



**Statkraft**

**Q4/07 STATKRAFT SF**

**INTERIM-  
REPORT**

**Q4**

## Key figures

STATKRAFT SF GROUP	Unit	Q4		The year	
		2007	2006	2007	2006
Gross operating revenues	NOK mill.	<b>6 741</b>	3 891	<b>17 950</b>	16 379
Net operating revenues	NOK mill.	<b>4 944</b>	6 946	<b>13 583</b>	17 125
- of which unrealised changes in value	NOK mill.	<b>-135</b>	3 378	<b>-739</b>	1 975
EBITDA	NOK mill.	<b>3 541</b>	5 876	<b>9 056</b>	13 423
Operating result	NOK mill.	<b>3 059</b>	5 490	<b>7 400</b>	11 914
Share of income from associated companies	NOK mill.	<b>726</b>	1 437	<b>2 652</b>	2 054
- of which unrealised changes in value	NOK mill.	<b>114</b>	89	<b>411</b>	269
Net financial items	NOK mill.	<b>-902</b>	-548	<b>-1 243</b>	-2 390
- of which unrealised changes in value	NOK mill.	<b>-452</b>	-135	<b>230</b>	-1 131
Profit before tax	NOK mill.	<b>2 885</b>	6 379	<b>8 809</b>	11 578
Profit after tax	NOK mill.	<b>2 572</b>	4 845	<b>6 772</b>	7 791
EBITDA% <sup>1)</sup>	%	<b>54,5</b>	65,4	<b>54,6</b>	70,2
Net changes in cash flow from operating activities	NOK mill.	<b>276</b>	-1 199	<b>6 171</b>	6 392
Cash and cash equivalents	NOK mill.			<b>3 344</b>	1 880
Assets	NOK mill.			<b>110 292</b>	103 641
Interest-bearing debt ratio	%			<b>49,0</b>	45,1
Average spot price	NOK/MWh	<b>338</b>	370	<b>224</b>	391
Production, volume sold	TWh	<b>14,7</b>	9,5	<b>44,9</b>	45,6
Full-time jobs (equivalents)	No.			<b>2 287</b>	2 087

<sup>1)</sup> Adjusted for unrealised changes in value

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## Highlights in 2007

Electricity prices rose throughout the fourth quarter and production was high. The Group posted respective pre- and post-tax profits of NOK 2,885 million (NOK 6,379 million) and NOK 2,572 million (NOK 4,845 million) for the quarter. Adjusted for unrealised changes in value, profit before tax totalled NOK 3,559 million (NOK 2,484 million), while profit after tax was NOK 3,081 million (NOK 1,858 million).

2007 was a good year despite a downturn in electricity prices. Pre-tax profits stood at NOK 8,809 million (NOK 11,578 million), while post-tax profits totalled NOK 6,772 million (NOK 7,791 million). Adjusted for unrealised changes in value, profit before tax totalled NOK 9,349 million (NOK 10,574 million), while profit after tax was NOK 7,169 million (NOK 7,001 million).

In October, Statkraft and E.ON AG signed a letter of intent to exchange Statkraft's holding in E.ON Sverige AB (44.6%) for flexible production assets and shares in E.ON AG. The total value of the swap deal is EUR 4.4 billion. A final agreement is expected to be formally signed during the first quarter of 2008 and will make Statkraft Europe's largest producer of renewable energy.

During the year, work was completed on the construction of three gas-fired power plants - Knapsack (100% holding) and Herdecke (50% holding) in Germany, and Kårstø (50% holding) in Norway. The three power plants have an installed capacity of slightly more than 1600 MW, of which Statkraft's share is slightly more than 1200 MW.

In September, Statkraft and Swedish hygiene and paper company SCA signed a ten-year industrial power agreement to deliver annual power of 500 GWh to SCA's Swedish forestry business. The two companies also established a joint venture that will focus on initiatives within renewable energy in Sweden. The companies plan to construct seven wind farms with a combined potential annual production of around 2.8 TWh. In addition, they also hope to explore the possibility of constructing hydropower plants on four watercourses, generating around 630 GWh.

Pålsbu Hydropower Plant, which is expected to produce 22 GWh annually, was opened in October. Statkraft's subsidiary Trondheim

Energi, is currently in the process of constructing a new hydropower plant at Leirfossene on the Nidelven river with an expected annual production level of 43 GWh. Statkraft was also granted a licence to build and operate Kjensvatn Hydropower Plant (generating 75 GWh per year) in Nordland. During 2007, eight new small-scale hydropower plants were built by Statkraft subsidiary Småkraft AS (generating a total of 115 GWh per year). In addition, the company was also granted licences for a further 11 power plants.

The year also saw Statkraft awarded its first wind power licence in the United Kingdom. Blaengwen Wind Farm will have a total capacity of 20-30 GWh.

The new incineration plant at Heimdal heating centre and the new district heating pipeline running to Midtbyen in Trondheim were opened in September, generating 200 GWh of heat per year.

SN Power (in which Statkraft has a 50 % stake) purchased Peruvian company Electroandes SA, making SN Power one of the five largest electricity producers in Peru. In the Philippines, SN Power, working in conjunction with local partners, took over the operation of a hydropower plant and is in the final stages of negotiation to acquire two others. In Chile, the company decided to build a 156 MW capacity hydropower plant, as well as a wind farm that will have a capacity of around 50 MW.

In order to achieve the Group's district heating objectives, the decision was taken to focus Group activities using Trondheim Energi Fjernvarme as a starting point. Efforts are also being made to merge power sales operations into a single company.

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

The year also saw Statkraft take the decision to build the world's first prototype osmotic power plant. The facility at Hurum will have an installed capacity of 2-4 kW, and represents an important step towards the construction of commercial plants at some point in the future. During the autumn, the company also positioned itself to expand solar energy activities in Italy and Spain.

Svartisen Hydropower Plant was offline until the beginning of March due to a damaged aggregate. For the rest of the year, the 350 MW capacity plant was operated with a technical restriction of 300 MW.

Eastern Norway experienced major flooding in July. Contingency measures were

implemented in Numedalslågen and water was drawn off in advance to reduce the effects of the flood. Our plants were largely unaffected and the contingency measures implemented worked satisfactorily. By providing forecasts and water level data, Statkraft was able to help limit the damage caused in the wider community.

## Statkraft SF's business

Statkraft SF's objective is to own all the shares in Statkraft AS and provide that company with loans. Statkraft SF also owns certain assets that may not be formally owned by Statkraft AS. This applies to power plants that have reverted to state ownership and are leased to third parties or power plants that will belong to Statkraft on reversion to state ownership, and certain foreign commitments (Asian Power Invest AB and Nordic Hydropower AB).

Statkraft SF's consolidated financial statements will, with the exception of the retained assets and individual items on the liabilities side, be identical with the consolidated financial statements for the Statkraft AS subgroup.

Total assets in Statkraft SF Group's closing balance sheet for the fourth quarter of 2007 were NOK 334 million higher than the corresponding figure in the Statkraft AS Group balance sheet. NOK 930 million of this difference is attributable to the book value of power plants leased to third parties and international investments.

The Statkraft SF Group had almost NOK 2.8 billion more in long-term interest-bearing liabilities than the Statkraft AS Group, due to the fact that Statkraft SF borrowed NOK 3 billion under an established line of credit in order to finance the dividend payment for the 2004 financial year. At the end of the fourth quarter, interest-bearing liabilities totalled NOK 40.0 billion, compared with NOK 34.8 billion at the end of the corresponding prior-year period. The interest-bearing debt ratio was 49.0%, compared with 45.1% at the end of 2006. Current assets, excluding cash and cash equivalents, totalled NOK 14.0 billion, while short-term interest-free liabilities amounted to NOK 18.9 billion.

Differences between Statkraft SF's and Statkraft AS's respective income statements largely relate to revenues and expenses linked to the ongoing operation of the retained assets. These differences, which are presented in the following table, are relatively modest.

