEPOSITS,
CASH IN HAND ETC.

NOK million	2008	2007
Cash in hand and bank deposits	33	175

Statkraft SF has long term committed credit lines of NOK 3 200 million and overdraft facilities of NOK 200 million. As of 31 December 2008, NOK 2 750 million had been drawn down from committed credit lines. Overdraft facilities had not been utilised.

13
EQUITY

NOK million	Paid-in capital	Retained earnings	Total equity
Equity 31 Dec 2006	29 250	57	29 307
Profit for 2007	-	6 998	6 998
Dividend	-	-6 560	-6 560
Equity 31 Dec 2007	29 250	495	29 745
Profit for 2008	-	10 279	10 279
Dividend	-	-10 000	-10 000
Equity 31 Dec 2008	29 250	774	30 024

Statkraft SF is a Norwegian state-owned enterprise, established and registered in Norway. Statkraft SF is 100% owned by the Norwegian state, through the Ministry of Trade and Industry.

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PROVISIONS

NOK million	2008	2007
Deferred tax	-	124
Other provisions	371	11
Total	371	135

Other provisions relate mainly to the discounted value of the payment that Statkraft is obliged to make on the acquisition of the plant at Saudefaldene in 2031. For more information, see note 8 to the group financial statements.

15
INTEREST-BEARING
LONG-TERM LIABILITIES

NOK million	2008	2007
Bond loans from the Norwegian market	1 055	3 078
Other loans raised from non-Norwegian markets	4 110	2 956
Other loans	3 799	3 764
Total	8 964	9 798

Statkraft SF is the debtor for state-guaranteed loans. The loans comprise loans under the EMTN programme and bond loans from the Norwegian market. Statkraft SF has identical receivables from Statkraft AS through back-to-back agreements and therefore has no net exposure associated with these loans. As Statkraft SF is acting purely as a channelling company, the gross exposure is not specified.

Repayment schedule

NOK million	2009	2010	2011	2012	2013	After 2013	Total
Bond loans from the Norwegian market	2 023	-	655	-	-	400	3 078
Other loans raised from non-Norwegian markets	-	4 110	-	-	-	-	4 110
Other loans	4	2 750	-	-	-	1 049	3 803
Total	2 027	6 860	655	-	-	1 449	10 991

Income statement
Balance Sheet
Statement of Cash Flow
Accounting Policies

→ [Notes](#)

Auditor's Report

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INTEREST-BEARING SHORT-TERM LIABILITIES

Short term interest-bearing liabilities of NOK 2 027 million comprise first year instalments of NOK 2 023 million, and loans from Asian Power Invest AB of NOK 4 million.

17

OTHER INTEREST-FREE LIABILITIES

NOK million	2008	2007
Dividend payable	10 000	6 560
Other interest-free liabilities	277	290
Current liabilities due to Group companies	11	21
Total	10 288	6 871

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OBLIGATIONS AND GUARANTEES

Statkraft SF has no obligations or guarantees that have not been accounted for.

Auditor's report

Deloitte.

Deloitte AS
Karenslyst allé 20
Postboks 347 Skøyen
0213 Oslo
Telefon: 23 27 90 00
Telefax: 23 27 90 01
www.deloitte.no

To the Annual Shareholders' Meeting of Statkraft SF

AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of Statkraft SF as of 31 December 2008, showing a profit of NOK 10,279 million for the parent company and a profit of NOK 33,529 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 2008, 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 2008, 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.

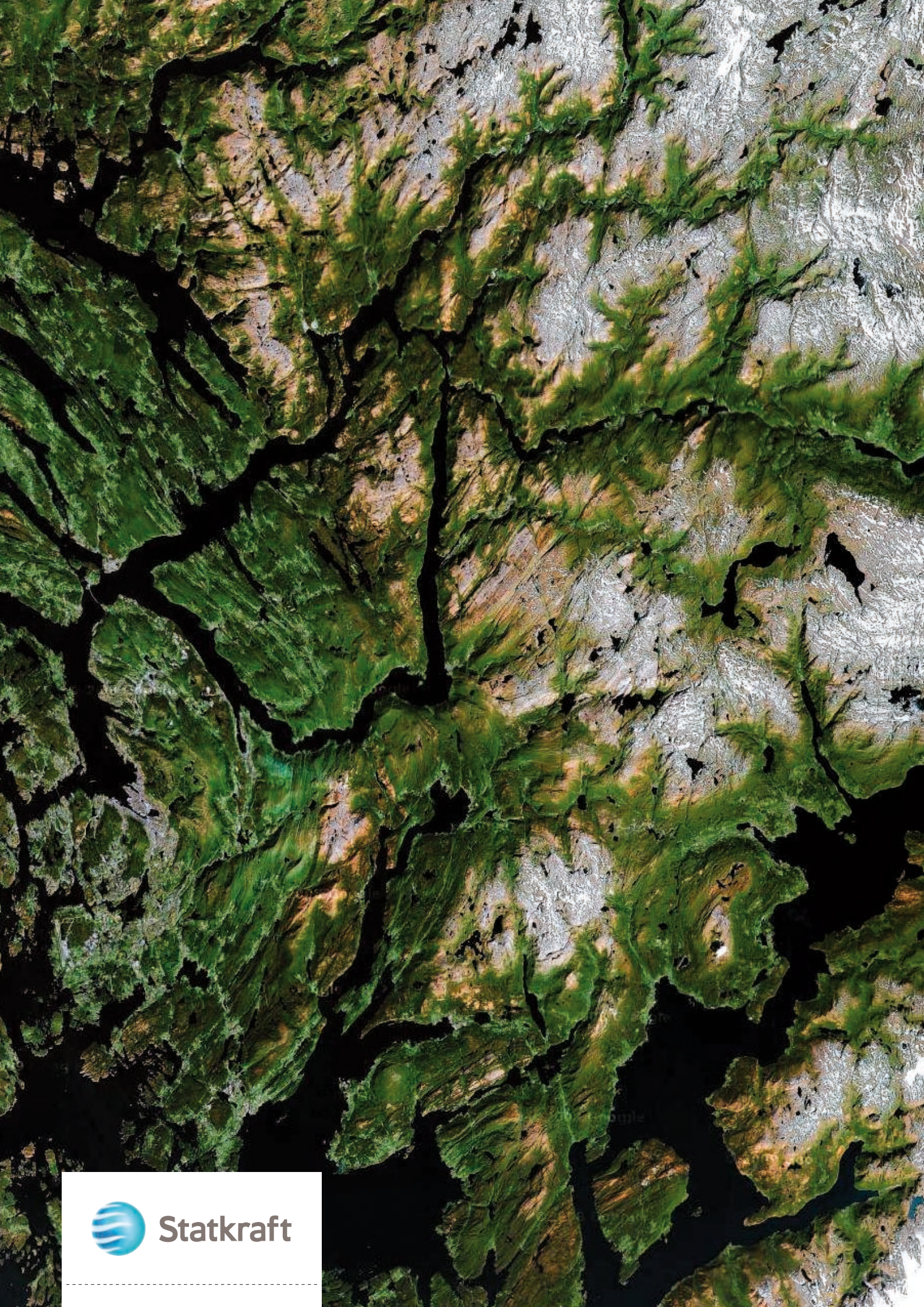
Oslo, 18 March 2009
Deloitte AS


Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

Audit. Tax & Legal. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Org.no: 980 211 282



Statkraft