



**STATKRAFT SF**  
**INTERIM REPORT**  
**Q4/06**



**Statkraft**

# STATKRAFT SF GROUP

## FOURTH QUARTER 2006 AND PRELIMINARY RESULTS FOR THE 2006 FINANCIAL YEAR

### Summary

2006 was a very good year for Statkraft. Gross operating revenues rose by 7 per cent to more than NOK 16 billion. Profit before tax rose by NOK 1.2 billion to just over NOK 9.8 billion, while profit after tax totalled almost NOK 6.3 billion, compared with NOK 6 billion in 2005. This represents an improvement of 5 per cent.

In the fourth quarter profit before tax totalled NOK 2,418 million, a drop of NOK 732 million compared with the year before. NOK 381 million of this can be ascribed to net positive non-recurring items in 2005. Adjusted for this, profit before tax fell by NOK 351 million (11 per cent). The weaker performance of underlying operations was due largely to lower production and weaker results from associated companies.

Electricity prices were high through most of the year, but fell sharply towards the end of the fourth quarter. Prices in December were at the same level as in the corresponding month in 2005. The spot price averaged NOK 391/MWh in 2006, 66 per cent higher than the year before. This can largely be ascribed to the fact that the inflow into the company's hydropower reservoirs was lower than normal for most of the year, as well as to temporary shutdowns at several nuclear power plants in Sweden. The increase in spot prices is reflected in the company's revenues from net physical spot sales, which rose by 35 per cent for the year as a whole. However, higher spot sales revenues were offset by a substantial fall in revenues from hedging activities. Compared with 2005, production also fell in the fourth quarter, so that output for the year as a whole fell by 2.9 TWh (6 per cent).

The Norwegian national budget for 2007 requires Statkraft to pay to the Norwegian state a dividend amounting to 98 per cent of group profit after tax and minority shares. This corresponds to NOK 5,857 million.

During the fourth quarter it became clear that the Svartisen power plant would be out of operation until the middle of March 2007 as a result of damage to the generator. It has been decided to invest in an additional 250 MW generator at the power plant, which currently has an installed capacity of 350 MW and a mean annual output of 2.2 TWh.

In 2006 Statkraft's subsidiary Trondheim Energiverk completed the construction of a district heating pipeline from the Heimdal central heating plant to the centre of Trondheim. The associated expansion of the central heating plant is expected to be completed during the fourth quarter 2007. In October 2006 the Kjøllefjord wind farm went into production. Construction of the three gas-fired power plants – two in Germany and one in Norway – is expected to be completed during the second half of 2007, as is the Pålсбу hydropower plant. Construction of the new Leirfossene power plants in Nidelva remains on schedule. The plants are expected to go into operation during the summer of 2008.

## **Statkraft SF's business**

Statkraft SF's object is to own all the shares in Statkraft AS and provide that company with loans. In addition, Statkraft SF owns certain assets which may not formally be transferred to Statkraft AS. This applies to power plants which have reverted to state ownership and which have been leased out to third parties, and to plants which will fall to Statkraft SF upon their reversion to state ownership, as well as to certain international investments (Asian Power Invest AB and Nordic Hydropower AB).

Statkraft SF's consolidated financial statements will, with the exception of the retained assets, be identical to the consolidated financial statements for its subsidiary the Statkraft AS Group.

The closing balance for the fourth quarter 2006 showed that the total assets of the Statkraft SF Group were worth NOK 623 million more than those of the Statkraft AS Group. NOK 1,040 million of this sum corresponds to the book value of the power plants that have been leased to third parties and the above-mentioned international investments, while changes in current items and cash and cash equivalents were NOK 417 million lower.

The Statkraft SF Group had almost NOK 3 billion more in long-term interest-bearing debt than the Statkraft AS Group since Statkraft SF has borrowed NOK 3 billion from an established line of credit in order to finance the payment of dividend for the 2004 financial year. At the end of the fourth quarter interest-bearing debt totalled NOK 32.7 billion, compared with NOK 32.4 billion at the end of 2005. The interest-bearing debt ratio stood at 49.2 per cent, compared with 47.7 per cent in 2005. Current assets, excluding cash and cash equivalents, totalled NOK 5.0 billion, while short-term interest-free liabilities totalled NOK 13.3 billion.

In the Income Statement, the difference between Statkraft SF and Statkraft AS is largely composed of revenues and expenses linked to the ongoing operation of the retained assets. These differences, which are presented in the following table, are relatively modest.

## Income Statement

The Year 2006

| Amounts in NOK million                  | Statkraft SF<br>Group | Statkraft AS<br>Group | Difference  |
|---|-----------------------|-----------------------|-------------|
| Power revenues                          | 13 114                | 13 072                | 42          |
| Other operating revenues                | 3 289                 | 3 153                 | 136         |
| <b>Gross operating revenues</b>         | <b>16 403</b>         | <b>16 225</b>         | <b>178</b>  |
| Transmission costs                      | -968                  | -968                  | -           |
| <b>Net operating revenues</b>           | <b>15 435</b>         | <b>15 256</b>         | <b>178</b>  |
| Salaries and other payroll costs        | 1 315                 | 1 313                 | 2           |
| Compensation and licence fees           | 339                   | 331                   | 8           |
| Other operating expenses                | 1 644                 | 1 560                 | 84          |
| Ordinary depreciation                   | 1 522                 | 1 501                 | 22          |
| Property tax                            | 618                   | 599                   | 19          |
| <b>Operating expenses</b>               | <b>5 437</b>          | <b>5 304</b>          | <b>133</b>  |
| <b>Operating profit</b>                 | <b>9 997</b>          | <b>9 952</b>          | <b>45</b>   |
| <b>Share of profits from associates</b> | <b>1 734</b>          | <b>1 689</b>          | <b>45</b>   |
| Financial income                        | 264                   | 272                   | -8          |
| Financial expenses                      | -2 193                | -2 087                | -105        |
| <b>Net financial items</b>              | <b>-1 929</b>         | <b>-1 816</b>         | <b>-113</b> |
| <b>Profit before tax</b>                | <b>9 802</b>          | <b>9 826</b>          | <b>-24</b>  |
| Taxes                                   | -3 480                | -3 541                | 61          |
| <b>Net profit</b>                       | <b>6 322</b>          | <b>6 285</b>          | <b>37</b>   |
| Of which minority interest              | 346                   | 346                   | -           |
| Of which majority interest              | 5 976                 | 5 939                 | 37          |

Further details regarding Statkraft's operations and financial results for the year are presented in the enclosed quarterly report for the Statkraft AS Group.