<b>Figures in NOK million</b>	<b>Statkraft SF Group</b>	Statkraft AS Group	Difference
Sales revenues	<b>16 544</b>	16 544	-0
Other operating revenues	<b>1 406</b>	1 075	331
<b>Gross operating revenues</b>	<b>17 950</b>	17 619	331
Energy purchases	<b>-2 680</b>	-2 680	-0
Transmission costs	<b>-948</b>	-939	-9
Unrealised changes in value energy contracts	<b>-739</b>	-739	0
<b>Net operating revenues</b>	<b>13 583</b>	13 261	322
Salaries and payroll costs	<b>-1 604</b>	-1 604	-0
Depreciation and write-downs	<b>-1 656</b>	-1 639	-17
Property tax and licence fees	<b>-1 034</b>	-983	-51
Other operating expenses	<b>-1 889</b>	-1 793	-96
<b>Operating expenses</b>	<b>-6 182</b>	-6 019	-163
<b>Operating profit</b>	<b>7 401</b>	7 242	159
<b>Share of income from associated companies</b>	<b>2 652</b>	2 613	39
Financial income	<b>411</b>	400	11
Financial expenses	<b>-1 884</b>	-1 717	-167
Unrealised changes in value currency and interest	<b>230</b>	227	3
<b>Net financial items</b>	<b>-1 243</b>	-1 089	-154
<b>Profit before tax</b>	<b>8 809</b>	8 765	44
Taxes	<b>-2 037</b>	-2 134	97
<b>Net profit</b>	<b>6 772</b>	6 632	140
Of which minority interests	<b>166</b>	166	-0
Of which majority interests	<b>6 606</b>	6 465	141

Further details regarding Statkraft's operations and financial results for the year are presented in the enclosed quarterly report for the Statkraft AS Group. The report is appended as an annex.

Oslo, 13 February 2008  
The Board of Directors of Statkraft SF

# Statkraft SF Group Interim Financial Statements

## INCOME STATEMENT

Figures in NOK million	Fourth quarter		The year	
	2007	2006	2007	2006
Sales revenues	6 348	3 542	16 544	15 363
Other operating revenues	393	349	1 406	1 016
<b>Gross operating revenues</b>	<b>6 741</b>	<b>3 891</b>	<b>17 950</b>	<b>16 379</b>
Energy purchase	-1 339	-33	-2 680	-190
Transmission costs	-322	-290	-948	-1 039
Unrealised changes in value energy contracts	-135	3 378	-739	1 975
<b>Net operating revenues</b>	<b>4 944</b>	<b>6 946</b>	<b>13 583</b>	<b>17 125</b>
Salaries and payroll costs	-483	-414	-1 604	-1 322
Depreciation and write -downs	-482	-386	-1 656	-1 509
Property tax and licence fees	-262	-206	-1 034	-854
Other operating expenses	-656	-450	-1 890	-1 526
<b>Operating expenses</b>	<b>-1 884</b>	<b>-1 456</b>	<b>-6 183</b>	<b>-5 211</b>
<b>Operating profit</b>	<b>3 059</b>	<b>5 490</b>	<b>7 400</b>	<b>11 914</b>
<b>Share of profit from associated companies</b>	<b>726</b>	<b>1 437</b>	<b>2 652</b>	<b>2 054</b>
Financial income	114	89	411	269
Financial expenses	-564	-502	-1 884	-1 528
Unrealised changes in value currency and interes	-452	-135	230	-1 131
<b>Net financial items</b>	<b>-902</b>	<b>-548</b>	<b>-1 243</b>	<b>-2 390</b>
<b>Profit before tax</b>	<b>2 885</b>	<b>6 379</b>	<b>8 809</b>	<b>11 578</b>
Taxes	-313	-1 534	-2 037	-3 787
<b>Net profit</b>	<b>2 572</b>	<b>4 845</b>	<b>6 772</b>	<b>7 791</b>
Of which minority interest	115	138	166	387
Of which majority interest	2 457	4 707	6 606	7 404

## BALANCE SHEET

Figures in NOK million	31.12.07	31.12.06
<b>ASSETS</b>		
Intangible assets	1 657	2 195
Property, plant and equipment	56 957	56 753
Investments in subsidiaries and associates	32 332	30 866
Other financial fixed assets	1 930	1 003
<b>Fixed assets</b>	<b>92 876</b>	<b>90 817</b>
Inventories	303	55
Receivables	5 096	3 889
Short-term financial investments	347	505
Derivatives	8 326	6 495
Cash and cash equivalents	3 344	1 880
<b>Current assets</b>	<b>17 416</b>	<b>12 824</b>
<b>Total assets</b>	<b>110 292</b>	<b>103 641</b>
<b>EQUITY AND LIABILITIES</b>		
Paid-in capital	29 250	29 250
Retained earnings	9 583	10 170
Minority interests	2 817	2 934
<b>Equity</b>	<b>41 650</b>	<b>42 354</b>
Provisions	9 603	10 807
Long-term interest-bearing liabilities	33 111	28 333
<b>Long-term liabilities</b>	<b>42 714</b>	<b>39 140</b>
Short-term interest-bearing liabilities	6 923	6 438
Taxes payable	2 901	3 999
Other interest-free liabilities	3 650	2 731
Derivatives	12 454	8 979
<b>Current liabilities</b>	<b>25 928</b>	<b>22 147</b>
<b>Equity and liabilities</b>	<b>110 292</b>	<b>103 641</b>

## CHANGES IN EQUITY

Figures in NOK million	31.12.07	31.12.06
Paid-in capital 01.01	29 250	29 250
<b>Paid-in capital 30.09 / 31.12</b>	<b>29 250</b>	29 250
Retained earnings 01.01	10 170	7 625
Net profit for the period	6 606	7 404
Dividend and Group contribution	-5 857	-4 720
Estimate deviation pensions	-118	-480
Change in translation differences	-856	705
Change in equity in associated companies	-357	-260
Other	-5	-104
<b>Retained earnings 30.09 / 31.12</b>	<b>9 583</b>	10 170
Minority interests 01.01	2 934	4 073
Net profit for the period	166	387
Capital reduction and dividends	-417	-1 300
Estimate deviation pensions	-39	-58
Change in translation differences	-21	-25
Other	194	-143
<b>Minority interests 30.09 / 31.12</b>	<b>2 817</b>	2 934
<b>Equity 30.09 / 31.12</b>	<b>41 650</b>	42 354

## CASH FLOW STATEMENT

Figures in NOK million	The year	
	2007	2006
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before tax	8 809	11 578
Gain/ loss on sales of fixed assets	-9	-6
Ordinary depreciation and write-downs	1 656	1 509
Share of profits from associated companies	-2 652	-2 054
Unrealised changes in value contracts	-512	-844
Taxes	-3 917	-2 198
<b>Cash flow from operating activities</b>	<b>3 375</b>	7 985
Changes in long-term items	-355	-645
Changes in current items	1 703	-2 074
Dividend from associates	1 448	1 126
<b>Net cash flow from operating activities</b>	<b>6 171</b>	6 392
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in property, plant and equipment	-2 015	-3 695
Proceeds from sales of fixed assets	25	63
Loans to third parties	-212	-20
Repayment of loans to third parties	-	5
Investments in other companies	-1 800	-497
Proceeds from sales of other companies	-	-
<b>Net cash flow from investing activities</b>	<b>-4 002</b>	-4 144
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
New long-term debt	11 786	6 584
Repayment of long-term debt	-6 236	-5 617
Capital increase	24	-
Capital reduction	-	-1 035
Dividend paid	-6 274	-4 917
<b>Net cash flow from financing activities</b>	<b>-700</b>	-4 985
<b>Net change in cash and cash equivalents</b>	<b>1 469</b>	-2 737
Currency effect on cash flows	-5	-2
Cash and cash equivalents 01.01	1 880	4 619
Cash and cash equivalents 30.09 / 31.12	3 344	1 880
Unused committed credit lines	5 450	5 450
Unused overdraft facilities	600	800

## Comments on the financial statements

### **Framework conditions and important accounting policies**

The consolidated financial statements for the year ending 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and include Statkraft SF, its subsidiaries and associated companies. The interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The figures for 2006 have been restated in accordance with IFRSs for comparative purposes. The interim financial statements do not provide the same scope of information as the annual financial statements and must therefore be viewed in connection with the 2006 consolidated financial statements. Reference is also made to the transition document issued as an enclosure to the stock exchange notification of 10 May 2007 that reconciles the income statement and balance sheet for 2006 under Norwegian GAAP and IFRSs.

### **Unsettled issues relating to IFRSs – concessionary power sales**

The correct accounting treatment to be adopted for concessionary power sales contracts with financial settlement is unclear. Statkraft has decided not to incorporate concessionary power contracts in accordance with IAS 39 in the financial statements until a

solution as to the preferred accounting treatment has been established. As of the end of the fourth quarter 2007, Statkraft's concessionary power contracts with financial settlement had a volume of 500 GWh and an average price of NOK 87 per MWh.

