



Statkraft

2007

**STATKRAFT
ENERGI AS**

ANNUAL REPORT

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REPORT FROM THE BOARD OF DIRECTORS

STATKRAFT ENERGI AS 2007

Nature of the company's business

Statkraft Energi AS is a company in the Statkraft Group, which is the third largest electricity generator in the Nordic region, and the second largest producer of renewable energy in Europe. The company 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 per cent of Baltic Cable AB, which is headquartered in Malmö, Sweden. Baltic Cable AB operates an undersea power transmission cable between Sweden and Germany. The subsidiary posted very satisfactory results in 2007.

Important events in 2007

Operations

Svartisen Power Plant broke down in 2006 and entered operation again on 12 March 2007. The power plant is now running with a technical restriction of 300 MW. As a result of the restriction, water losses are expected throughout the period leading up to July 2008, when the stator is due to be 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 and confiscated profits of NOK 2 million as a result of an incident at Trollheim Power Plant in August 2005. Statkraft will construct a by-pass valve at the station to safeguard water flow in the event of future stoppages.

Three new hydropower plants were included in the portfolio during 2007. Pålbu 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. Under the terms of the agreements Statkraft Energi AS will supply 500 GWh of power per annum to SCA's Swedish business within the forestry industry for ten years.

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 have been efficiently 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 power plants for the business area

Statkraft Energi AS has a tolling agreement with Naturkraft AS, which owns the Kårstø gas power plant. Under the terms of the agreement Statkraft Energi AS purchases and supplies gas to the gas power plant in return for generated power. Statkraft Energi AS pays a tolling fee to Naturkraft AS. The first results from

the Kårstø gas power plant were recognised in the financial statements in the second half of the year, and the power plant has been in commercial operation since 6 December 2007.

Statkraft Energi has power purchase agreements (PPAs) with the German gas 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 will commence in 2008.

Profit, cash flow, investments, financing and liquidity

Statkraft Energi AS posted very satisfactory results in 2007. The profit before tax was NOK 5,800 million, which is NOK 1,416 million lower than in 2006. The reduction is primarily attributable to lower power sales revenues and higher operating and net financing costs.

Gross operating revenues were NOK 675 million lower than in 2006. The decrease primarily relates to lower power prices and lower production. The average spot price in 2007 was NOK 224/MWh, compared with NOK 391/MWh in 2006, when average spot prices reached record highs. Saleable hydropower production in the 2007 financial year totalled 31.8 TWh, which represents a decrease of 4.1 TWh compared with 2006. The company's reservoir levels were high at the start of 2008.

In 2007 operating and net financial expenses were respectively NOK 313 million and NOK 467 million higher than in the previous year. Salaries and other operating expenses increased due to higher staffing levels following the integration of Trondheim Energi and new business within gas. Property tax rose as a result of a higher tax calculation base. The increase in net financial items is attributable to both higher liabilities connected with the Group account scheme and higher interest rates.

Taxes fell by NOK 1,533 million due to a lower taxable result and a change in the regulatory framework for resource rent taxation. The above changes will generally lead to higher rates of resource rent taxation. However, in 2007 the changes will result in lower taxes due to the fact that it will take some time before power plants become taxable. Combined with an increased tax rate, this will generate higher resource rent carryforwards and thus an increase in deferred tax assets. Resource rent tax and changes in temporary differences connected to resource rent tax totalled NOK -210 million. The comparable prior-year figure was NOK 1,073 million.

The company's net cash flow from operating activities was NOK 8,323 million, while the company posted an operating profit of NOK 6,295 million.

The cash flow from investing activities was NOK -775 million. A total of NOK 337 million was invested in increased generating capacity while other investments were made in plant maintenance. Operating assets with a value of NOK 14 million were also sold in 2007.

The cash flow from financing activities was NOK -7,594 million, which is primarily attributable to the payment of dividends and Group contributions to Statkraft AS.

As of 31 December 2007 the company had cash and cash equivalents of NOK 79 million. The company's other liquid assets are held under a group account scheme, which means that the assets are classified in the financial statements as receivables due from Statkraft AS. 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 2007 the company's short-term liabilities accounted for 48.2 per cent of the company's total liabilities, compared with 50.2 per cent at the end of December 2006. The company has a sound financial position.

At the end of the year total assets amounted to NOK 28,250 million, compared with NOK 29,225 million twelve months previously.

At the balance sheet date the equity ratio was 35.6 per cent, compared with 34.4 per cent at the end of the 2006. The board has decided to appropriate the profit for the year for the payment of dividends and Group contributions. As of 31 December 2007 equity was recognised at NOK 10,064 million in the balance sheet, although the market value of equity is significantly higher than this amount. 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 management.

Going concern

In accordance with Section 3-3a of the Norwegian Accounting Act, the board confirms that the company fulfils all the conditions necessary to continue as a going concern. This assumption is based on the profit forecast for 2008, and the company's long-term forecasts. The company has a sound economic and financial position.

Working environment and personnel

The company's sickness absence rate remains low and very satisfactory. In 2007 the company experienced a sickness absence rate of 3.3 per cent of total hours worked (2006: 3.6 per cent), which is below the target of 4 per cent. The company has therefore reaped the rewards of measures implemented to reduce the sickness absence rate. The company has signed up to the inclusive working life agreement (IA), and has initiated several measures to fulfil the intentions of the agreement.