Oslo, 14 February 2007  
The Board of Directors of Statkraft SF

# STATKRAFT SF GROUP

## INCOME STATEMENT

| Figures in NOK million                            | Fourth quarter |              | The year      |               |
|---|----------------|--------------|---------------|---------------|
|   | 2006           | 2005         | 2006          | 2005          |
| Power sales revenues                              | 3 119          | 3 610        | 13 114        | 11 571        |
| Other operating revenues                          | 1 047          | 1 842        | 3 289         | 3 770         |
| <b>Gross operating revenues</b>                   | <b>4 166</b>   | <b>5 452</b> | <b>16 403</b> | <b>15 341</b> |
| Transmission costs                                | -275           | -251         | -968          | -746          |
| <b>Net operating revenues</b>                     | <b>3 891</b>   | <b>5 201</b> | <b>15 435</b> | <b>14 595</b> |
| Salaries and payroll costs                        | 407            | 422          | 1 315         | 1 352         |
| Compensation and licence fees                     | 96             | 104          | 339           | 350           |
| Other operating expenses                          | 511            | 767          | 1 644         | 1 955         |
| Ordinary depreciation and write-downs             | 390            | 809          | 1 522         | 1 909         |
| Property tax                                      | 162            | 129          | 618           | 502           |
| <b>Operating expenses</b>                         | <b>1 566</b>   | <b>2 230</b> | <b>5 437</b>  | <b>6 067</b>  |
| <b>Operating profit</b>                           | <b>2 326</b>   | <b>2 970</b> | <b>9 997</b>  | <b>8 528</b>  |
| <b>Share of profits from associated companies</b> | <b>547</b>     | <b>637</b>   | <b>1 734</b>  | <b>1 605</b>  |
| Financial income                                  | 92             | -200         | 264           | 845           |
| Financial expenses                                | -547           | -258         | -2 193        | -2 395        |
| <b>Net financial items</b>                        | <b>-455</b>    | <b>-458</b>  | <b>-1 929</b> | <b>-1 550</b> |
| <b>Profit before tax</b>                          | <b>2 418</b>   | <b>3 150</b> | <b>9 802</b>  | <b>8 583</b>  |
| Taxes   | -708           | -1 041       | -3 480        | -2 553        |
| <b>Net profit</b>                                 | <b>1 710</b>   | <b>2 109</b> | <b>6 322</b>  | <b>6 030</b>  |
| Of which minority interest                        | 133            | 67           | 346           | 176           |
| Of which majority interest                        | 1 577          | 2 042        | 5 976         | 5 853         |

## BALANCE SHEET

| Figures in NOK million                     | 31.12.06      | 31.12.05      |
|--|---------------|---------------|
| <b>ASSETS</b>                              |               |               |
| Intangible assets                          | 6 555         | 6 270         |
| Property, plant and equipment              | 51 511        | 47 978        |
| Investments in subsidiaries and associates | 31 229        | 29 047        |
| Other financial fixed assets               | 1 008         | 657           |
| <b>Fixed assets</b>                        | <b>90 302</b> | <b>83 953</b> |
| Inventories                                | 55            | 50            |
| Receivables                                | 4 559         | 3 436         |
| Short-term financial investments           | 379           | 335           |
| Cash and cash equivalents                  | 1 880         | 4 619         |
| <b>Current assets</b>                      | <b>6 873</b>  | <b>8 441</b>  |
| <b>Assets</b>                              | <b>97 175</b> | <b>92 394</b> |
| <b>EQUITY AND LIABILITIES</b>              |               |               |
| Paid-in capital                            | 29 250        | 29 250        |
| Retained earnings                          | 4 594         | 4 811         |
| Minority interests                         | 2 492         | 3 953         |
| <b>Equity</b>                              | <b>36 335</b> | <b>38 014</b> |
| Provisions                                 | 12 284        | 10 320        |
| Subordinated loans                         | -             | 54            |
| Interest-bearing long-term liabilities     | 32 726        | 32 409        |
| <b>Long-term liabilities</b>               | <b>45 010</b> | <b>42 782</b> |
| Interest-bearing current liabilities       | 2 493         | 2 240         |
| Taxes payable                              | 3 999         | 2 237         |
| Other non-interest-bearing liabilities     | 9 338         | 7 119         |
| <b>Current liabilities</b>                 | <b>15 829</b> | <b>11 596</b> |
| <b>Equity and liabilities</b>              | <b>97 175</b> | <b>92 394</b> |

## CHANGES IN EQUITY

| Figures in NOK million                      | 31.12.06      | 31.12.05 |
|---|---------------|----------|
| <b>Paid-in capital 31.12</b>                | <b>29 250</b> | 29 250   |
| Retained earnings 01.01                     | 4 811         | 3 623    |
| Net profit for the period                   | 5 976         | 5 853    |
| Implementation of new accounting principles | -181          | -        |
| Estimate deviation pensions                 | -479          | -        |
| Dividend                                    | -5 857        | -4 720   |
| Change due to acquisitions                  | -104          | 123      |
| Change in translation differences           | 428           | -68      |
| <b>Retained earnings 31.12</b>              | <b>4 594</b>  | 4 811    |
| Minority interests 01.01                    | 3 953         | 3 966    |
| Net profit for the period                   | 346           | 176      |
| Implementation of new accounting principles | -21           | -        |
| Estimate deviation pensions                 | -58           | -        |
| Capital reduction                           | -1 035        | -        |
| Dividend 31.12                              | -431          | -101     |
| Extraordinary dividends                     | -197          | -        |
| Exit minority interests                     | -             | -        |
| Change due to acquisitions                  | -82           | -124     |
| Change in translation differences           | 17            | 36       |
| <b>Minority interests 31.12</b>             | <b>2 492</b>  | 3 953    |
| <b>Equity 31.12</b>                         | <b>36 335</b> | 38 014   |

## CASH FLOW STATEMENT

| Figures in NOK million                         | The year      |        |
|--|---------------|--------|
|  | 2006          | 2005   |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>     |               |        |
| Profit before tax                              | 9 802         | 8 582  |
| Gain/loss on sales of fixed assets             | -6            | -276   |
| Ordinary depreciation and write-downs          | 1 522         | 1 909  |
| Share of profits from associated companies     | -1 734        | -1 605 |
| Taxes  | -2 072        | -908   |
| <b>Cash flow from operating activities</b>     | <b>7 512</b>  | 7 702  |
| Changes in long-term items                     | -645          | 1 933  |
| Changes in current items                       | -1 601        | 1 345  |
| Dividend from associates                       | 1 126         | 971    |
| <b>Net cash flow from operating activities</b> | <b>6 392</b>  | 11 952 |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>     |               |        |
| Investments in property, plant and equipment   | -3 695        | -2 238 |
| Proceeds from sales of fixed assets            | 63            | 39     |
| Loans to third parties                         | -20           | -42    |
| Repayment of loans to third parties            | 5             | 98     |
| Investments in other companies                 | -497          | -4 511 |
| Proceeds from the sale of other companies      | -             | 2 029  |
| <b>Net cash flow from investing activities</b> | <b>-4 144</b> | -4 625 |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>     |               |        |
| New long-term debt                             | 6 584         | 3 992  |
| Repayment of long-term debt                    | -5 617        | -9 483 |
| Capital reduction                              | -1 035        | -      |
| Dividend paid                                  | -4 917        | -3 474 |
| <b>Net cash flow from financing activities</b> | <b>-4 985</b> | -8 965 |
| <b>Net change in cash and cash equivalents</b> | <b>-2 737</b> | -1 638 |
| Currency effect on cash flows                  | -2            | -27    |
| Cash and cash equivalents 01.01                | 4 619         | 6 283  |
| Cash and cash equivalents 31.12                | 1 880         | 4 619  |