### **Taxes**

The tax expense is calculated by applying the estimated effective tax rate that is expected to be applied for the annual result. The tax expense was previously calculated on the basis of taxable profits for the period.

### **Estimates**

As of year-end, the Group had a sales contract that was recognised at fair value in the income statement in accordance with IAS 39. As at 30 September 2007, the book value of the contract totalled around NOK 1 billion and was recognised as derivatives under short-term liabilities. As Statkraft believes there to be little likelihood of carbon quotas being allocated once the Kyoto Agreement has expired in 2012, the difference between the agreed price in the contract and the expected market price has been reduced. This has resulted in the recognition of revenues in the amount of NOK 767 million under unrealised changes in value of energy contracts and an increase in profit after tax of NOK 526 million.

# Statkraft SF Group Segment Overview

## SEGMENTS

Figures in NOK million	Statkraft AS Group	Generation & Hedging	Trading & Origination	Distribution grid	Retail sales	District heating	Development	Other	Group functions and eliminations
<b>Fourth quarter 2007</b>									
Gross operating revenues	6 741	5 215	170	422	1 353	108	18	128	-673
Operating profit	3 059	3 290	28	91	-55	27	-43	-46	-233
Share of profits from associated companies	726	736	-21	53	-1	1	0	64	-106
Profit before financial items and tax	3 785	4 026	7	144	-56	28	-43	18	-339
<b>The year 2007</b>									
Gross operating revenues	17 950	13 209	631	1 565	3 430	317	49	379	-1 630
Operating profit	7 400	7 274	237	399	107	73	-171	31	-552
Share of profits from associated companies	2 652	1 388	-48	155	-20	-3	0	1 235	-54
Profit before financial items and tax	10 052	8 662	189	554	87	70	-171	1 266	-605
<b>Balance sheet 31.12.07</b>									
Investment in associated companies	32 332	8 105	11	1 764	40	75	9	19 022	3 328
Other assets	77 960	59 847	5 558	6 279	1 751	1 648	169	517	2 191
Total assets	110 292	67 952	5 547	8 043	1 791	1 723	177	19 539	5 519
Current liabilities	25 928	19 163	5 036	543	960	69	152	36	-32
Long-term non-interest-bearing liabilities	9 603	9 064	114	732	132	78	50	159	-726
Long-term interest-bearing liabilities	33 111	-	-	-	-	-	-	-	33 111
Total liabilities	68 642	28 228	5 149	1 274	1 092	147	202	196	32 353
Ordinary depreciation and write-downs year to date	1 656	1 083	7	390	58	49	3	7	58
Maintenance investments	574	450	-	57	1	22	-	44	-
Investments in new capacity	1 434	996	-	156	-	196	17	69	-
Investments in shareholdings	1 800	1 625	37	-	-	8	1	129	-
<b>Fourth quarter 2006</b>									
Gross operating revenues	3 891	3 131	266	409	237	83	13	69	-316
Operating profit	5 490	5 294	114	-5	116	21	-44	102	-108
Share of profits from associated companies	1 437	322	18	21	29	1	0	1 071	-26
Profit before financial items and tax	6 927	5 616	132	16	145	21	-43	1 174	-135
<b>The year 2006</b>									
Gross operating revenues	16 379	13 671	673	1 959	780	272	35	305	-1 317
Operating profit	11 914	11 088	335	551	84	58	-131	147	-219
Share of profits from associated companies	2 054	590	37	111	21	1	0	1 419	-124
Profit before financial items and tax	13 968	11 678	372	662	105	59	-131	1 566	-342
<b>Balance sheet 31.12.06</b>									
Investment in associated companies	30 866	9 419	44	1 962	417	56	4	19 028	-65
Other assets	72 775	58 685	937	5 997	543	1 552	268	490	4 304
Total assets	103 641	68 104	982	7 959	960	1 607	272	19 518	4 239
Current liabilities	22 147	14 531	503	548	-250	481	273	233	5 829
Long-term non-interest-bearing liabilities	10 807	10 966	60	795	305	104	23	93	-1 540
Long-term interest-bearing liabilities	28 333	-	-	-	-	-	-	-	28 333
Total liabilities	61 287	25 497	563	1 343	54	585	296	326	32 622
Ordinary depreciation and write-downs	1 509	995	6	400	15	32	1	1	60
Maintenance investments	574	372	-	115	2	52	-	33	-
Investments in new capacity	3 125	2 674	8	111	-	332	-	-	-
Investments in shareholdings	750	734	-	-	-	-	-	16	-

# Statkraft SF Interim Financial Statements (NGAAP)

## INCOME STATEMENT

Figures in NOK million	Fourth quarter		The year	
	2007	2006	2007	2006
<b>Other operating revenues</b>	<b>94</b>	29	<b>335</b>	141
Depreciation and write -downs	-4	-4	-16	-16
Property tax and licence fees	-12	-14	-51	-27
Other operating expenses	-23	-23	-102	-90
<b>Operating expenses</b>	<b>-40</b>	-41	<b>-170</b>	-133
<b>Operating profit</b>	<b>54</b>	-12	<b>165</b>	8
Financial income	8 409	7 754	9 080	8 773
Financial expenses	-256	-305	-979	-1 268
<b>Net financial items</b>	<b>8 154</b>	7 449	<b>8 101</b>	7 505
<b>Profit before tax</b>	<b>8 207</b>	7 437	<b>8 266</b>	7 513
Taxes	-1 280	-1 852	-1 268	-1 820
<b>Net profit for the period</b>	<b>6 927</b>	5 585	<b>6 998</b>	5 693

## BALANCE SHEET

Figures in NOK million	31.12.07	31.12.06
<b>ASSETS</b>		
Deferred tax asset	68	391
Property, plant and equipment	730	418
Investments in subsidiaries and associates	32 450	32 046
Other financial fixed assets	6 034	15 068
<b>Fixed assets</b>	<b>39 282</b>	47 922
Receivables	13 196	7 847
Cash and cash equivalents	175	102
<b>Current assets</b>	<b>13 371</b>	7 949
<b>Assets</b>	<b>52 653</b>	55 871
<b>EQUITY AND LIABILITIES</b>		
Paid-in capital	29 250	29 250
Retained earnings	493	57
<b>Equity</b>	<b>29 743</b>	29 307
Provisions	135	136
Long-term interest-bearing liabilities	9 798	18 271
<b>Long-term liabilities</b>	<b>9 933</b>	18 406
<b>Current liabilities</b>	<b>12 977</b>	8 158
<b>Equity and liabilities</b>	<b>52 653</b>	55 871

## CASH FLOW STATEMENT

Figures in NOK million	The year	
	2007	2006
Net cash flow from operating activities	5 940	4 957
Net cash flow from investing activities	3 940	4 415
Net cash flow from financing activities	-9 807	-9 389
<b>Net change in cash and cash equivalents</b>	<b>73</b>	-17
Cash and cash equivalents 01.01	102	119
Cash and cash equivalents 30.09 / 31.12	175	102

## Equity

Figures in NOK million	31.12.07	31.12.06
<b>Paid-in capital 01.01</b>	<b>29 307</b>	29 467
Implementation of new accounting principles	-	3
Net profit for the period	6 998	5 693
Dividend	-6 562	-5 857
<b>Equity 30.09 / 31.12</b>	<b>29 743</b>	29 307

# STATKRAFT AS GROUP

## Highlights in 2007

Electricity prices rose throughout the fourth quarter and production was high. The Group posted respective pre- and post-tax profits of NOK 2,887 million (NOK 6,388 million) and NOK 2,529 million (NOK 4,826 million) for the quarter. Adjusted for unrealised changes in value, profit before tax totalled NOK 3,561 million (NOK 2,493 million), while profit after tax was NOK 3,038 million (NOK 1,839 million).

2007 was a good year despite a downturn in electricity prices. Pre-tax profits stood at NOK 8,765 million (NOK 11,582 million), while post-tax profits totalled NOK 6,632 million (NOK 7,735 million). Adjusted for unrealised changes in value, profit before tax totalled NOK 9,307 million (NOK 10,578 million), while profit after tax was NOK 7,030 million (NOK 6,945 million).

In October, Statkraft and E.ON AG signed a letter of intent to exchange Statkraft's holding in E.ON Sverige AB (44.6%) for flexible production assets and shares in E.ON AG. The total value of the swap deal is EUR 4.4 billion. A final agreement is expected to be formally signed during the first quarter of 2008 and will make Statkraft Europe's largest producer of renewable energy.