Statkraft's HSE vision is for its operations to result in zero lost-time injuries. The number of lost-time injuries fell in 2007, while the number of injuries that did not result in absence from work increased. The absence rate is low, and significantly lower than in 2006. This shows that the degree of severity of injuries was low, with most injuries involving between 1-5 days' absence. 8 lost-time injuries were reported in 2007; 3 fewer than in 2006. The number of lost-time injuries among contractors fell from 8 last year to 3 in 2007. The most serious injury occurred when one of our contractors was knocked over by a ship hawser and injured his face. The total lost-time injuries indicator (H1)¹ for 2007 was 8.0, while the total injuries indicator (H2)² was 25.7. These results are unsatisfactory bearing in light of the company's targets.

The company is actively working to reduce the injury figures. The HSE function at Statkraft Energi AS was strengthened in 2007, and a significant focus will be placed on individuals' attitudes and behaviour in 2008. A particular focus will be placed on management follow-up of this topic through meetings and training.

The working environment is considered to be good, and improvement measures are constantly being implemented. In 2007 the annual organisational and leadership survey, which covers issues including employees' satisfaction with their working environment, revealed that 84 per cent of employees to be very satisfied with the working environment, compared with 86 per cent the year before.

Statkraft's various working environment committees held regular meetings in 2007. A number of issues were dealt with and solutions were presented to the departments concerned.

Cooperation with the employees' organisations has been constructive and has made a positive contribution to company operations.

Gender equality

The emphasis on gender equality is laid down in the company's business principles and is expressed in its personnel policy, recruitment practices and career development. Women make up 17 per cent of the company's total workforce, while 14 per cent of those in management positions are female, the same percentage as in 2006. 33 per cent of the board of directors are women.

Statkraft aims to achieve equal pay for equal work and equal performance at all levels by means of salary systems that reflect individual competence, job complexity and performance. The company operates collective and individual incentive schemes. Emphasis is also placed on the implementation

¹No. of lost-time injuries per million hours worked (for own employees)

²Total no. of injuries per million hours worked

of flexi-time schemes that meet the needs of both the company and individual employees. A life-course policy for employees over the age of 62 was introduced in 2005.

Environmental reporting

Hydropower represents a clean and renewable source of energy, which offers an environment-friendly alternative to other methods of electricity generation. Although the construction and operation of any power generation facility has an impact on the environment, Statkraft places great emphasis on limiting the environmental impact of its operations.

The company aims to achieve zero environmental non-compliances. There were no serious environmental non-compliances or serious environmental incidents in 2007. All environmental non-compliances and incidents in the company are recorded, reported and closely followed up.

Risk and risk management

The key risk factors at Statkraft Energi AS relate to market operations and operating activities. Significant volume and price risks are linked to power generation and trading. In the Nordic market, precipitation levels (rain and snow) 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 emission allowance prices. Gas power production is further directly exposed to gas, oil and carbon prices. Statkraft manages this market risk by trading in physical and financial instruments in several markets, where a significant emphasis is placed on viewing the various markets in an overall context. Internal guidelines have been established using authorisations and frameworks to regulate the degree of exposure for both hedging and trading purposes.

Statkraft AS'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 liquidity risk. Foreign currency and interest rate risk are regulated by means of mandates. Limits have also been established for liquidity and counterparty risk. Market risk and other financial risk, as well as exposure in respect of mandates, are followed up by independent middle office functions, and are reported regularly.

Operational risk is primarily dealt with by means of detailed procedures, contingency plans and insurance. A comprehensive system for registering and reporting hazardous conditions, undesired incidents and injuries has also been established, and this is analysed on an ongoing basis.

Outlook

In 2008 Statkraft Energi AS will continue to develop its operations in line with its strategic targets and vision of being a European leader in environment-friendly energy. The company will in particular focus on value creation from its core business: the production of electricity and market operations.

At the start of 2008 water levels in Statkraft Energi AS's reservoirs were high. Current forward prices on the Nordic power exchange indicate that price levels will remain relatively high. Assuming a relatively normal inflow of water during 2008, this will provide the basis for continued high revenues from electricity generation. Technical uncertainty surrounds the operation of the Svartisen power plant until the new aggregate unit is installed in July 2008.

The board does not expect any significant change in the company's day-to-day running costs. However, hydrological conditions can vary substantially from year to year, and the price formation in the market has become more complex with the introduction of new contributory factors, such as carbon emission allowances. It must therefore be emphasised that a great deal of uncertainty attaches to this assessment.

Allocation of profit for the year

The company posted a profit after tax of NOK 4,401 million in 2007. The board proposes the following allocation of Statkraft Energi AS's profit for the year:

• Other equity	NOK	6 million
• Group contribution paid	NOK	3,749 million
• <u>Proposed dividend</u>	NOK	<u>646 million</u>
• Total distribution for the year	NOK	4,401 million

This proposal reflects a desire to coordinate and optimise the Statkraft AS Group's tax and financing position.