## SEGMENTS

|  | Statkraft SF Group | Generation & Hedging | Trading and Origination | Distribution grid | Retail sales | District heating | Development | Other  | Group functions and eliminations |
|--|--------------------|----------------------|-------------------------|-------------------|--------------|------------------|-------------|--------|----------------------------------|
| <b>Figures in NOK million</b>              |                    |                      |                         |                   |              |                  |             |        |                                  |
| <b>Fourth quarter 2006</b>                 |                    |                      |                         |                   |              |                  |             |        |                                  |
| Gross operating revenues                   | 4 166              | 3 382                | 262                     | 529               | 237          | 83               | 13          | -23    | -316                             |
| Ordinary depreciation and write-downs      | 390                | 261                  | 2                       | 103               | 4            | 8                | 0           | -5     | 17                               |
| Other operating expenses                   | 1 451              | 921                  | 154                     | 254               | 226          | 54               | 56          | 12     | -225                             |
| Operating profit                           | 2 326              | 2 201                | 106                     | 173               | 7            | 21               | -44         | -30    | -108                             |
| Share of profits from associated companies | 547                | 251                  | 18                      | 21                | 29           | 1                | 0           | 253    | -36                              |
| Profit before financial items and tax      | 2 873              | 2 452                | 124                     | 194               | 36           | 21               | -44         | 223    | -145                             |
| <b>The year 2006</b>                       |                    |                      |                         |                   |              |                  |             |        |                                  |
| Gross operating revenues                   | 16 403             | 13 978               | 669                     | 1 772             | 780          | 272              | 35          | 213    | -1 317                           |
| Ordinary depreciation and write-downs      | 1 522              | 1 015                | 6                       | 393               | 15           | 32               | 1           | 1      | 60                               |
| Other operating expenses                   | 4 883              | 3 530                | 413                     | 794               | 761          | 182              | 165         | 196    | -1 158                           |
| Operating profit                           | 9 997              | 9 433                | 250                     | 585               | 5            | 58               | -131        | 15     | -219                             |
| Share of profits from associated companies | 1 734              | 606                  | 37                      | 111               | 21           | 1                | 0           | 1 098  | -124                             |
| Profit before financial items and tax      | 11 731             | 10 039               | 287                     | 696               | 26           | 59               | -131        | 1 113  | -342                             |
| <b>Balance sheet 31.12.06</b>              |                    |                      |                         |                   |              |                  |             |        |                                  |
| Investment in associated companies         | 31 229             | 9 708                | 44                      | 1 962             | 331          | 56               | 4           | 18 751 | 372                              |
| Other assets                               | 65 945             | 46 083               | 821                     | 5 902             | 477          | 1 456            | 268         | 490    | 10 450                           |
| Total assets                               | 97 175             | 55 790               | 866                     | 7 864             | 808          | 1 511            | 272         | 19 241 | 10 823                           |
| Current liabilities                        | 15 829             | 6 461                | 503                     | 548               | 258          | 443              | 273         | 233    | 7 111                            |
| Non-interest-bearing long-term liabilities | 12 284             | 10 891               | 32                      | 795               | 33           | 59               | 23          | 93     | 357                              |
| Interest-bearing long-term liabilities     | 32 726             | -                    | -                       | -                 | -            | -                | -           | -      | 32 726                           |
| Total liabilities                          | 60 839             | 17 352               | 535                     | 1 343             | 290          | 502              | 296         | 326    | 40 194                           |
| 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     | -                                |
| <b>Fourth quarter 2005</b>                 |                    |                      |                         |                   |              |                  |             |        |                                  |
| Gross operating revenues                   | 5 452              | 5 216                | 146                     | 504               | 179          | 78               | 11          | 63     | -746                             |
| Ordinary depreciation and write-downs      | 809                | 629                  | 1                       | 84                | 4            | 8                | 32          | 1      | 49                               |
| Other operating expenses                   | 1 673              | 1 713                | 100                     | 226               | 174          | 42               | 11          | 56     | -651                             |
| Operating profit                           | 2 970              | 2 874                | 45                      | 194               | 2            | 27               | -32         | 6      | -144                             |
| Share of profits from associated companies | 637                | 155                  | 1                       | 15                | 13           | -3               | 0           | 427    | 28                               |
| Profit before financial items and tax      | 3 608              | 3 029                | 46                      | 209               | 15           | 24               | -32         | 434    | -116                             |
| <b>The year 2005</b>                       |                    |                      |                         |                   |              |                  |             |        |                                  |
| Gross operating revenues                   | 15 341             | 13 520               | 579                     | 1 634             | 536          | 235              | 25          | 218    | -1 405                           |
| Ordinary depreciation and write-downs      | 1 909              | 1 339                | 8                       | 377               | 15           | 33               | 32          | 1      | 105                              |
| Other operating expenses                   | 4 905              | 3 856                | 436                     | 774               | 531          | 140              | 131         | 204    | -1 168                           |
| Operating profit                           | 8 528              | 8 325                | 135                     | 482               | -10          | 62               | -138        | 13     | -341                             |
| Share of profits from associated companies | 1 605              | 426                  | 3                       | 30                | -1           | -6               | 0           | 1 181  | -28                              |
| Profit before financial items and tax      | 10 133             | 8 752                | 138                     | 512               | -11          | 56               | -138        | 1 194  | -369                             |
| <b>Balance sheet 31.12.05</b>              |                    |                      |                         |                   |              |                  |             |        |                                  |
| Investment in associated companies         | 29 047             | 9 378                | 7                       | 1 914             | 347          | 57               | 5           | 16 977 | 361                              |
| Other assets                               | 63 347             | 60 290               | 703                     | 5 985             | 303          | 1 052            | 1 627       | 1 063  | -7 677                           |
| Total assets                               | 92 394             | 69 668               | 710                     | 7 900             | 650          | 1 110            | 1 632       | 18 040 | -7 315                           |
| Current liabilities                        | 11 596             | 11 007               | 1 185                   | 621               | 79           | 83               | 178         | 917    | -2 472                           |
| Non-interest-bearing long-term liabilities | 10 320             | 9 435                | 4                       | 639               | 45           | 60               | 9           | 45     | 83                               |
| Interest-bearing long-term liabilities     | 32 463             | -                    | -                       | -                 | -            | -                | -           | -      | 32 463                           |
| Total liabilities                          | 54 379             | 20 442               | 1 188                   | 1 260             | 124          | 143              | 186         | 963    | 30 074                           |
| Maintenance investments                    | 471                | 254                  | -                       | 132               | -            | 2                | -           | 40     | 43                               |
| Investments in new capacity                | 1 767              | 1 388                | -                       | 147               | -            | 232              | -           | -      | -                                |
| Investments in shareholdings               | 4 511              | 4 501                | -                       | -                 | -            | -                | -           | 10     | -                                |

# STATKRAFT SF

## INCOME STATEMENT

| Figures in NOK million                | Fourth quarter |       | The year |        |
|---------------------------------------|----------------|-------|----------|--------|
|                                       | 2006           | 2005  | 2006     | 2005   |
| <b>Net operating revenues</b>         | 29             | 35    | 141      | 142    |
| Salaries and payroll costs            | -              | 4     | -        | 4      |
| Compensation and licence fees         | 2              | 2     | 8        | 8      |
| Other operating expenses              | 23             | 11    | 91       | 75     |
| Ordinary depreciation and write-downs | 4              | 4     | 16       | 14     |
| Property tax                          | 12             | 2     | 19       | 9      |
| <b>Operating expenses</b>             | 42             | 23    | 133      | 110    |
| <b>Operating profit</b>               | -13            | 13    | 8        | 32     |
| Financial income                      | 7 754          | 5 111 | 8 773    | 6 538  |
| Financial expenses                    | -305           | -318  | -1 268   | -1 711 |
| <b>Net financial items</b>            | 7 450          | 4 793 | 7 505    | 4 827  |
| <b>Profit before tax</b>              | 7 436          | 4 805 | 7 513    | 4 859  |
| Taxes                                 | -1 852         | -496  | -1 820   | -199   |
| <b>Net profit for the period</b>      | 5 584          | 4 309 | 5 693    | 4 660  |