During the year, work was completed on the construction of three gas-fired power plants - Knapsack (100% holding) and Herdecke (50% holding) in Germany, and Kårstø (50% holding) in Norway. The three power plants have an installed capacity of slightly more than 1600 MW, of which Statkraft's share is slightly more than 1200 MW.

In September, Statkraft and Swedish hygiene and paper company SCA signed a ten-year industrial power agreement to deliver annual power of 500 GWh to SCA's Swedish forestry business. The two companies also established a joint venture that will focus on initiatives within renewable energy in Sweden. The companies plan to construct seven wind farms with a combined potential annual production of around 2.8 TWh. In addition, they also hope to explore the possibility of constructing

hydropower plants on four watercourses, generating around 630 GWh.

Pålsbu Hydropower Plant, which is expected to produce 22 GWh annually, was opened in October. Statkraft's subsidiary Trondheim Energi is currently in the process of constructing a new hydropower plant at Leirfossene on the Nidelven river with an expected annual production level of 43 GWh. Statkraft was also granted a licence to build and operate Kjensvatn Hydropower Plant (generating 75 GWh per year) in Nordland. During 2007, eight new small-scale hydropower plants were built by Statkraft subsidiary Småkraft AS (generating a total of 115 GWh per year). In addition, the company was also granted licences for a further 11 power plants.

The year also saw Statkraft awarded its first wind power licence in the United Kingdom. Blaengwen Wind Farm will have a total capacity of 20-30 GWh.

The new incineration plant at Heimdal heating centre and the new district heating pipeline running to Midtbyen in Trondheim were opened in September, generating 200 GWh of heat per year.

SN Power (in which Statkraft has a 50% stake) purchased Peruvian company Electroandes SA, making SN Power one of the five largest electricity producers in Peru. In the Philippines, SN Power, working in conjunction with local partners, took over the operation of a hydropower plant and is in the final stages of negotiation to acquire two others. In Chile, the company decided to build a 156 MW capacity hydropower plant, as well as a wind farm that will have a capacity of around 50 MW.

In order to achieve the Group's district heating objectives, the decision was taken to focus Group activities using Trondheim Energi Fjernvarme as a starting point. Efforts are also being made to merge power sales operations into a single company.

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

The year also saw Statkraft take the decision to build the world's first prototype osmotic power plant. The facility at Hurum will have an installed capacity of 2-4 kW, and represents an important step towards the construction of commercial plants at some point in the future. During the autumn, the company also positioned itself to expand solar energy activities in Italy and Spain.

Svartisen Hydropower Plant was offline until the beginning of March due a damaged aggregate. For the rest of the year, the

350 MW capacity plant was operated with a technical restriction of 300 MW.

Eastern Norway experienced major flooding in July. Contingency measures were implemented in Numedalslågen and water was drawn off in advance to reduce the effects of the flood. Our plants were largely unaffected and the contingency measures implemented worked satisfactorily. By providing forecasts and water level data, Statkraft was able to help limit the damage caused in the wider community.

# Financial performance

## Quarterly results

In the fourth quarter of 2007 the Group posted respective pre- and post-tax profits of NOK 2,887 million (NOK 6,388 million) and NOK 2,529 million (NOK 4,826 million). The decrease from the fourth quarter of 2006 can be attributed mainly to unrealised changes in value. Adjusting for these changes in value in the Group and associated companies, profits are significantly better than for the same period in 2006, totalling NOK 3,561 million before tax (NOK 2,493 million) and NOK 3,038 million after tax (NOK 1,839 million). The result for the period was impacted by a considerably higher level of production than in 2006.

## Result for the year

Pre-tax profits for 2007 stood at NOK 8,765 million (NOK 11,582 million), while post-tax profits totalled NOK 6,632 million (NOK 7,735 million). These figures represent reductions of 24% and 14% respectively compared with 2006. However, results were significantly impacted by unrealised changes in value in the Group and its associated companies, and adjusted for these and other material non-recurring items, profit before tax fell 12% while profit after tax showed an improvement of 1%. Lower spot prices (43% down) and marginally lower production levels compared with 2006 have combined to reduce profit obtained from underlying operations. These reductions were counterbalanced by significant improvements in contributions from associated companies. A positive non-recurring effect following changes in regulations governing resource rent tax contributed to an increase in deferred tax assets, thereby reducing tax costs.

## Return on investment

The Group achieved a return on average capital employed (ROACE) before tax of 17.7%. The corresponding figure for 2006 was 22.9%. These figures are adjusted for unrealised changes in value and material non-recurring items in order to accurately reflect the performance of the Group's ordinary operations.

The return on equity after tax for the previous 12 months was 14.9%. The total return on capital after tax was 7.4%, compared with 8.6% for the 2006 calendar year.

## Operating revenues

The Group generated gross operating revenues of NOK 6,644 million in the fourth quarter, NOK 2,775 million higher than in the corresponding period in 2006. Gross operating revenues for the year 2007 totalled NOK 17,619 million, an increase of NOK 1,419 million on the previous year.

The Group generated 44.9 TWh in 2007, 0.7 TWh less than in 2006. Water levels in reservoirs also increased significantly during the year. The average spot price fell by NOK 167/MWh to NOK 224/MWh in 2007. This resulted in a decrease in revenue from net physical spot sales of NOK 2,910 million in 2007. This was offset by an increase of NOK 1,565 million in income from hedging activities.

### Operating revenues

STATKRAFT AS GROUP	Year to date	
	2007	2006
Figures in NOK million		
Net physical spot sales, incl. green certificates	6 329	9 239
Concessionary sales at statutory prices	213	195
Sales of electricity to industry at statutory prices	1 713	1 773
Long-term commercial contracts	1 582	1 494
Dynamic hedging	1 593	28
Trading and origination	623	528
Distribution grid	1 535	1 933
End-users	3 390	806
District heating	315	271
Other/eliminations	-749	-945
<b>Sales revenues</b>	<b>16 544</b>	<b>15 321</b>
Other operating revenues	1 075	879
<b>Gross operating revenues</b>	<b>17 619</b>	<b>16 200</b>

The increase in revenues from end-users is mainly attributable to the consolidation of Fjordkraft, which contributed an increase in operating revenues for the year of NOK 2,727 million compared with 2006.

Energy purchases totalled NOK 2,680 million in 2007. The increase of NOK 2,490 million on the previous year is primarily attributable to the consolidation of Fjordkraft as a subsidiary.

Transmission costs associated with the transport of power fell by NOK 101 million to NOK 939 million in 2007. This reduction can be ascribed to the fact that the variable portions of the transmission tariff fell due to reduced transmission volumes and lower prices.

Unrealised changes in the value of energy contracts amounted to NOK -739 million in 2007. In the previous year, these unrealised changes in value totalled NOK 1,975 million.

## Operating expenses

During the fourth quarter, the Group incurred operating expenses of NOK 1,843 million, an increase of NOK 403 million. Year-on-year operating expenses increased by NOK 921 million (18%) on the figure for 2006 to NOK 6,019 million.

Salaries and payroll costs rose by NOK 284 million on the figure for 2006 to NOK 1,604 million in 2007. The increase is connected to the consolidation of Fjordkraft, new business, increased staffing levels in existing business, ordinary salary increases and higher provisions for pension liabilities.

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

## Operating profit

Operating profit in the fourth quarter of the year totalled NOK 3,008 million (NOK 5,483 million). Operating profit for 2007 stood at NOK 7,242 million (NOK 11,847 million). Adjusted for unrealised changes in value and significant non-recurring items, the figures represent a quarter-on-quarter increase of 49% and a year-on-year decrease of 20%. The majority of the operating profit generated in 2007 is attributable to the Generation and Hedging segment (98%).

## Share of income from associated companies

In isolation, the share of income from the Group's associated companies fell by NOK 713 million in the fourth quarter. However, adjusted for unrealised changes in value, the share of income was only NOK 26 million lower in the fourth quarter than for the same period in 2006.

The share of income totalled NOK 2,613 million in 2007, an improvement of NOK 604 million compared with 2006. Adjusted for unrealised changes in value and significant non-recurring items, the share of income from associated companies for 2007 stood at NOK 2,643 million. This represents an increase of NOK 840 million compared with 2006. Of this, E.ON Sverige contributed with an improvement of NOK 388 million, SN Power with NOK 153 million and Herdecke with NOK 69 million. The remaining improvement is linked to an increase in share of income from the regional

Norwegian companies, primarily Agder Energi and BKK.

