

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. 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. 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.

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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

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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.

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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.

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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
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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

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Statkraft