## BALANCE SHEET

| Figures in NOK million                     | 31.12.06 | 31.12.05 |
|--|----------|----------|
| <b>ASSETS</b>                              |          |          |
| Intangible assets                          | 391      | 391      |
| Property, plant and equipment              | 418      | 414      |
| Investments in subsidiaries and associates | 32 046   | 32 165   |
| Other financial fixed assets               | 15 068   | 19 225   |
| <b>Fixed assets</b>                        | 47 922   | 52 195   |
| Receivables                                | 7 847    | 5 215    |
| Cash and cash equivalents                  | 102      | 119      |
| <b>Current assets</b>                      | 7 949    | 5 334    |
| <b>Assets</b>                              | 55 871   | 57 529   |
| <b>EQUITY AND LIABILITIES</b>              |          |          |
| Paid-in capital                            | 29 250   | 29 250   |
| Retained earnings                          | 57       | 217      |
| <b>Equity</b>                              | 29 307   | 29 467   |
| Provisions                                 | 136      | 121      |
| Interest-bearing long-term liabilities     | 18 271   | 22 678   |
| <b>Long-term liabilities</b>               | 18 406   | 22 799   |
| Interest-bearing current liabilities       | 18       | 17       |
| Taxes payable                              | 1 838    | 40       |
| Other non-interest-bearing liabilities     | 6 302    | 5 207    |
| <b>Current liabilities</b>                 | 8 158    | 5 264    |
| <b>Equity and liabilities</b>              | 55 871   | 57 529   |

## CASH FLOW STATEMENT

| Figures in NOK million                         | The year |      |
|--|----------|------|
|  | 2006     | 2005 |
| Net cash flow from operating activities        | 4 957    | -337 |
| Net cash flow from investing activities        | 4 416    | -9   |
| Net cash flow from financing activities        | -9 389   | -402 |
| <b>Net change in cash and cash equivalents</b> | -17      | -748 |
| Cash and cash equivalents 01.01                | 119      | 867  |
| Cash and cash equivalents 31.12                | 102      | 119  |

## CHANGES IN EQUITY

| Figures in NOK million                  | 31.12.06 | 31.12.05 |
|---|----------|----------|
| <b>Equity 01.01</b>                     | 29 467   | 29 526   |
| Implementation of accounting principles | 3        | -        |
| Net profit for the period               | 5 693    | 4 661    |
| Dividend                                | -5 857   | -4 720   |
| <b>Equity 31.12</b>                     | 29 307   | 29 467   |

## STATKRAFT AS GROUP

### FOURTH QUARTER 2006 AND PRELIMINARY RESULTS FOR THE 2006 FINANCIAL YEAR

#### Summary

2006 was a very good year for Statkraft. Gross operating revenues rose by 8 per cent to more than NOK 16 billion. Profit before tax rose by NOK 1.4 billion to just over NOK 9.8 billion, while profit after tax totalled almost NOK 6.3 billion, compared with NOK 5.6 billion in 2005. This represents an improvement of 12 per cent.

In the fourth quarter profit before tax totalled NOK 2,446 million, a drop of NOK 659 million compared with the year before. NOK 381 million of this can be ascribed to net positive non-recurring items in 2005. Adjusted for this, profit before tax fell by NOK 278 million (10 per cent). The weaker performance of underlying operations was due largely to lower production and weaker results from associated companies.

Electricity prices were high through most of the year, but fell sharply towards the end of the fourth quarter. Prices in December were at the same level as in the corresponding month in 2005. The spot price averaged NOK 391/MWh in 2006, 66 per cent higher than the year before. This can largely be ascribed to the fact that the inflow into the company's hydropower reservoirs was lower than normal for most of the year, as well as to temporary shutdowns at several nuclear power plants in Sweden. The increase in spot prices is reflected in the company's revenues from net physical spot sales, which rose by 35 per cent for the year as a whole. However, higher spot sales revenues were offset by a substantial fall in revenues from hedging activities. Compared with 2005, production also fell in the fourth quarter, so that output for the year as a whole fell by 2.9 TWh (6 per cent).

The Norwegian national budget for 2007 requires Statkraft to pay to the Norwegian state a dividend amounting to 98 per cent of group profit after tax and minority shares. This corresponds to NOK 5,857 million.

During the fourth quarter it became clear that the Svartisen power plant would be out of operation until the middle of March 2007 as a result of damage to the generator. It has been decided to invest in an additional 250 MW generator at the power plant, which currently has an installed capacity of 350 MW and a mean annual output of 2.2 TWh.

In 2006 Statkraft's subsidiary Trondheim Energiverk completed the construction of a district heating pipeline from the Heimdal central heating plant to the centre of Trondheim. The associated expansion of the central heating plant is expected to be completed during the fourth quarter 2007. In October 2006 the Kjøllefjord wind farm went into production. Construction of the three gas-fired power plants – two in Germany and one in Norway – is expected to be completed during the second half of 2007, as is the Pålssbu hydropower plant. Construction of the new Leirfossene power plants in Nidelva remains on schedule. The plants are expected to go into operation during the summer of 2008.

## Financial performance <sup>1</sup>

**Fourth quarter.** Statkraft made a consolidated profit before tax of NOK 2,446 million in the fourth quarter 2006 (NOK 3,106 million) and a consolidated profit after tax of NOK 1,710 million (NOK 2,085 million). This is respectively 21 and 18 per cent less than in the same period in 2005. The reduction is largely due to lower output levels and the fact that non-recurring items having a positive net impact in the amount of NOK 381 million before tax and NOK 327 million after tax were recorded in the fourth quarter 2005. Adjusted for the non-recurring items recorded in 2005, profit after tax for the fourth quarter 2006 was a mere 3 per cent less than in the comparable quarter in 2005.

**Profit for the year.** Accumulated profit for the year totalled NOK 9,826 million before tax (NOK 8,449 million), while profit after tax totalled NOK 6,285 million (NOK 5,620 million). Compared with 2005 this represents an improvement of 16 per cent before tax and 12 per cent after tax. The strong performance achieved in 2006 can largely be ascribed to high electricity prices.

**Return on investment.** The Group achieved a return on average capital employed (ROACE) of 23.7 per cent before tax. The corresponding figure for 2005 was 19.3 per cent. These figures have been adjusted for significant non-recurring items, such that they reflect the performance of the Group's ordinary operations.

Return on equity from ordinary operations totalled 16.3 per cent after tax. Return on total capital from ordinary operations totalled 8.4 per cent after tax, compared with 7.8 per cent in 2005.

**Gross operating revenues.** The Group had gross operating revenues of NOK 4,145 million in the fourth quarter 2006, NOK 1,238 million (23 per cent) less than in the same period the year before. For the year as a whole gross operating revenues totalled NOK 16,225 million, a rise of NOK 1,204 million (8 per cent) compared with the same period in 2005.

A non-recurring item of NOK 1,006 million was recognized as income in the fourth quarter of 2005. This amount was paid by Nuon as compensation for the cancellation of an agreement relating to the sale of green certificates from the wind farms at Smøla and Hitra. Adjusted for this item, the fourth quarter 2006 shows a fall in gross operating revenues of 5 per cent, while revenues for the year as a whole rose by 16 per cent.

The Statkraft Group generated 45.7 TWh of electricity in 2006, which is 2.8 TWh (6 per cent) less than the year before. The average spot price rose by NOK 156/MWh to NOK 391/MWh (66 per cent) for the year as a whole. This resulted in an increase in revenues from net physical spot sales of NOK 2,944 million compared with 2005. On the other hand, revenues from hedging activities fell by NOK 1,370 million to NOK 28 million. Trading and Origination revenues grew by NOK 42 million compared with 2005, while other revenue items remained largely unchanged. During the year a total of 13.1 TWh was sold to industrial customers at an average statutory price of NOK 135/MWh.