As at 31 December 2007 the company had distributable reserves of:

• Other paid-in equity	NOK	1,508 million
• Retained earnings	NOK	3 million
• <u>Deferred tax assets (net)</u>	NOK	<u>- 821 million</u>
• Distributable reserves	NOK	690 million

The Board of Directors of Statkraft Energi AS

Oslo, 10 March 2008

Bård Mikkelsen
Chair

Eli Skrøvset

Kristin Steinfeldt-Foss

Arne Einungbrekke

Olav Rabbe

Rolf Erik Teigstad

Jørgen Kildahl
CEO

INCOME STATEMENT

NOK million	Note	2007	2006
Power sales revenues	3	9 331	10 153
Other operating revenues	5	506	359
Gross operating revenues		9 837	10 512
Energy purchases		-176	-
Transmission costs		-630	-845
Net operating revenues		9 031	9 667
Salaries and payroll costs	6,7	508	405
Depreciation and write-downs	13	652	620
Property tax and licence fees	8	768	675
Other operating expenses	9	808	723
Operating expenses		2 736	2 423
Operating profit		6 295	7 244
Financial income	11	192	566
Financial expenses	11	-687	-594
Net financial items		-495	-28
Profit before tax		5 800	7 216
Taxes	12	1 399	2 932
Profit after tax		4 401	4 284
Allocation of profit for the year			
Group contributions paid		3 749	4 680
Proposed dividend		646	643
Transfer to other equity		6	-1 039
Total allocated		4 401	4 284

BALANCE SHEET

NOK million	Note	31.12.07	31.12.06
ASSETS			
Deferred tax assets	12	821	341
Property, plant and equipment	13	23 781	23 783
Investments in subsidiaries and associated companies	14	771	772
Other noncurrent financial investments	15	927	491
Noncurrent assets		26 300	25 387
Inventories	16	199	129
Receivables	17	1 672	3 584
Cash and cash equivalents	18	79	125
Current assets		1 950	3 838
Assets		28 250	29 225
EQUITY AND LIABILITIES			
Paid-in equity	19	10 061	10 061
Retained earnings	19	3	-
Equity		10 064	10 061
Provisions	20	4 726	4 696
Deferred tax	12	-	164
Long-term interest-bearing liabilities	21	4 680	4 682
Long-term liabilities		9 406	9 542
Short-term interest-bearing liabilities	22	805	164
Taxes payable	12	1 020	1 395
Other non-interest bearing liabilities	23	6 955	8 063
Current liabilities		8 780	9 622
Equity and liabilities		28 250	29 225
Pledges	24	1 762	1 899
Guarantees	24	2 349	1 888

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CASH FLOW STATEMENT

NOK million	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	5 800	7 216
Gains/losses on sale of noncurrent assets	-5	-
Depreciation and write-downs	652	620
Taxes paid	-1 396	-1 436
Cash flow from operating activities	5 051	6 400
Change in long-term items	31	147
Change in short-term items	3 241	4 108
Net cash flow from operating activities A	8 323	10 655
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-659	-606
Sale of noncurrent assets (gross proceeds)	14	44
Loans to third parties	-130	-3
Net cash flow from investing activities B	-775	-565
CASH FLOW FROM FINANCING ACTIVITIES		
New interest-bearing liabilities	-	113
Repayment of long-term liabilities and subordinated loans	-3	-3
Change in long-term items	-435	-
Dividend paid and Group contribution paid	-7 156	-10 244
Net cash flow from financing activities C	-7 594	-10 134
Net change in cash and cash equivalents A+B+C	-46	-44
Cash and cash equivalents as of 1 January	125	169
Cash and cash equivalents as of 31 December*	79	125

*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

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 the Statkraft AS's consolidated financial statements.

The Statkraft Group has prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) with effect 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 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. 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 noncurrent assets are treated as operating revenues or expenses.

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 and futures, and options. Physical and financial trading for the purpose of hedging future production output is recorded as hedging in the financial statements. The prerequisite for classification as a hedging instrument is that the level of hedging lies within the company's generating capacity. Generating capacity is defined as the volume of power that the company is 80 per cent certain to produce. Losses 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 standard products. The portfolios are recognised at fair value in accordance with Section 5-8 of the Norwegian Accounting Act. The origination portfolios comprise 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 the portfolio level.

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 be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their retirement benefits proportionately reduced. The liability relating to the defined benefit scheme recognised in the balance sheet is the present value of the future retirement benefits that are deemed to have accrued at the balance sheet date adjusted 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 basis data are recognised in equity in their entirety on an ongoing basis.

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

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

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

Deposit schemes. A deposit scheme is a retirement benefit 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 charged as current expenses. 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 a correction to the item to which the subsidy is intended to apply.

Compensation

The Group pays compensation to landowners for the right to use waterfalls and land. Compensation is also paid to others for damage caused to forests, land, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensatory power. The present value of obligations connected to 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.

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 municipalities at statutory prices stipulated by the Norwegian Storting (parliament). In the case of certain concessionary sales contracts, agreements have been made regarding financial settlement, in which Statkraft is invoiced for the difference between the spot price and the concessionary price.

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 per cent to 0.7 per cent and is paid to the individual local authority. Property tax is recognised as an operating expense.

Taxes

Companies that are engaged in power generation are subject to special rules for the taxation of energy companies. The company must therefore pay income tax, natural resource tax and resource rent tax.