Total unrealised changes in value from associated companies amounted to NOK 279 million in 2007 (NOK 300 million), while significant non-recurring items make up NOK -309 million (NOK -94 million).

## Financial items

At NOK -1,089 million, net financial items in 2007 were NOK 1,185 million better than in 2006.

The reduction can primarily be put down to an improvement of NOK 1,358 million in unrealised changes in value in the Group's interest rate and currency agreements. Of this positive effect, unrealised currency gains on long-term items linked to liabilities in Swedish kronor and euros amount to NOK 696 million. This is due to the appreciation of the Norwegian krone against the Swedish krona and the euro by NOK 0.07 and NOK 0.28 respectively during 2007. In 2006, the trend was in the opposite direction. Currency hedging of future cash flows in EUR also produced unrealised gains as the result of exchange rate fluctuations, compared with a net unrealised loss in 2006.

Year-on-year interest costs on liabilities increased by a total of NOK 489 million. The rise is attributable to higher portfolio interest charges resulting from higher market interest rates, and increased average liabilities. Higher market interest rates were also responsible for the increase in interest income experienced in 2007 compared with the previous year. Interest income totalled NOK 334 million in 2007, an increase of NOK 115 million on 2006.

The repayment of state-guaranteed loans resulted in a reduction in the guarantee premium payable to the Norwegian state. As at 31 December 2007, the overall portfolio of state-guaranteed loans totalled NOK 11.4 billion, compared with NOK 15.3 billion at the end of 2006.

The Group has three loan portfolios, denominated in NOK, SEK and EUR respectively. The overall net liability portfolio is exposed 80.3% to floating interest rates, where the principle hedging currency is NOK. The average respective interest rates incurred for 2007 on loans denominated in NOK, SEK and EUR were 5.1%, 3.7% and 4.7% respectively.

## Taxes

Taxes totalled NOK 2,134 million during 2007, resulting in an effective tax rate of 24.3%. The effective tax rate for the previous year was 33.2%. The reduction is attributable to the lower taxable profit and a change in the regulatory framework governing resource rent taxation. These changes will generally give rise to higher levels of taxation. However, in 2007 the changes will result in a reduced tax charge of NOK 525 million, primarily because more power plants will become liable for tax. This, together with an increased tax rate, will result in a higher negative resource rent carryforward and thus an increase in deferred tax asset.

Resource rent tax amounted to NOK 758 million in 2007, equivalent to 36% of the Group's total tax expense. The equivalent amount in 2006 was NOK 1,148 million (30% of the total tax expense).

## Cash flow and capital structure

Operating activities generated a cash flow of NOK 5.0 billion during 2007, which represents a decrease of NOK 3.0 billion on the previous year. Changes in short-term and long-term committed capital increased by NOK 1.3 billion, while the dividend from associated companies totalled NOK 1.4 billion. The net cash flow from operating activities for 2007 was NOK 7.7 billion, compared with NOK 6.5 billion in 2006.

Investments made during 2007 totalled NOK 4.0 billion, where NOK 2.0 billion related to plants and operating assets, NOK 1.2 billion to capital deposits in SN Power, NOK 0.7 billion to gas power projects in Norway and Germany and NOK 0.1 billion to capital deposits in Telenor Cinclus.

During 2007, Statkraft issued four bond loans under the EMTN (Euro Medium Term Note) Programme. These have terms of 3, 6, 10.5 and 15 years, and respective volumes of NOK 1,500 million, EUR 300 million, EUR 600 million and NOK 1,500 million. The euro loans are listed on the London Stock Exchange, while the Norwegian loans are listed on the Oslo Stock Exchange. The new borrowing was taken out to finance loan maturities and new investments. Total new borrowings during 2007 amounted to NOK 11.8 billion, while NOK 6.2 billion was repaid. In addition, NOK 7.9 billion was paid to Statkraft SF in dividends and Group contributions.

Net liquidity changed by NOK 1.4 billion during 2007. At the balance sheet date, the Group's cash and cash equivalents totalled NOK 3.2 billion, compared with NOK 1.8 billion at the start of the year.

Interest-bearing debt totalled NOK 37.3 billion at the end of 2007, compared with NOK 32.0 billion at the start of the year. The interest-bearing debt ratio was 45.6%, compared with 41.8% at the end of 2006.

Current assets, excluding cash and cash equivalents, totalled NOK 14.1 billion, while short-term interest-free liabilities amounted to NOK 17.6 billion.

Statkraft had equity of NOK 44.4 billion before dividends at the end of the year. This corresponds to 40.1% of total capital, a decrease of 2.9%-points from the start of the year and is attributable to higher levels of liability.

## Business areas

KEY FIGURES AS PER Q4 2007					
BUSINESS AREAS	Statkraft AS	Generation	New	Regional	Other <sup>1)</sup>
Figures in NOK million	Group	& Markets	Energy		
<b>INCOME STATEMENT Q4 2007</b>					
Gross operating revenues	17 619	11 062	837	6 879	-1 159
Energy purchases and transmission costs	-3 619	-1 218	-13	-2 966	579
Unrealised changes in value energy contracts	-739	-656	0	11	-95
Net operating revenues	13 261	9 188	824	3 924	-674
Operating profit	7 242	5 608	444	1 625	-435
Share of income from associated companies	2 613	451	158	733	1 271
<b>Profit before financial items and tax</b>	<b>9 855</b>	<b>6 059</b>	<b>602</b>	<b>2 357</b>	<b>836</b>
<b>BALANCE SHEET AS OF 31 December 2007</b>					
Property, plant, equipment, intangible assets	57 817	33 484	1 617	23 477	-761
Investments in associated companies	32 131	1 318	2 173	10 716	17 924
Other assets	20 164	12 688	183	2 393	4 900
<b>Total assets</b>	<b>110 112</b>	<b>47 490</b>	<b>3 973</b>	<b>36 586</b>	<b>22 063</b>
Capital employed, basic	42 628	24 727	1 494	18 111	-1 704
Maintenance investments	571	304	0	267	0
Investments in new generating capacity	1 413	707	151	510	45
Investments in shareholdings	1 800	462	1 201	137	0

<sup>1)</sup> Includes the investment in E.ON Sverige

The structure of the business areas reflects the Group's strategic priorities, according to which activities are divided into three core operating areas. The company has also areas such as Group functions and financial investments.

## Generation & Markets

KEY FIGURES			
GENERATION & MARKETS	Unit	The year	
		2007	2006
Gross operating revenues	NOK mill.	11 062	11 307
Energy purchases and transmission costs	NOK mill.	-1 218	-898
Unrealised changes in value energy contracts	NOK mill.	-656	1 913
Net operating revenues	NOK mill.	9 188	12 322
EBITDA	NOK mill.	6 407	10 251
Operating profit	NOK mill.	5 608	9 519
Share of income from associated companies	NOK mill.	451	-95
Profit before financial items and tax	NOK mill.	6 059	9 425
Maintenance investments	NOK mill.	304	271
Investments in new generating capacity	NOK mill.	707	2 195
Investments in shareholdings	NOK mill.	462	471
Full-time jobs (equivalents)	No.	829	759
Share of Group's gross operating revenues	%	63	70
Share of Groups's full-time jobs (equivalents)	%	36	36

The Generation & Markets business area ranges from the operation and maintenance of hydropower plants in the Nordic region to extensive physical and financial trade in power across Europe. The business area has a total hydropower production capacity of 33 TWh. The business is experiencing a growth phase,

and the two gas-fired power plants in Herdecke and Knapsack in Germany, as well as the Kårstø gas power plant in Norway, have recently come into operation. Production assets are generally flexible. Statkraft now trades on 10 power exchanges and 3 gas hubs.

## Highlights in 2007

The business area performed well in 2007. The year was characterised by stable operations of core activities, the build-up of operational and market activities associated with the gas power plants, as well as continuing joint projects in the Nordic region operating organisation.

During the fourth quarter, Statkraft signed a letter of intent with E.ON concerning the exchange of assets. Integration of these power plants into the rest of the portfolio will be a very important task for 2008, and preparations are now well underway.

All three gas power plants were in trial operation during the second half of the year and were finally commissioned for commercial operation on the following dates:

- Herdecke 31 October 2007
- Kårstø 6 December 2007
- Knapsack 16 January 2008

Statkraft also entered into a number of agreements with Swedish paper manufacturer SCA. The agreements primarily relate to long-term power supplies, joint construction of wind farms and joint studies of potential hydropower facilities at SCA's properties in Sweden. This will result in the business area supplying an annual power capacity of 500 GWh to Ortvikens Pappersbruk over a ten-year period starting in the spring of 2009, and the possible expansion of hydropower capacity to a potential annual output of 630 GWh.