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<sup>1</sup> Figures in parentheses are comparable figures for 2005

**Electricity transmission costs** rose by NOK 222 million (30 per cent) to NOK 968 million for the year as a whole. The substantial cost increase is due to a sharp rise in the variable portion of the transmission tariff as a result of higher electricity prices in 2006.

**Operating costs** totalled NOK 5,304 million in 2006, NOK 595 million (10 per cent) less than in 2005. The reduction can largely be ascribed to non-recurring items which were recorded in 2005. These included NOK 278 million in stamp duty incurred in connection with Statkraft's reorganisation and a NOK 361 million write-down in the value of the Group's wind farms.

Underlying salary and payroll costs increased in 2006, partly as a result of increased manning levels associated with new business activities and acquisitions, and partly as a result of ordinary pay rises. However, the accounts show that, year on year, salary and payroll costs fell by NOK 29 million (2 per cent) to NOK 1,313 million. The reduction is due to the fact that around NOK 80 million was charged to expenses in 2005 following a recalculation of the Group's pension liabilities.

For the year as a whole other operating costs fell by NOK 305 million (16 per cent) to NOK 1,560 million. During the year NOK 46 million was paid in stamp duty related to the previously implemented restructuring of Statkraft, while the corresponding figure for 2005 was NOK 278 million. This reduction notwithstanding, operating costs rose by NOK 86 million as a result of new operations in Sweden and Finland, as well as activities associated with the gas-fired power plants under construction in Germany. Other operating costs posted by other business activities were around NOK 160 million less than the year before. Much of this reduction can be ascribed to the fact that, with effect from 2006, a larger proportion of periodical maintenance costs are capitalised and depreciated over the period until the next round of maintenance. This change in accounting practice is an adjustment to IFRS. With an identical level of maintenance, this will give a permanent reduction in operating costs associated with ordinary operations, which will be offset by a gradual increase in depreciation.

Adjusted for the write-down of the wind farms in 2005, depreciation for 2006 is on a par with the year before, while the periodic revaluation of real property assets led to an increase in property tax of NOK 106 million.

**Operating profit** in the fourth quarter totalled NOK 2,341 million, NOK 582 million (20 per cent) less than in the same quarter 2005. Operating profit for the year as a whole rose by NOK 1,577 million to NOK 9,952 million. The bulk of the Group's operating profit for the year came from the Generation & Hedging segment, contributing 94 per cent of the profit. Grid Operations contributed 6 per cent, Trading & Origination 3 per cent, while other segments and shared services either broke even or made a slight loss. On aggregate they made a negative contribution to profit of 3 per cent.

**Share of the profits from associated companies** fell by NOK 93 million in the fourth quarter 2006 compared with the same period in 2005. This can be ascribed to the fact that Statkraft's estimate for E.ON Sverige's profit for the first nine months of the year was too optimistic, with the appropriate adjustment being made in the fourth quarter. Taking this into account, E.ON Sverige's profit in the fourth quarter was on a par with 2005.

For the year as a whole Statkraft's share of the profits from associated companies rose by NOK 112 million to NOK 1,689 million, an improvement of 7 per cent. The increase derives largely from BKK and Agder Energi, whose combined contribution rose by NOK 169 million, while E.ON Sverige's contribution for 2006 is expected to be less than the previous year's. Included in E.ON's 2005 figures is a non-recurring charge of NOK 359 million for repairs to the damage caused by hurricane Gudrun. Adjusted for this non-recurring item, as well as non-recurring items recorded in 2006 in connection with gains on the sale of its broadband business and the write-down of its waste management business, Statkraft's share of the profit from E.ON Sverige is expected to be substantially lower than in 2005. This is due to low hydropower production and the temporary shutdown of part of its nuclear generating capacity. Statkraft's share of the profit from E.ON Sverige is based on estimates for the last quarter.

**Net financial expenses** in the fourth quarter totalled NOK 427 million, NOK 15 million less than in the same quarter in 2005. Increased debt and rising interest rates led to higher interest expenses in the fourth quarter 2006, while foreign exchange items moved in the opposite direction compared with the same quarter the year before.

Net financial expenses for 2006 as a whole totalled NOK 1,816 million, a rise of NOK 312 million from 2005. The increase is partly due to the fact that a net gain of NOK 334 million from the sale of Hedmark Energi Holding AS was taken to income in 2005. Furthermore, hedging contracts in respect of future euro cash flows resulted in an unrealised loss of NOK 260 million, compared to an unrealised gain of NOK 60 million in 2005. Hedging activities have a contra entry under power sales revenues. A reduction in debt and lower interest payments on the debt portfolio compared with 2005 helped to cut gross financial expenses in 2006. As a result of the repayment of state-guaranteed loans, the guarantee premium payable to the state has also been reduced. At year end the combined portfolio of state-guaranteed debt totalled NOK 15.3 billion, compared with NOK 20.2 billion at the end of 2005.

In 2006 the average interest rate was 2.5 per cent for SEK loans and 4.3 per cent for NOK loans. If accrued losses on previously cancelled interest rate swaps are included, the interest rate on NOK loans rises to 6.6 per cent. Interest rate swaps were cancelled in 2004 and 2005 in connection with the restructuring of the interest rate portfolio in order to increase the proportion of debt held at floating interest rates. At year end just over half the NOK debt portfolio and the entire SEK debt portfolio was held at floating interest rates.

**Tax** amounting to NOK 3,541 million was charged to expenses in 2006, against NOK 2,829 million the year before. The effective tax rate was 36.0 per cent, compared with 33.5 per cent in 2005. The increase in the effective tax rate can largely be ascribed to higher resource rent tax, which is primarily due to increased average spot prices. Resource rent tax totalled NOK 1,148 million in 2006, up from NOK 680 million the year before.

Due to the dividend proposed in the Norwegian national budget, the Group will probably incur a corrective tax in the order of NOK 36 million. This tax is incurred when the level of dividend results in paying out untaxed income as dividend.

**Cash flow and equity.** Operating activities generated a cash flow of NOK 7.5 billion in 2006. This is NOK 0.5 billion (2 per cent) less than in the same period in 2005. Net changes in short-term and long-term tied capital amounted to minus NOK 2.0 billion, while dividends from associated companies totalled NOK 1.1 billion. Net cash flow from operating activities therefore totalled NOK 6.5 billion in 2006.

Investing activities during the year totalled NOK 4.4 billion. The largest items were NOK 2.2 billion invested in gas power projects in Norway and Germany, NOK 0.3 billion invested in the associated company SN Power, NOK 0.4 billion in Trondheim Energiverk's district heating project and NOK 0.3 billion in Kjøllefjord Wind Farm. NOK 1.2 billion was used for other investments in fixed assets, property, plant and equipment.

In 2006 Statkraft raised new debt totalling NOK 1.2 billion net, and paid NOK 4.8 billion in dividend and group contribution to Statkraft SF. NOK 1.2 billion was paid to minority shareholders in the subsidiary Skagerak Energi in connection with a capital reduction and dividends.

Cash and cash equivalents fell by NOK 2.6 billion during the year. At the end of 2006 the Group had cash and cash equivalents of NOK 1.8 billion, compared with NOK 4.4 billion at the start of the year.