Income tax is calculated in accordance with the ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. 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 effect 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 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 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 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 2007 was set at 4.9%. If a power plant's calculated resource rent revenue is negative, the amount can be carried forward with interest and offset against future positive resource rent revenues from the same power plant. Deferred tax assets linked to loss carryforwards and deferred tax liabilities linked to other temporary differences are calculated on the basis of power plants where it is probable that 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. Deferred tax positions connected with resource rent tax cannot be offset against other power plants as the differences can only reverse within the individual power plant.

Classification and valuation of assets and liabilities

Assets intended for permanent ownership or long-term use are classified as noncurrent assets. Other assets are classified as current assets. Receivables falling due for payment within one year are classified as current assets. Similar criteria are applied to the classification of current and long-term liabilities. Noncurrent 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. Noncurrent 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 write-downs. 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 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 capitalised value of the relevant investment, 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 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 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/associated companies. Subsidiaries and associated companies are recognised using the cost method. Investments are recognised at the cost of acquisition of the shares and are adjusted for any write-downs 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. Write-downs are reversed when the basis for the write-down 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 emission allowances and green certificates deemed to be 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.

Reservoirs. Water held in reservoirs is not recognised in the balance sheet. Information relating to reservoir water levels is disclosed in Note 4.

Receivables. Accounts receivable and other receivables are recognised at nominal value less provisions for expected bad debts. Provisions for bad debts are made on the basis of an individual assessment of the receivables concerned.

Short-term financial investments.

Shares, bonds, certificates and similar that have been classified as current assets are recognised at fair 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 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 cost 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 measure. 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 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.

Principles for cash flow statement

The cash flow statement has been prepared using the indirect method. This means that the statement is based on the company's net profit/loss for the year in order to show cash flow generated by operating activities, investing activities and financing activities, respectively.

NOTE 1 IMPORTANT EVENTS

2007

Operations

Svartisen Power Plant broke down in 2006 and entered operation again on 12 March 2007. The power plant is now running with a technical restriction of 300 MW. As a result of the restriction, water losses are expected throughout the period leading up to July 2008, when the stator is due to be 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 and confiscated profits of NOK 2 million as a result of an incident at Trollheim Power Plant in August 2005. Statkraft will construct a by-pass valve at the station to safeguard water flow in the event of future stoppages.

Three new hydropower plants were included in the portfolio during 2007. Pålсбу 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. Under the terms of the agreements Statkraft Energi AS will supply 500 GWh of power per annum to SCA's Swedish business within the forestry industry for ten years.

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 have been efficiently 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 power plants for the business area

Statkraft Energi AS has a tolling agreement with Naturkraft AS, which owns the Kårstø gas power plant. Under the terms of the agreement Statkraft Energi AS purchases and supplies gas to the gas power plant in return for generated power. Statkraft Energi AS pays a tolling fee to Naturkraft AS. The first results from the Kårstø gas power plant were recognised in the financial statements in the second half of the year, and the power plant has been in commercial operation since 6 December 2007.

Statkraft Energi has power purchase agreements (PPAs) with the German gas 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 will commence in 2008.

2006

Svartisen Power Plant

A severe storm in January 2006 damaged several of Statkraft Energi's plants, with damage to the Svartisen power plant subsequently resulting in a shutdown of the plant in August. After a short period back in operation, the plant shut down again in October. The Group decided to invest in an additional generator in the fourth quarter. Implementation of this project is dependent on obtaining the necessary permissions and licences. A new generator will reduce the power plant's vulnerability to downtime. The power supply will be improved throughout the area, as well as in Central Norway, once the new generator starts operation.

New agreements

Statkraft Energi AS took over Trondheim Energi's activities associated with energy optimisation, hedging, trading and all relevant support functions, with effect from 1 January 2007. Trondheim Energi owns and maintains the power plants. This transfer of business is in line with the Group's strategy of centralising energy optimisation and hedging. The business transfer is the result of long-term initiatives to align Trondheim Energi with the other Statkraft companies. The collaboration is regulated by an energy purchase agreement between Statkraft Energi AS and Trondheim Energi Kraft AS. The takeover was planned in the fourth quarter and duties were successfully transferred with effect from 1 January 2007. The conditions of employment for 25 employees were transferred to Statkraft Energi AS.

Statkraft Energi AS assumed responsibility for the production management of Skagerak Energi's 25 power plants on 30 August 2006. The transfer was proceeded without any operational problems. An extensive collaboration has been established with Skagerak Energi, both with regard to the actual operation of the power plant and within various support functions.

In December, an agreement was reached with the owners of the Vrangfoss and Eidsfoss power plants on the operation and maintenance of the respective power plants. Statkraft assumed this responsibility from Hydro Energi with effect from 1 January 2007, and five employees transferred from Hydro to Statkraft.

New industrial contract

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

Extraordinary dividend

Statkraft Energi has paid out NOK 7 billion in extraordinary dividends to Statkraft AS as part of the continuing reorganisation of the Statkraft Group.

NOTE 2 SEGMENT INFORMATION

The bulk of Statkraft Energi AS's business activities lie within the power generation and hedging segment. The Trading and origination segment generated 1.5% of the company's operating revenues in 2007.