Three new hydropower plants were added to the portfolio during 2007, contributing a further 40 GWh to production capacity.

On 1 January 2007, the Generation & Markets business area took over Trondheim Energi's activities within hedging, trading and associated support functions.

## Financial performance

Profit before financial items and tax posted by Generation & Markets for 2007 was NOK 3,366 million lower than in 2006.

Gross operating revenues were NOK 245 million lower due to lower prices and reduced production levels. However, this was offset by significantly higher profits from dynamic hedging. Unrealised changes in value for energy contracts fell by NOK 2,568 million compared with 2006 and is the main reason for the lower year-on-year profit level. Operating expenses increased by NOK 777 million due to new business, increased staffing and higher property taxes. The share of profits from associated companies rose by NOK 546 million as the result of unrealised increases in the value of long-term power sales agreements in Herdecke, Germany.

The Generation & Hedging segment contributed NOK 5,741 million, equivalent to 95% of the business area's profit before financial items and tax. Industrial contracts and concessionary sales generated 12.2 TWh of production during the year, resulting in revenues that were NOK 839 million lower than they would have been had the same output been sold at system prices. Dynamic hedging generated a strong financial result in 2007, returning NOK 1,593 million. The Trading & Origination and Grid segments posted a profit of NOK 317 million before financial items and tax. Portfolios, both in the Nordic region and the rest of Europe exceeded their profit targets.

## Operations

Production in 2007 totalled 34.9 TWh, 2.3 TWh less than in 2006. The business area achieved a utility-adjusted downtime of 2.9% in 2007, which is 0.1%-point better than targeted.

The sickness absence rate in the business area is stable and stood at 3.1% for 2007. In all, nine lost-time injuries were reported amongst employees, giving an H1 indicator of 5.6 for 2007. The number of lost-time injuries is down by two compared with 2006, but is still unsatisfactory. The number of injuries not resulting in absence from work increased from 14 in 2006 to 20 in 2007.

There was one serious environmental non-compliance which involved a discharge of oil at Kolsi Power Plant in Finland during 2007. No damage to the environment was subsequently reported.

## New Energy

### KEY FIGURES

NEW ENERGY	Unit	The year	
		2007	2006
Gross operating revenues	NOK mill.	837	286
Energy purchases and transmission costs	NOK mill.	-13	-1
Unrealised changes in value energy contracts	NOK mill.	0	0
Net operating revenues	NOK mill.	824	285
EBITDA	NOK mill.	517	57
Operating profit	NOK mill.	444	5
Share of income from associated companies	NOK mill.	158	5
Profit before financial items and tax	NOK mill.	602	9
Maintenance investments	NOK mill.	0	0
Investments in new generating capacity	NOK mill.	151	370
Investments in shareholdings	NOK mill.	1 201	253
Full-time jobs (equivalents)	No.	68	51
Share of Group's gross operating revenues	%	5	2
Share of Groups's full-time jobs (equivalents)	%	3	2

The purpose of the New Energy business area is to ensure future growth in the Group's power generation through the development and of environment-friendly generating capacity. New Energy is thus responsible for the development and construction of new hydro, wind and gas power facilities. The unit also manages the Group's shareholding in Småkraft AS and SN Power. New Energy is furthermore responsible for the Group's R&D activities. Statkraft aims to be a leading player in the development of environment-friendly energy in Europe.

## Highlights in 2007

During 2007, Statkraft significantly increase its innovation initiative framework. The objective is to become a leading player in renewable and environment-friendly energy in Europe and as such attract both ideas and concepts in the field. In December, Statkraft joined a collaborative initiative focusing on ocean energy involving the Norwegian University of Science and Technology (NTNU), Uppsala University and the Technical University of Denmark.

In October, Statkraft began work on building the world's first prototype osmotic power plant at Hurum. The plant will mainly be used for testing components and systems. An osmotic power plant uses salt water and fresh water, separated by a membrane. The fresh water permeates in to the salt water through the membrane (osmosis), creating pressure that can be used to generate power. The technical

potential for osmotic power generation is thought to be approximately 1600 TWh globally.

In September, Swedish company SCA and Statkraft signed an agreement concerning the possible development of around 2.8 TWh of wind power and 0.6 TWh of hydropower at SCA's properties in Sweden.

March 2007 saw Statkraft being awarded its first licence to generate wind power in the United Kingdom. The project is to produce between 20 and 30 MW, and is a joint venture with US company Catamount. During autumn 2007, Statkraft also positioned itself for entering into the solar power sector in Italy and Spain by acquiring shares in several projects.

Together with a local partner, SN Power took over the 360 MW Magat Hydropower Plant in the Philippines. Higher electricity prices and good accessibility have contributed to making the purchase a very satisfactory development. In October, SN Power purchased all the shares in Peruvian company Electroandes SA, which will see SN Power enjoy an almost threefold increase in its installed capacity in Peru. Together with a local partner, SN Power is currently in final negotiations with a Philippine state-owned company concerning the possible takeover of the hydropower plants at Binga and Ambuklao.

### **Financial performance**

New Energy posted a profit before financial items and tax of NOK 602 million in 2007, compared with NOK 9 million in 2006. Gross operating revenues in the period totalled NOK 837 million, an increase of NOK 551 million from 2006. This increase is partly attributable to the recognition of income from fines totalling NOK 540 million imposed as a result of the delayed completion of the three gas power plants.

New Energy owns three wind farms that in 2007 produced a total of 679 GWh, compared with 499 GWh in 2006. Gross operating revenue from the wind farms in 2007 amounted to NOK 164 million, which is a reduction of NOK 23 million on the previous year. This is in spite of there being three wind farms in operation during 2007, as opposed to only two in 2006. The fall can be attributed to low prices. Operating expenses in the business area rose by NOK 100 million to NOK 380 million in 2007 due to increased activity and the commissioning of the Kjøllefjord wind farm.

### **Operations and expansion**

During 2007, several construction projects reached completion. Pålbu hydropower plant was handed over to the Generation & Markets business area in September, while the gas power plant at Herdecke, which is 50% owned by Statkraft, was taken over in October. Herdecke has an installed capacity of 400 MW. Naturkraft AS, which is also 50% owned by Statkraft, took control of the first gas power plant in Norway in December. The Kårstø plant has an installed capacity of 418 MW. Statkraft's wholly-owned gas power plant in Knapsack, Germany was commissioned commercially in January 2008. The plant has an installed capacity of 800 MW. All three gas power plants were built by Siemens. Construction work was completed well under budget there were, however, delays due to quality issues with individual subcontractors.

The wind farms on Smøla, Hitra and in Kjøllefjord generated 679 GWh in 2007, equivalent to the consumption of approximately 34,000 households. Annual production for 2007 represented an increase in relation to 2006 of 180 GWh, which can be attributed to the fact that Kjøllefjord was in operation throughout the year as opposed to two months in 2006. In addition, wind conditions were significantly better in 2007. Generally low prices in 2007 contributed to weaker profits than expected. Work is currently underway in the Norwegian wind power sector to develop a number of major wind farms, and many licence applications are pending decision by the authorities. In total, these applications will be able to provide Statkraft with 1 TWh of new power generation. In the spring of 2007, it was invited to participate in a wide-ranging collaboration concerning the development of a 1000 MW offshore wind farm in 2012. This feasibility study looks at the technological and operational challenges involved in constructing and operating an offshore wind farm at depths of around 60 metres.

The expansion of Leirfossene Power Plant (43 GWh) is the only major power plant Statkraft had under construction at year-end. The project is set up by Trondheim Energi, and is expected to be completed during autumn 2008. In addition to this, Statkraft has taken the decision to install a new aggregate in Svartisen that will be put into regular operation in 2011. During 2007, it was decided to invest in eight new power plants in Småkraft AS, with a total expected production of 115 GWh. Småkraft has licences for a further 11 power plants, which are currently in the construction

preparation phase. Furthermore, some 81 power plants are being processed by NVE, and construction rate in the company is now depending on processing capacity of NVE. Småkraft has entered into waterfall rights agreements totalling 1.9 TWh. In addition, Statkraft holds a significant number of hydropower licences that require final approval from the authorities.