At the end of the year Statkraft had interest-bearing debt of NOK 32.5 billion, compared with NOK 31.3 billion at the end of 2005. The interest-bearing debt ratio stood at 45.6 per cent, compared with 43.9 per cent in 2005. Current assets, excluding cash and cash equivalents, totalled NOK 5.0 billion, and short-term interest-free liabilities totalled NOK 13.0 billion.

At the end of the year Statkraft had equity totalling NOK 38.8 billion after dividend provisions. This corresponds to 40.2 per cent of total capital, 3.8 percentage points less than in 2005. The reduction in equity is due to a fall in minority interests resulting from the capital reduction in Skagerak Energi.

## Business units

Statkraft has three operative business units as well as a financial investment unit and central group support functions. The Group's organisational structure reflects Statkraft's strategic priorities and developments within three core business areas.

| KEY FIGURES<br>BUSINESS AREAS<br><br>(NOK million) | Statkraft AS<br>group |              | Generation &<br>Markets |              | New Energy |            | Regional     |              | Other*     |              |
|--|-----------------------|--------------|-------------------------|--------------|------------|------------|--------------|--------------|------------|--------------|
|  | 2006                  | 2005         | 2006                    | 2005         | 2006       | 2005       | 2006         | 2005         | 2006       | 2005         |
| <b>RESULT PER 31.12</b>                            |                       |              |                         |              |            |            |              |              |            |              |
| Gross operating revenues                           | 16 225                | 15 021       | 11 611                  | 10 786       | 286        | 1 241      | 4 431        | 3 477        | -103       | -482         |
| Operating profit                                   | 9 952                 | 8 375        | 7 917                   | 6 880        | 5          | 199        | 2 206        | 1 400        | -176       | -104         |
| Share of profits from associated companies         | 1 689                 | 1 577        | -11                     | (27)         | 5          | -5         | 580          | 411          | 1 116      | 1 198        |
| <b>Profit before financial items and tax</b>       | <b>11 641</b>         | <b>9 953</b> | <b>7 906</b>            | <b>6 853</b> | <b>9</b>   | <b>194</b> | <b>2 786</b> | <b>1 812</b> | <b>940</b> | <b>1 094</b> |

| FROM THE BALANCE SHEET                        | 31.12.06      | 31.12.05      | 31.12.06      | 31.12.05      | 31.12.06     | 31.12.05     | 31.12.06      | 31.12.05      | 31.12.06      | 31.12.05      |
|---|---------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Property, plant, equipment, intangible assets | 57 348        | 52 812        | 32 565        | 29 477        | 1 541        | 1 208        | 22 870        | 22 189        | 373           | -62           |
| Investments in associated companies           | 30 997        | 28 793        | 778           | 326           | 814          | 561          | 10 500        | 10 799        | 18 905        | 17 106        |
| Other assets                                  | 8 208         | 9 250         | 5 846         | 10 000        | 332          | 1 608        | 2 054         | 4 322         | -26           | -6 680        |
| <b>Total assets</b>                           | <b>96 552</b> | <b>90 854</b> | <b>39 189</b> | <b>39 803</b> | <b>2 686</b> | <b>3 377</b> | <b>35 424</b> | <b>37 310</b> | <b>19 252</b> | <b>10 365</b> |
| Capital employed                              | 35 723        | 37 530        | 17 694        | 20 060        | 1 401        | 1 748        | 15 144        | 16 751        | 1 485         | -1 029        |
| Maintenance investments                       | 573           | 468           | 271           | 129           | -            | -            | 267           | 241           | 35            | 98            |
| Investments in new generating capacity        | 3 125         | 1 767         | 2 195         | 702           | 370          | 619          | 560           | 446           | -             | -             |
| Investments in shareholdings                  | 750           | 4 511         | 471           | 4 501         | 253          | -            | 26            | 10            | -             | -             |

\*Includes the investment in E.ON Sverige.

## Generation & Markets

Generation & Markets has extensive European power trading operations. In the Nordic region it owns and operates 78 hydropower plants and controls the output of 26 power plants operated by third parties. Three gas-fired power plants are under construction. Most of the business unit's generating assets are flexible.

### Highlights

The business unit has focused on its main long-term goals, which are the efficient operation of Statkraft's core business, the planning and build-up of operational and market activities associated with the new gas-fired power plants, as well as continuing joint projects within the Nordic region's operative organisation.

Through the year the business unit has been preparing for the startup of the three gas-fired power plants, at Knapsack and Herdecke in Germany and Kårstø in Norway, which are currently under construction. As operator of the Knapsack facility Statkraft has signed a plant operation and maintenance contract with Fortum. During the year 40 employees were hired to support the gas power business, both in Norway and on the Continent. The facilities are scheduled to go into operation during the autumn of 2007, increasing Statkraft's capacity by around 1,200 MW. Statkraft has started hedging trading for the gas-fired power plants, initially on a small scale. As signalled by the authorities, the gas power plants are expected to be allocated adequate carbon quotas. The Herdecke plant will be operated by co-owner Mark-E. The Kårstø plant will be operated by a separate organisation created for the purpose under the control of Naturkraft AS.

In the fourth quarter 2006 it was decided to invest in an additional generator at the Svartisen power plant in Nordland. A new generator would reduce the plant's vulnerability to production stoppages. The supply of electricity to the whole region, as well as to central Norway, would also be improved. The new generator is expected to go into operation in December 2009.

The Graninge companies which were acquired from E.ON Sverige on 1 October 2005 are now being operated under the names Statkraft Sverige AB and Statkraft Suomi Oy. In the year since their acquisition efforts have been made to integrate them more closely with the Norwegian business. An extensive competence transfer is taking place between the companies, including the exchange of personnel. Considerable resources have been devoted to linking their production management systems with those in Norway. Today, energy optimisation for Sweden and Finland is carried out at head office in Oslo. On the administrative side, work has been underway to implement finance and accounting systems, build up the finance function in Sweden and create reporting routines. Some work still remains before the business is fully integrated.

On 1 January 2007 the business unit took over Trondheim Energiverk's activities within the areas of energy optimisation, hedging trading, power trading and associated support functions. Trondheim Energiverk will continue to own and maintain its power plants. The change is in line with the Group's strategy of centralising energy optimisation and hedging trading. The collaboration is regulated by means of an electricity purchasing agreement between Statkraft Energi AS and Trondheim Energiverk Kraft AS. Implementation of the takeover was planned during the fourth quarter and ensured the successful transfer of activities from the 1 January. The employment contracts of 25 employees have been transferred to Statkraft Energi AS.

In 2006 Statkraft signed a long-term agreement to supply electricity to Eramet Norway in the period 2011-2020. The contract, which is for a total of approx. 9 TWh over the term of the contract, covers the bulk of the electricity consumed by Eramet's smelting plants in Sauda and Porsgrunn. At the same time Eramet cancelled its statutory-priced contracts in Porsgrunn and Sauda, preferring a commercial solution in collaboration with Statkraft.

In 2006 a trading office was opened in the Bulgarian capital, Sofia. The deregulation of the energy sector and EU membership for several countries in the region are opening up new business opportunities for power trading.

In August 2006 Statkraft Carbon Invest AS was accepted as a participant in Umbrella Carbon Facility, Tranche 1, a fund managed by the World Bank. The fund is investing in two new projects in China to reduce extremely harmful greenhouse gas emissions. The total investment framework is EUR 22.5 million in the period to 2013 inclusive.