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

NOTE 3 POWER 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 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	2007	2006
Net physical power sales	3 887	6 574
Concessionary sales at statutory prices	179	160
Industrial sales at statutory prices	1 713	1 773
Long-term commercial contracts	1 769	1 489
Dynamic hedging	1 675	28
Trading and origination	147	208
Other	-39	-79
Total	9 331	10 153

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

TWh	2008	2009	2010	2011	2012 - 2020	2021 -
Statutory priced contracts	8.9	8.9	8.9	1.1	0.1	0.0
Concessionary sales	2.3	2.3	2.3	2.3	2.3	2.3
Total fixed price contracts	11.2	11.2	11.2	3.4	2.4	2.3

Price and volume of concessionary sales and statutory-priced contracts	2007	2006
Statutory-priced contracts – Volume (TWh)	10.3	13.1
Statutory-priced contracts – Price (NOK/MWh)	166	135
Concessionary sales – Volume (TWh)	2.3	2.3
Concessionary sales – Price (NOK/MWh)	85	82

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

NOTE 4 RESERVOIR LEVELS AND PRODUCTION (unaudited)

TWh	Reservoir levels as of 31 December		Maximum capacity	Production ¹⁾		Mean
	2007	2006		2007	2006	
Statkraft Energi AS	26.1	18.5	33.8	31.8	36.0	31.7

¹⁾ After losses.

In a normal year reservoir levels will vary in relation to a mean, with a -11 TWh minimum in April and a +5 TWh maximum in October. Inflow in 2007 was higher than in a normal year. Reservoir levels were higher than normal at the end of the year.

NOTE 5 OTHER OPERATING REVENUES

NOK million	2007	2006
Power plant leasing revenues	120	110
Other leasing and service sales revenues	87	111
Gains/losses on sale of property, plant and equipment	6	4
Compensation payments	24	32
Insurance income	269	102
Total	506	359

Insurance income primarily relates to expected insurance settlements relating to stoppages at Svartisen Power Plant in 2006.

NOTE 6 SALARIES AND PAYROLL COSTS

NOK million	2007	2006
Salaries	382	311
Employer's national insurance contributions	44	53
Pension costs	81	40
Other benefits	1	1
Total	508	405

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

Members of Statkraft AS's Group management may retire at the age of 65 with a pension amounting to 66 per cent 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 President and CEO, may qualify for an annual bonus of up to NOK 250,000. Payment of the bonus depends on the achievement of specific individual 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 52,500 in fees. No other directors' fees were paid to members of the board in 2007, nor were any loans or pledges granted with respect to board members.

On average the company had the equivalent of 674 full-time employees in 2007.

NOTE 7 PENSIONS

NOK million

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 schemes fulfill 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 exceeds 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G.

In 2006 a new pension scheme was 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. The introduction of this change was treated as a plan change. The effect of the plan change as of 1 January 2007 was recognised in the income statement over the average earnings period, as the accrued entitlements determine that the employees must remain at work until the age of 62.

Breakdown of pension cost for the period

	2007	2006
Net present value of accrued pension entitlements for the year	48	28
Interest costs on pension liabilities	48	32
Yield on pension fund assets	-29	-25
Recognised effect of plan changes	4	-
Employer's national insurance contributions	10	5
Net pension cost incl. employer's national insurance contributions	81	40

Reconciliation of pension liabilities and pension fund assets	2007	2006
Gross pension liabilities	1174	1031
Pension fund assets in the Norwegian Public Service Pension Fund	-706	-653
Non-amortised estimate deviations	-	-
Non-recognised plan changes	-38	-
Employer's national insurance contributions	61	53
Net pension liabilities	491	431

Breakdown of pension liability recognised in the balance sheet due to the recognition of estimate deviations in equity:	2007	2006
Cumulative amount recognised directly in equity before tax 01.01.	377	-
<u>Estimated deviations recognised in equity in the period</u>	<u>11</u>	<u>377</u>
Total increase in recognised pension liability recognised in equity as of 31 December	388	377
Recognised in equity	279	271
Recognised in deferred tax	109	106

Financial assumptions:

	31.12.2007	31.12.2006	01.01.2006
Annual discount rate	4.6%	4.4%	4.2%
Salary adjustment	4.0%	4.0%	2.7%
Adjustment of current pensions	4.0%	4.0%	2.4%
Adjustment of National Insurance Scheme	4.0%	4.0%	2.4%
Projected yield on pension fund assets	4.6%	4.4%	4.2%
Forecast annual exit			
- Up to age 45	2.5%	2.5%	2.5%
- Between age 45 and 60	0.5%	0.5%	0.5%
- Over age 60	0.0%	0.0%	0.0%

The actuarial assumptions are based on those commonly used by the insurance industry with respect to demographic factors. The tendency to take early retirement under the AFP scheme is estimated at 20 per cent.

The following tariffs have been used since 31 December 2007:

Mortality K 2005
Disability IR73

Assumptions as of 1 January 2007 (as of 31 December 2006) are applied when calculating pension fund assets and liabilities as of 1 January 2007 and costs through the year. Financial assumptions as of 31 December 2007 are applied when calculating pension assets and liabilities as of 31 December 2007. The assumptions are based on the guidelines issued by the Norwegian Accounting Standards

NOTE 8 PROPERTY TAX AND LICENCE FEES

NOK million	2007	2006
Property tax	557	462
Licence fees	211	213
Total	768	675

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 5,275 million and is discounted at an interest rate of 4% in accordance with regulations relating to the adjustment of licence fees.