The business area's sickness absence rate is low and was 1.1% in 2007. There was one lost-time injury recorded during 2007, giving an H1 indicator of 9.3.

## Regional

KEY FIGURES			
REGIONAL	Unit	The year	
		2007	2006
Gross operating revenues	NOK mill.	6 879	4 711
Energy purchases and transmission costs	NOK mill.	-2 966	-331
Unrealised changes in value energy contracts	NOK mill.	11	63
Net operating revenues	NOK mill.	3 924	4 443
EBITDA	NOK mill.	2 354	3 129
Operating profit	NOK mill.	1 625	2 461
Share of income from associated companies	NOK mill.	733	827
Profit before financial items and tax	NOK mill.	2 357	3 287
Maintenance investments	NOK mill.	267	267
Investments in new generating capacity	NOK mill.	510	560
Investments in shareholdings	NOK mill.	137	26
Full-time jobs (equivalents)	No.	1 197	1 095
Share of Group's gross operating revenues	%	39	29
Share of Groups's full-time jobs (equivalents)	%	52	52

The Regional business unit is responsible for managing and developing Statkraft's shareholdings in Norwegian regional power utilities. Statkraft participates in the entire value chain through its shareholdings in these companies. Trondheim Energi, Skagerak Energi and Fjordkraft are included in the consolidated financial statements. BKK and Agder Energi are reported as associated companies.

### Highlights in 2007

The business area manages the Group's industrial shareholding with the aim of developing and streamlining all parts of the value chain in order to satisfy customer requirements in the best possible way. During the year, the organisational structure of each one of the business units was reviewed, the

purpose of which was the identification of competitive business models that meet the challenges posed by the various business units. The results of the review will be implemented during 2008.

Grid operations in the Group will be organised within the existing legal structure in accordance with a business model that involves a clear and enhanced level of coordination between Skagerak Nett and Trondheim Energi Nett. Using these two companies as a starting point, the Group will participate in what is anticipated to be a consolidation of the industry. Support functions in metering, settlement, invoicing and collection will be organised in accordance with a national business model created through the merger of Nota and Enita.

With respect to district heating, the Group's aim is to realise a significant proportion of the growth potential of the segment, both in Norway and outside the regional companies' geographical core markets. A joint district heating initiative within the Statkraft Group will take its cue from the organisational structure of Trondheim Energi Fjernvarme. The national business model will be able to handle shared ownership involving regional players and ownership of district heating systems abroad. The growth targets will be realised by collaborating with local players that have secured, or will be able to secure, district heating operator's licences.

The Group's power sales operations offer significant economies of scale, and should therefore be organised in accordance with a national business model. To this end, Statkraft has taken the initiative to merge its subsidiaries Fjordkraft and Trondheim Energi Kraftsalg. Such a merger will give a real boost to levels of competitiveness and profitability.

The new waste incineration plant at Heimdal district heating centre in Trondheim and the new district heating pipeline from Heimdal to Midtbyen were officially opened on 27 September 2007. The new incineration plant has a capacity of up to 120,000 tonnes of waste and generates 40 MW of heat. At the moment, the total amount of heat generated by district heating systems stands at around 500 GWh, enough to satisfy 1/3 of the heat requirement of Trondheim. With the new plant in operation, Heimdal district heating centre will burn around 175,000 tonnes of waste during 2008. Some 12 km of pipe have been laid in the direction of central Trondheim to increase

the transmission capacity of district heating. In total, the company has 155 km of district heating pipeline. In the selection of technical solutions for the plant, great emphasis is placed on minimising environmental impact and ensuring efficient energy usage.

When the letter of intent with E.ON AG concerning the exchange of shares is realised, Statkraft will assume control over the company's district heating plants in Sweden. These plants will be coordinated with the other district heating initiative in the Group. In addition, there are concrete plans in place concerning the expansion of district heating for several towns in Vestfold and Telemark. As part of this, Skagerak Energi has established a subsidiary, Skien Fjernvarme, in collaboration with local players.

End-user companies Fjordkraft and Trondheim Energi introduced several products to businesses and private customer who want to contribute towards sustainable development that has a reduced environmental impact. The companies supply power that is guaranteed to be generated from 100% hydropower. Another product offered is fixed prices with the right to return. This product gives customers incentives to cut back on their energy use during peak periods by making surplus power available to the rest of the market. This reduces the need for imported power generated from more polluting sources. The companies also offer UN-approved carbon quotas to customers who want to make their business carbon neutral.

In the first half of 2007, Trondheim Energi Nett took the initiative to a merger of power companies in central Norway by submitting bids for the grid and end-user operations of TrønderEnergi, Malvik Everk and Orkdal Energi. With Trondheim Energi Nett's leading edge expertise in efficient operations and management such a merger will result in a significant improvement in efficiency and thus result in lower transmission cost for the customers. The issue is unresolved and it is not clear to what extent there is basis for further negotiations.

The construction of a new power plant in Leirfossene on the Nidelven river under the direction of Trondheim Energi is on schedule, and is set to be commissioned during the third quarter of 2008. The power plant will replace the old facilities at Øvre and Nedre Leirfoss and will return an average production of 193 GWh, of which 43 GWh will be new power.

Statkraft is currently focused on utilising the Group's collective expertise in the best possible way and is actively working on further developing the business and assignments linked to its subsidiaries. The analysis team in Trondheim Energi is strengthened and has now acquired a central role in relation to the energy optimisation of the Group. Trondheim Energi will handle the follow-up of a major R&D programme focusing on ocean energy.

### **Financial performance**

The Regional business area recorded gross operating revenues in 2007 of NOK 6,879 million, which equates to 39% of Group revenues. The business area posted an operating profit for 2007 of NOK 1,625 million, which represents a decrease of NOK 836 million on 2006. There was a significant year-on-year reduction in the market price of electricity, which resulted in a reduction in profits for the Group's subsidiaries.

Associated companies Agder Energi and BKK, as well as associated companies in Trondheim Energi, Skagerak Energi and Fjordkraft, contributed NOK 733 million. This is slightly less than in 2006. Significantly higher levels of power production and favourable financial hedging transactions have, to a large extent, counteracted lower market prices. In addition, other business areas have shown an upturn in profits.

The business unit posted an overall profit before financial items and tax of NOK 2,357 million. This represents a decrease of NOK 930 million compared with 2006 and is equivalent to 24% of the Group's total profit before financial items and tax.

The Generation & Hedging segment accounted for NOK 2,015 million of the Regional business unit's profit before financial items and tax. Grid operations contributed NOK 474 million, power sales to end-users NOK 87 million and district heating NOK 70 million. The net effect from other segments, shared services and eliminations was a negative contribution of NOK 289 million.

### **Operations**

The business unit's companies generally maintained stable operations and production during 2007.

Having implemented an extensive reorganisation project, Skagerak Nett made significant progress in 2007. The reorganisation has led to a reduction in the

company's workforce, the drafting of a new refinancing strategy and the streamlining of work processes. The company is well positioned to enjoy further benefits from this work for years to come. Trondheim Energi Nett has for some time had efficient grid operations, which has enabled the residents of Trondheim to enjoy one of the lowest grid rental prices in Norway. Significant synergies have been

derived by coordinating the power generation activities of Statkraft and Trondheim Energi.

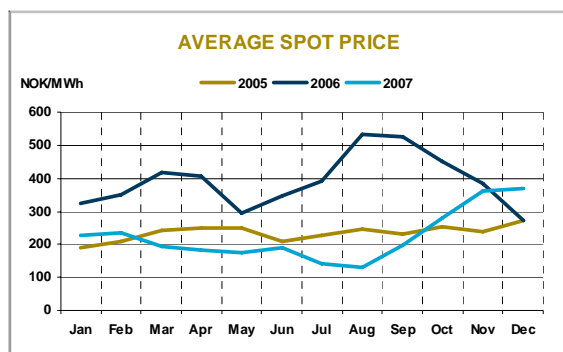
The sickness absence rate in the business unit during 2007 was 4.6%. There were 15 lost-time injuries during the year, giving an H1 indicator of 6.8. There has also been a further 24 injuries in 2007 that did not result in absence from work.

## Markets

### The Nordic power market

The system price rose substantially during the fourth quarter; from an average monthly price of NOK 198/MWh in September to NOK 369/MWh in December. Precipitation levels during the quarter were normal and consumption was high in spite of relatively warm weather. In Norway, consumption in both November and December was at an all-time high.