### ***Financial performance***

The Generation & Markets business unit performed extremely well in 2006. Profit before financial items and tax totalled NOK 7,906 million, NOK 1,053 million more than in 2005. This 15 per cent improvement can largely be ascribed to higher power sales revenues resulting from significantly higher electricity prices. Hedging trading, however, produced lower results than in 2005. In addition, the business unit incurred

non-recurring costs of NOK 414 million in 2005 in connection with the establishment of the Statkraft Group.

The Generation & Trading segment contributed NOK 7,393 million, which corresponds to 94 per cent of the business unit's profit before financial items and tax. Statutory priced industrial contracts and concessionary sales accounted for 14.9 TWh of output during the year, generating revenues that were NOK 3,882 million lower than they would have been had the same output been sold at spot prices. Dynamic hedging trading generated a profit of NOK 28 million for the year as a whole. Other operating costs were NOK 442 million lower in 2006 than in 2005 due to the higher group costs and stamp duty incurred in 2005 in connection with Statkraft's reorganisation.

The Grid Operations segment, including Baltic Cable, made a profit before financial items and tax of NOK 317 million, while Trading & Origination, including trading activities in Europe, contributed NOK 196 million. Almost all the trading portfolios achieved good results in 2006.

### **Operations**

Output in 2006 totalled 37.4 TWh, 1.4 TWh less than in 2005. The business unit achieved a utility-adjusted downtime of 3.9 per cent in 2006, 2.4 percentage points weaker than targeted. This can mainly be ascribed to the fault which occurred at the Svartisen power plant in August and the new stoppage in October. Repairs to the generator are ongoing, and operations are due to resume in mid-March 2007.

During the summer and autumn of 2006 the water level in a number of hydropower reservoirs was considerably lower than normal. This was due to a low level of snow in the mountains and extremely dry weather during the spring and summer. Combined with a substantial demand for electricity, this resulted in low reservoir water levels. No licence violations occurred, but the unusual circumstances led to a certain amount of media coverage. Statkraft monitors the wellbeing of fish populations by means of regular surveys. In addition, shallow areas were marked and jetties and boat launching points were improved to limit the negative consequences for reservoir users.

Statkraft's Region Eastern Norway took over operational management of Skagerak Energi's 25 power plants on 30 August 2006. The transfer went extremely well and resulted in no operational problems. A wide-ranging collaboration has been established with Skagerak Energi, both with respect to the actual operation of the power plants and a variety of support functions.

In December 2006 an operation and maintenance agreement was reached with the owners of Vrangfoss and Eidsfoss power plants. With effect from 1 January 2007 Statkraft has taken over responsibility for the plants' operation and maintenance from Hydro Energi. Five Hydro employees have also been transferred to Statkraft.

## ***New Energy***

The purpose of the New Energy business unit is to safeguard future growth in the Group's electricity output through the development and construction of environment-friendly generating capacity. New Energy is therefore responsible for following up the construction of the three gas-fired power plants on behalf of Generation & Markets. The business unit is working on an extensive portfolio of development projects and is also responsible for following up the Group's shareholdings in the various wind farms, Småkraft AS and Statkraft Norfund Power Invest AS (SN Power). New Energy is also responsible for the Group's R&D activities.

### ***Highlights***

SN Power owns 50 per cent of SN Aboitiz Power, Inc. (SNAP), whose bid for the Magat hydropower plant in the Philippines was accepted in December. Takeover of this power plant, which has a capacity of 360 MW, is expected to take place during the first quarter 2007.

The Kraftverket Oftedal 1 power plant in Sirdal went into operation in the fourth quarter. The power plant has an annual output of 12.5 GWh, and is the fourth small-scale power plant Småkraft AS has put into operation.

Over a number of years Statkraft has been working closely with the Norwegian Water Resources and Energy Directorate (NVE), the Ministry of the Environment, the Directorate for Nature Management and the Norwegian Energy Industry Association (EBL) to establish a major research programme under the auspices of the Research Council of Norway on the issue of birds and wind turbines. The project focuses mainly on the sea eagle issue at Smøla, but will also investigate the wind turbines' impact on other species. The Research Council of Norway approved the grant application in December 2006, and the programme will receive almost NOK 10 million over a four-year period.

The Norwegian national budget announced last autumn, contained proposals for a new incentive scheme for renewable energy that was weaker than the industry had anticipated. It is not certain whether the planned scheme will be sufficient to trigger major wind power investments in Norway. The proposed incentive scheme must be approved by the EFTA Surveillance Authority (ESA) before it can be implemented.

### ***Financial performance***

The business unit made a profit before financial items and tax of NOK 9 million in 2006, compared with NOK 194 million in 2005. Gross operating revenues totalled NOK 286 million, a fall of NOK 955 million compared with 2005. However, in 2005 the wind farm companies received NOK 1,006 million in compensation from Nuon following the cancellation of an agreement relating to the sale of green certificates. Adjusted for this non-recurring item, gross operating revenues rose by NOK 51 million.

Operating costs totalled NOK 281 million, a drop of NOK 761 million compared with 2005. In connection with the non-recurring compensation payment from Nuon, the asset value of the wind farms was written down and long-term intra-group power purchasing agreements were cancelled. For the New Energy business unit these

measures totalled NOK 783 million. Adjusted for these non-recurring items, costs rose by NOK 22 million.

### **Operations**

Kjøllefjord Wind Farm started trial production in the fourth quarter. Total output for all wind farms came to 499 GWh in 2006, and this produced gross operating revenues of NOK 201 million. On the whole the wind farms had a good level of availability during the quarter and, as a result of favourable weather conditions, output was slightly higher than expected in the last two months of the year.

The Ministry of Petroleum and Energy has still not made a final decision with respect to the Kjennsvatn hydropower plant or the wind farms at Skallhalsen or Magerøya.

It is expected that the NVE will refuse to grant a licence for the Langevåg wind farm in Bømlo after the Directorate of Cultural Heritage, the County Governor's Office and the local council all opposed the project. Åfjord Council, on the other hand, has unanimously voted in favour of the Kvenndalsfjellet wind farm. The written responses provided by key consultative bodies indicate that there is a strong likelihood that this project will get the go-ahead.

Efforts continue to be made to expand the portfolio of wind power projects in Great Britain. Decision-making processes in Britain are challenging, partly due to demands for advance payments and guarantees from the grid operators.

Revenues from the sale of development and consultancy services have risen in connection with the construction of the Group's three new gas-fired power plants. These power plants are owned by Generation & Markets and are included in that business unit's balance sheet. At the start of the quarter substandard weld seams were discovered on heat exchangers at the two German gas-fired power plants. The necessary repairs have been completed at the Herdecke plant. However, at year end there was still some repair work remaining at the Knapsack facility. Despite this, construction of both plants is expected to be completed during the second half of 2007. The gas-fired power plant at Kårstø in Norway and the Pålbu hydropower plant are also expected to be completed during the second half of 2007.

Småkraft AS made an operating loss of NOK 11 million in 2006. The company has filed 45 licence applications for a total of 700 GWh with the NVE. Four licences were granted during the fourth quarter for a total of 59 GW. During the fourth quarter the company decided to build a small-scale power plant at Kistafossen in Rådøy, with an expected output of 6 GWh.

SN Power has hydropower plants in operation in Peru, Nepal, India and Sri Lanka, in addition to the power plant in the Philippines which will be taken over during the first quarter of 2007. The company also has two hydropower plants under construction in India and Chile. These are expected to be completed during the autumn of 2008. In New Energy's accounts SN Power is treated as an associated company, and contributed a profit share of NOK 5 million in 2006, NOK 7 million more than in 2005.