NOTE 9 OTHER OPERATING EXPENSES

NOK million	2007	2006
Materials	70	76
External services	329	303
Costs, power plants operated by third parties	127	96
Compensation	82	66
Other operating costs	200	182
Total	808	723

Research and development activities are expensed on an ongoing basis. An amount of NOK 8 million was recognised in the income statement in respect of research and development activities in 2007. The company's research activities focus on gaining new knowledge and developing new methods within hydrology, energy optimisation and maintenance activities.

Annual compensation obligations are estimated at NOK 374 million, see Note 20.

NOTE 10 FEES PAID TO EXTERNAL AUDITORS

(NOK)

Deloitte Statsautoriserte Revisorer is Statkraft Energi AS's auditor.
Deloitte also audits the subsidiary Baltic Cable AB.

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

NOK	2007	2006
Statutory auditing	1 476 642	1 417 178
Other certification services	79 153	53 100
Tax advisory services	-	-
Other services	-	-
Total	1 555 795	1 470 278

NOTE 11 FINANCIAL INCOME AND EXPENSES**Financial income**

NOK million	2007	2006
Interest received from Group companies	103	262
Other interest income	9	22
Dividends from subsidiaries	80	269
Other financial income	-	13
Total	192	566

Financial expenses

NOK million	2007	2006
Interest paid to Group companies	682	585
Foreign currency losses	3	7
Other financial expenses	2	2
Total	687	594

NOTE 12 TAXES

The total tax expense is calculated as follows:

NOK million	2007	2006
Income tax	1 458	1 820
Resource rent tax	577	929
Adjustments relating to previous years	1	-74
Change in deferred tax	-637	257
Total tax expense in the income statement	1 399	2 932

Income tax payable:

Tax payable on profit for the year	1458	1820
Tax effect of Group contributions	-1458	-1820
Income tax payable	0	0

Tax payable in the balance sheet:

Natural resource tax	455	465
Resource rent tax	577	930
Changes relating to previous years	-12	-
Tax payable in the balance sheet:	1020	1395

Reconciliation of nominal tax rate and effective tax rate

NOK million	2007	2006
Profit before tax	5 724	7 216
Expected tax expense at a nominal rate of 28%	1 602	2 020
Effect on taxes of:		
Resource rent tax	-210	1 073
Tax-free earnings	-1	-79
Changes relating to previous years	2	-74
Other permanent changes - net	6	-8
Total tax expense	1 399	2 932

Effective tax rate	24%	41%
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Breakdown of temporary differences and tax loss carryforwards

The following table specifies the tax effect of temporary differences and the tax loss carried forward. 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	2007	2006
Current assets/current liabilities	24	45
Operating assets	5	132
Pension liabilities	137	121
Other long-term items	31	43
Tax effect of temporary differences and tax loss carryforward	197	341
Total deferred tax asset	197	341
Applied tax rate	28%	28%

Statkraft Energi AS has pledged security for tax assets transferred in the reorganisation of Statkraft SF in the total amount of NOK 508 million. The security has been pledged for 3 years from 2005.

Breakdown 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 (in 2006).

NOK million	2007	2006
Temporary differences, resource rent tax	-302	-325
Resource rent tax carryforward	926	161
Total deferred tax assets/deferred tax liabilities (30% / 27%)	624	-164

NOTE 14 SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries and associated companies are valued in accordance with the cost method.

Shares in subsidiaries (NOK '000)

<u>Company name</u>	<u>Registered office</u>	<u>Shareholding</u>	<u>Share capital</u>	<u>Book value</u>	<u>Equity</u>	<u>Profit in 2007</u>
Baltic Cable AB	Malmö	66.7%	2 552	771 333	736 883	66 571

Statkraft Energi AS pays a monthly rent for use of the cable. An amount of NOK 141 million was recognised as rent in 2007. Statkraft Energi AS has a short-term loan from Baltic Cable AB, see Note 22. All agreements are entered into on commercial terms. No intercompany profits are generated.

Shares in associated companies (NOK '000)

<u>Company name</u>	<u>Registered office</u>	<u>Book value</u>
Aktieselskapet Tyssefaldene	20.3%	101
Aursjøveien AS	33.0%	17
Total		118

NOTE 15 OTHER NONCURRENT FINANCIAL ASSETS

<u>NOK million</u>	<u>2007</u>	<u>2006</u>
Long-term receivables	920	484
Other shares and shareholdings	7	7
Total	927	491

Long-term receivables include paid natural resource tax which may subsequently be offset against payable income tax.