The average system price for the year was significantly lower in 2007 than in 2006 in the Nordic market. Prices were impacted by a strong hydrological balance. Precipitation and inflow levels were higher than normal, while consumption was higher than in 2006. The average spot price for the year was NOK 224/MWh, compared with NOK 391/MWh in 2006 and NOK 235/MWh in 2005.



Total power consumption in the Nordic region was 4.9 TWh higher than in 2006, an increase of 1.3%. Total year-on-year consumption in Norway increased by 4.0% compared with 2006, primarily as the result of increased demand for power from industry, electric boilers and higher pump power consumption. At year-end, general power consumption in Norway was 85.8 TWh, which represents an increase of 3.3% on the previous year. The whole of 2007, particularly the first quarter,

was significantly milder than normal and consumption adjusted for temperature fluctuations in the period was 89.0 TWh, an increase of 2.3% on the previous year.

The Nordic power generation area produced 13.6 TWh more electricity during 2007 than in 2006, representing an increase of 3.6%. Production was significantly higher in the Nordic area during the second half of 2007 (189.6 TWh) than during the corresponding period in 2006 (173.6 TWh). Output from Norwegian hydropower plants was also higher in the second half of 2007, totalling 69.3 TWh - 16.3 TWh higher than during the corresponding period in 2006. During 2007, Norway had a net export of 10.1 TWh as opposed to a net import of 0.7 TWh in 2006. Although low production and high imports were expected in light of the low reservoir levels at the start of 2007, large volumes of precipitation and low consumption during the first part of the year meant that the opposite proved to be the case. Net imports to the Nordic market totalled 2.7 TWh, primarily sourced from Russia, while there was a net export to Germany.

#### POWER CONSUMPTION AND OUTPUT IN THE NORDIC AREA

TWh	2007	2006	2005	Change 2006-2007
Nordic consumption	395,4	390,5	390,0	1,3 %
Nordic output	392,7	379,1	391,0	3,6 %
Net Nordic imports (+) / exports (-)	2,7	11,4	-1,0	-
Norwegian consumption	126,0	121,2	124,7	4,0 %
Norwegian output	136,1	120,4	136,9	13,0 %
Norwegian imports (+) / exports (-)	-10,1	0,8	-12,2	-

Sources: "Nord Pool Nordic electricity market information" for the weeks 52/2007, 52/2006 and 52/2005, and "Nord Pool Landsrapport Norge" (Nord Pool Country Report Norway) for the weeks 52/2007, 52/2006 and 52/2005.

By the end of 2007, water levels in the Nordic region's reservoirs were 107.7% of normal levels and 75.5% of maximum reservoir capacity.

## HSE and the workforce

At the end of the fourth quarter of 2007, the Group employed the equivalent of 2,287 full-time employees, 200 more than at the end of 2006. The increase is attributable to the consolidation of Fjordkraft, project development, innovation activities and the development of gas expertise.

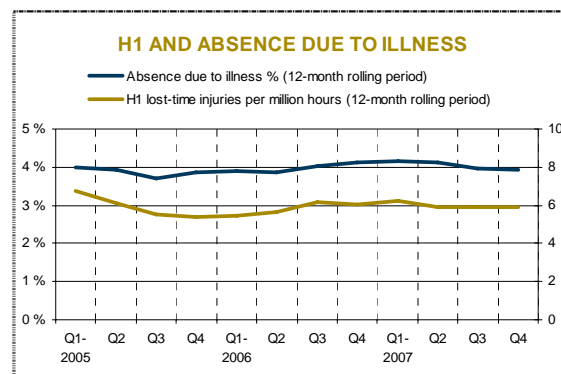
### KEY FIGURES, HSE

STATKRAFT AS GROUP	Q4		
	2007	2006	2005
Full-time jobs (equivalent) 31 December	2 287	2 087	1 971
H1 (lost-time injuries per million hours)	7,2	7,2	13,7
H2 (all injuries per million hours)	24,2	17,5	25,1
F (days lost through injury per million hours)	48	135	142
Absence due to illness (%)	3,9	4,2	3,6

Eight lost-time injuries were recorded in the Group in the fourth quarter of 2007, compared to seven in the fourth quarter of 2006. In addition, one lost-time injury was also recorded among the Group's suppliers. The H1 indicator for the fourth quarter was 7.2, which is identical to that recorded in the fourth quarter of 2006. This is an unsatisfactory result in relation to safety. Good planning in all operations will continue to be a priority. The Group's H1 indicator for 2007 was 5.9. Lost-time injuries were equally distributed between Trondheim Energi and the Generation & Markets business area, with each incident resulting in two to six days of absence. This resulted in an F indicator (number of days lost per million working hours) of 48, which is significantly lower than the same period in 2006 (135). There were a total of 24 injuries in the Group during the fourth quarter, compared with 17 in the same period of 2006. This resulted in an H2 indicator of 16.5 (15.9). The causes of all incidents were investigated, and remedial measures were implemented where relevant. The results highlight the need for increased focus on risk evaluation with regard to health and safety in connection with work planning.

The sickness absence rate in the Group was 3.9% in 2007, compared with 4.1% in 2006. The target for the Group is to achieve an absence rate of less than 4%. During 2007, the Group implemented a joint health project,

"Energy for Life", the purpose of which was to encourage physical activity and to promote health-promoting initiatives in all units throughout the Group. Many units reported increased physical activity.



There were no serious environmental non-compliances in the Group during the fourth quarter, although there were seven less serious environmental non-compliances and 17 less serious environmental incidents. The less serious environmental non-compliances concerned four instances of short-term breaches of river management regulations, one minor emission of oil and incorrect storage of oil. All environmental non-compliances and incidents were managed in accordance with the units' non-compliance systems. In total, one serious environmental non-compliance, zero environmental incidents and 23 less serious environmental non-compliances were recorded during 2007. No harm to the environment was recorded as a result of the serious environmental non-compliance.

Commencing 1 January 2008, the Statkraft Group decided to purchase carbon quotas to compensate for emissions linked to transportation and accidental release of greenhouse gases. This is achieved by participating in the Kyoto Protocol's mechanisms for emission-reducing projects in developing countries. A periodic audit of Statkraft's current environment management system was conducted in the fourth quarter. The audit identified four non-compliances, all of which must be addressed within specified deadlines.

## Outlook

Statkraft has grown substantially during 2007. The company recently completed the development of three gas-fired power plants, and has also commissioned several hydropower plants and a district heating plant. Combined, this produces an annual increase in production capacity of around 7 TWh. The letter of intent signed with E.ON AG concerning the sale of shares in E.ON Sverige in exchange for assets and shares in E.ON AG will provide the group with a further 7 TWh of production capacity. This will see Statkraft's production increase by 33%. In addition to this the agreement entered into with SCA during 2007 concerning a joint initiative to examine the potential for developing hydro and wind power in Sweden, and the investments made in SN Power for power plants in the Philippines, Chile and Peru. Thanks to the strategy it has adopted, Statkraft is in an excellent position to experience continued growth and development in Norway and internationally.

High inflow levels during 2007 and relatively full snow reservoirs mean that the current resource situation is robust. Forward prices indicate price levels will be higher in 2008 than they were in 2007. This, coupled with the increased production capacity available, provides the basis for relatively high power production during 2008 and an increase in revenues from power sales. However, uncertainty attaches to the price development.

The Group has a strong focus on innovation and the development of new technologies for

power production. Work on developing new, profitable investments in hydro, wind and gas power generation in both the Norwegian and European markets will continue. In addition, Statkraft has also taken the decision to build the world's first prototype osmotic power plant. The facility at Hurum constitutes an important step on the road to the development of a commercially viable plant. During 2007, Statkraft entered into an extensive collaboration agreement with the Norwegian University of Science and Technology (NTNU), focusing on research in the field of ocean energy, with aim of becoming Europe's leading skills and educational network in this area. In addition, the company also entered into several other agreements, which may result in possible developments of solar power in Italy and Spain.

The EU's energy and climate policy up to 2020 is expected to form the basis for Statkraft's growth in respect of renewable energy and flexible power production. This includes stricter CO<sub>2</sub> emissions standards, higher targets in terms of the expansion of renewable energy and a more integrated European energy market. Broad political agreement on future climate targets in Norway, including the re-opening of negotiations in respect of a Norwegian-Swedish certificate market, is expected to strengthen the case for expanding renewable energy in Norway when viewed in conjunction with the effects of EU directives. By investing in hydro, wind and gas power generation, Statkraft is well equipped to participate in this development.

Oslo, 13 February 2008  
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