NOTE 16 INVENTORIES

<u>NOK million</u>	<u>2007</u>	<u>2006</u>
Spare parts	38	38
Carbon emission allowances held for trading purposes	-	6
Green certificates held for trading purposes	157	85
Gas inventories	4	-
Total	199	129

NOTE 17 RECEIVABLES

<u>NOK million</u>	<u>2007</u>	<u>2006</u>
Accounts receivable – external	940	519
Accounts receivable – intercompany	47	77
Accrued revenues, etc	421	464
Other receivables	107	420
Current receivables due from Group companies	96	2 104
Prepaid expenses	107	-
Write-down of power portfolios to market value	-46	-
Total	1 672	3 584

The item 'Current receivables due from Group companies' primarily relates to the Group's group account scheme. In 2007 the market value of two of Statkraft Energi's power portfolios was lower than cost. The portfolios have been written down to market value.

NOTE 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.

NOTE 19 EQUITY

NOK million	Paid-in capital	Retained earnings	Total equity
Equity as of 1 January 2006	17 061	757	17 818
Change in policy – periodic maintenance		703	703
Change in policy – pensions		-271	-271
Change in policy – resource rent tax		-150	-150
Net profit		4 284	4 284
Proposed dividend for 2006	-7 000	-643	-7 643
Group contribution paid		-4 680	-4 680
Equity as of 31 December 2006	10 061	0	10 061
Estimate deviations pensions		-7	-7
Transfer of pension liability		4	4
Net profit		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

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.

NOTE 20 PROVISIONS

NOK million	2007	2006
Pension liabilities	491	431
Provisions for annual compensation payments	374	374
Other provisions	3 861	3 891
Total	4 726	4 696

Pension obligations are described in more detail in Note 7.

The item 'Other provisions' includes prepayments of NOK 3,458 million received in connection with future power sales agreements. The largest of these are the agreement with Elsam and the Rana contract

A gain of NOK 213 million linked to terminated foreign exchange contracts which are amortised in the period to 2010 was also recognised in the balance sheet.

NOTE 21 LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	2007	2006
Loan from Statkraft AS	4 671	4 671
Other liabilities	9	11
Total	4 680	4 682

Nominal average interest rate NOK 5.16% 3.47%

The loans are denominated in NOK

NOTE 22 SHORT-TERM INTEREST-BEARING LIABILITIES

NOK million	2007	2006
Liabilities connected with the Group account scheme	772	-
Loan from Baltic Cable AB	33	164
Total	805	164

NOTE 23 OTHER NON-INTEREST BEARING LIABILITIES

NOK million	2007	2006
Accounts payable – external	353	369
Accounts payable – intercompany	89	144
Public charges payable	504	182
Accrued expenses	102	225
Other interest-free liabilities	12	-
Proposed dividend	646	643
Current liabilities due to Group companies	5 249	6500
Total	6 955	8 063

NOK 5,207 million of liabilities due to Group companies for 2007 relates to the Group contribution paid for 2007. In 2006 the Group contribution amounted to NOK 6,500 million.

NOTE 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 at 31 December 2007, the book value of the pledged assets in Statkraft Energi AS totalled NOK 6,328 million.

Obligations and guarantees

Statkraft Energi AS has total off-balance-sheet obligations and guarantees totalling NOK 2,349 million.

Of this NOK 1,911 million relates to financial power swap agreements, NOK 23 million to guarantees to the tax authorities, NOK 400 million guarantees to Nord Pool and NOK 15 million to other guarantees

NOTE 25 FINANCIAL INSTRUMENTS

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 foreign currency instruments:**

	31.12.2007		31.12.2006	
	Book value	Fair value	Book value	Fair value
Forward currency agreements	-	59	-	(38)
Total	-	59	-	(38)

Fair value is calculated based on 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	Recognised		
	Fair value	changes in	Fair value
	2007	value 2007	2006
Trading portfolio (external)	24	-35	59

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 2007 fair value was broken down as follows per future time period:

NOK million	
2008	23
2009	7
2010	-1
2011	-5
Total fair value as of 31 December 2007	24

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 treatment	
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 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 Nord Pool and bilateral financial contracts. The portfolio is intended to hedge the value of future revenues. The portfolio normally has a net financial short position.

The physical sales commitments comprise statutory-priced industrial power contracts, commercial 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 commercial 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 currency (embedded derivatives).

The financial contracts are both contracts traded via Nord Pool and bilateral contracts. These generally have terms of less than five years, though some bilateral financial contracts run until 2020. To some degree the perpetual concessionary power contracts have been renegotiated to provide financial settlement for shorter periods of time.

In 2000 Statkraft and Elsam signed a contract converting a physical power exchange agreement signed in 1994 into a financial net settlement between the contract price (indexed against coal, etc) and a market-based reference price (area spot). The contract runs until 30 June 2020 and has an annual volume of 1,462.5 GWh. The Elsam agreement is based on a partnership agreement between several Norwegian energy companies. Statkraft has a 47.97 per cent share of the above-mentioned volume .

Origination portfolios

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

Origination

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. 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 majority of contracts in the portfolio have terms of up to five years, but certain contracts run until and including 2017.

As of 31 December 2007 the portfolio was written down to fair value

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 emission allowances and green certificates are also traded. As a rule, efforts are made to offset the bulk of the volume exposure against corresponding standardised financial contracts, so that the portfolio's total net exposure remains relatively moderate.

As of 31 December 2007 the portfolio was written down to fair value.

Continental Asset Hedges

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

As of 31 December 2007 the fair value was higher than cost.

NOTE 26 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.

Electricity price

General: Internal market exposure guidelines have been drawn up for both hedging and trading transactions. The 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.

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 regards to available production. Individual market strategies have also been established at operating level, which also safeguard the consideration of risk based on a PaR (Profit at Risk) method with different potential outcomes. For purposes of risk management financial and physical contracts are regarded as one item.

Trading portfolios: VaR (Value at Risk - the maximum loss that can be incurred with a given probability over a given period) is the most important tool for risk management in this portfolio. Although the traded volume is significant, the financial exposure connected to 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 economic exposure is small in relation to hedging and is quantified using both VaR and PaR. Internal restrictions on these target figures are used to ensure that the exposure remains within adopted guidelines. As a rule listed liquid contracts (system price, area prices and currency) are used to reduce the risk associated with trading in structured products. The risk in the portfolio is connected to exposure in price areas, profiles, volatility in options and user time contracts, temperature, foreign currencies and carbon emission allowances.

Other price risk in power contracts

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

Foreign exchange risk

Statkraft's foreign exchange risk primarily relates to power sales revenues denoted in foreign currencies. The operational currency for trading at Nord Pool is EUR, and all contracts that are entered into via Nord Pool are denoted in EUR. This means that all contracts entered into via Nord Pool are exposed to EUR. Statkraft hedges the EUR exposure connected with cash flows as a result of hedged power sales (physical contracts and financial trading on Nord Pool). Financial investments in foreign currency are fully hedged. To hedge exposure, both financial derivatives and loans in foreign currency are used as hedging instruments.

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. Foreign currency exposure is also followed up by setting individual target figures which are reported to management as part of the Group scorecard.

Interest rate risk

An interest rate management framework has 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. The strategy for managing interest rate risk is established based on an objective of achieving the most cost-efficient financing possible, but is also coupled with a desire for a certain stability and predictability in financial expenses. 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. 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 through the EVP Finance in relation to established frameworks in the finance strategy. Interest rate exposure is also followed up by setting individual target figures which are reported to management as part of the Group scorecard.

Use of interest rate and foreign currency instruments

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

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 is exposed to credit risk through power trading and physical sales, investing its surplus liquidity and trading in financial instruments.

The majority of financial instruments entered into are cleared through Nord Pool Clearing. No counterparty risk is assumed for these contracts. For all other power contracts, frameworks are established for individual counterparties based on an internal credit rating. Counterparties are grouped into 4 different categories. The internal credit rating is based on key financial figures. Bilateral contracts are subject to frameworks for each counterparty with regard to volume, amount and duration.

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

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

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

The frameworks for exposure for individual counterparties is continuously monitored and regularly reported. Counterparty risk is also quantified by combining exposure with the probability of an individual counterparty default. The total counterparty risk is calculated and reported for all relevant units in addition to being consolidated at Group level and incorporated in Group risk management.

LIQUIDITY RISK

Statkraft assumes a liquidity risk because the term of its financial obligations is not matched to the cash flow generated by its assets, and because of variations in collateral requirements linked to financial contracts in the forward market (Nord Pool). Statkraft has long-term credit ratings from Standard & Poor's and Moody's Investor Service of BBB+ with a "stable outlook" and Baa1 with a "stable outlook" respectively. Statkraft has good opportunities for borrowing on the Norwegian money market and on the banking market. Statkraft has also established an EMTN programme which is registered on the London Stock Exchange. The programme gives the company the opportunity to issue loans both on the international and on the Norwegian bond market. The programme may also be used to raise bilateral loans in respect of individual investors. Drawdown facilities are used to secure access to short-term financing. Statkraft's drawdown facilities are large enough to cover outstanding certificate liabilities at any time. A guarantee framework has been established to cope with significant fluctuations in the collateral required for financial contracts in the forward market required by Nord Pool. Statkraft has a liquidity capacity target of between 1.5 and 3.0. Liquidity capacity in this context is defined as cash and cash equivalents, plus committed drawdown facilities, 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. 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 scorecard.

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's 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 50 million respectively.

NOTE 27 RELATED PARTIES

The operation and production management of the Group's power plants in Sweden and Finland is 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.

The SFE and Continental Asset Hedges portfolios are managed by Statkraft Financial Energy AB and Statkraft Markets GmbH, respectively.

Statkraft Energi purchases administration, office services and IT services from Statkraft AS. Statkraft Energi AS manages Statkraft Carbon Invest AS.

Statkraft Energi AS has a collaboration agreement with Trondheim Energi Kraft AS within energy optimisation and associated support functions. The collaboration is regulated by a power purchase agreement.

Statkraft Energi has a tolling agreement with Naturkraft AS. Statkraft AS owns 50% of Naturkraft AS.

Statkraft Energi has entered into power purchase agreements (PPAs) with the Group companies Herdecke GmbH and Knapsack GmbH. Statkraft Markets GmbH resells physical power from Knapsack on the German market.

Agreements are entered into on market terms and conditions.

Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Statkraft Energi AS

AUDITOR'S REPORT FOR 2007

We have audited the annual financial statements of Statkraft Energi AS as of 31 December 2007, showing a profit of 4 401 million kroner. 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 December 2007, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the 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, 10 March 2008
Deloitte AS

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



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