## **Regional**

The Regional business unit is responsible for managing and developing Statkraft's shareholdings in Norwegian regional power utilities. Through its shareholdings in these companies Statkraft participates in the entire value chain. Trondheim Energiverk (100 per cent) and Skagerak Energi (66.6 per cent) are consolidated into the Group's accounts, since Statkraft has a controlling interest in these companies. Bergenhalvøens Kommunale Kraftselskap (BKK) and Agder Energi are reported as associated companies. Statkraft's shareholding in these companies is less than 50 per cent, and while its influence on these companies is significant, it is not a controlling interest.

## **Highlights**

The business unit's four regional power utilities posted their best ever results in 2006. While electricity generation produced the most substantial growth in profits, grid operations also performed well.

A new revenue capping regime for power grid operators came into effect in Norway at the start of 2007. There has been strong disagreement between the industry itself and the Norwegian Water Resources and Energy Directorate (NVE) about the design of the new regulations. The industry has pointed out a number of weaknesses in the new model, such as weak management signals and investment incentives. This is unfortunate at a time when the need for investment in grid infrastructure is growing. Statkraft and other grid operators have proposed alternative models which more adequately meet the need for continued improvements in operational efficiency and good investment incentives, and will continue to work for the further development and improvement of the revenue capping regime.

The government has recently announced proposals for a scheme to provide financial support for electricity production based on hydropower, wind power and bioenergy. Several of Statkraft's regional utilities are planning to construct new wind power facilities. However, a preliminary assessment indicates that the government's proposed scheme would not be enough to trigger large-scale construction of wind power on their part.

## **Financial performance**

The business unit had gross operating revenues of NOK 4,431 million in 2006. This corresponds to 27 per cent of the Group's overall revenues. The business unit made an operating profit for the year of NOK 2,206 million, NOK 806 million more than in 2005.

The associated companies Agder Energi, BKK and Fjordkraft contributed profit shares totalling NOK 580 million, a rise of NOK 169 million.

Compared with the same period in 2005, the business unit's total profit before financial items and tax rose by NOK 974 million to NOK 2,786 million. This is an increase of 54 per cent and amounts to 24 per cent of the Group's total profit before financial items and tax. The improvement can largely be ascribed to the sharp increase in electricity prices.

The Generation & Hedging segment contributed NOK 2,478 million of the profit before financial items and tax, while Grid Operations contributed NOK 384 million and District Heating NOK 59 million. Other segments and shared services made a negative contribution to profit of NOK 135 million.

### **Operations**

On the whole the business unit's companies maintained stable operations and output levels in 2006. A fall in production resulting from lower than normal inflow into the plants' hydropower reservoirs was offset by higher electricity prices on the Nordic power exchange. Efficient energy optimisation also contributed to the companies' strong performance. The subsidiaries generated 7.9 TWh in 2006, 0.4 TWh less than in 2005. The associated companies generated 12.4 TWh, a fall of 2.5 TWh.

All the companies in the business unit are working on the development of new, profitable generating capacity. This will also help to alleviate the, in some areas, tight supply situation. In 2006 the companies put three power plants into operation, with a mean combined output of 134 GWh. Skagerak Energi has filed an application for permission to build a gas-fired power plant with carbon capture and storage at Herøya, and is also working on plans for a gas-fired power plant at Slagentangen outside Tønsberg in cooperation with Fortum and Østfold Energi.

After final approval for Statkraft's acquisition of Trondheim Energiverk was received in 2005, a wide-ranging process took place throughout 2006 to harmonise Statkraft and Trondheim Energiverk's operations. It has been decided to bring segments and staff departments more closely into line, eg in the area of energy optimisation.

In 2006 Trondheim Energiverk completed construction of a new 12 km district heating pipeline from the Heimdal central heating plant to the centre of Trondheim. The ongoing expansion of the Heimdal central heating plant is scheduled for completion in the fourth quarter of 2007. When completed it will be Norway's most advanced refuse incinerator, capable of tackling many different types of waste.

The construction of the new Leirfossene power plants in Nidelva remains on schedule.

## Markets

### *The Nordic power market*

In 2006 the spot price averaged NOK 391/MWh, compared with NOK 235/MWh in 2005 and NOK 242/MWh in 2004. This represents an increase of 66 per cent from 2005. Prices were record high in nine of the year's 12 months. August saw the highest average monthly price (NOK 531/MWh), while December had the lowest (NOK 273/MWh).

Compared with the previous quarter, prices in the fourth quarter 2006 fell by 24 per cent. This can largely be ascribed to higher than normal precipitation levels combined with lower than normal consumption due to the unseasonably high temperature.

Overall Nordic electricity consumption was 0.4 TWh (0.1 per cent) higher than in 2005. Total consumption in Norway fell by 2.9 per cent compared with 2005, a reduction which can largely be ascribed to lower consumption by electricity-intensive industry, electric boilers and pumped-storage power plants. Ordinary consumption in Norway totalled 83.1 TWh in 2006, 0.2 per cent less than the year before. The weather in 2006 was milder than normal, and corrected for temperature differences, ordinary consumption totalled 87.0 TWh in 2006, an increase of 0.3 per cent from 2005.

The Nordic region generated 11.9 TWh (3.0 per cent) less electricity in 2006 than in 2005. Swedish nuclear power production was, as a result of several unexpected stoppages, 5 TWh lower in 2006 than the year before. Sweden produced a total of 65 TWh of nuclear power in 2006. Norway had net electricity imports of 0.8 TWh in 2006, while the Nordic market as a whole imported 11.4 TWh net. High reservoir water levels at the start of 2006 made it possible to maintain a relatively high hydropower output in Norway, despite the meagre inflow of water to the reservoirs during large parts of the year. The Nordic market imports mainly from Russia, and is a net exporter of electricity to Germany.

### **Electricity generation and consumption in the Nordic region (TWh)<sup>2</sup>**

|                                     | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>Change<br/>2005-2006</b> |
|-------------------------------------|-------------|-------------|-------------|-----------------------------|
| Nordic consumption                  | 390.5       | 390.0       | 394.2       | 0.1 %                       |
| Nordic output                       | 379.1       | 391.0       | 382.3       | -3.0 %                      |
| Nordic imports (+) / exports (-)    | 11.4        | -1.0        | 11.9        | -                           |
| Norwegian consumption               | 121.2       | 124.7       | 122.9       | -2.9 %                      |
| Norwegian output                    | 120.4       | 136.9       | 111.2       | -12.1 %                     |
| Norwegian imports (+) / exports (-) | 0.8         | -12.2       | 11.8        | -                           |

At the end of 2006 the water level in the Nordic region's reservoirs was 96.2 per cent of normal levels and 66.5 per cent of maximum reservoir capacity.

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<sup>2</sup> Sources: "Nord Pool Nordic electricity market information week 52" and "Nord Pool Country Report Norway week 52".

## HSE and the workforce

At the end of 2006 the Group had the equivalent of 2,074 full-time employees, 39 more than at the end of the third quarter 2006 and 116 more than at the end of 2005. The workforce is expected to rise further in 2007, partly as a result of increased focus on new generating capacity project development and innovation activities.

### Key figures HSE

|   | <i>Fouth quarter</i> |             |             |
|---|----------------------|-------------|-------------|
|   | <b>2006</b>          | <b>2005</b> | <b>2004</b> |
| Full-time jobs (equivalent) 31.12.                    | 2,087                | 1,971       | 1,887       |
| H1 (lost-time injuries per million hours worked)      | 7.2                  | 13.7        | 9.7         |
| H2 (all injuries per million hours worked)            | 17.5                 | 25.1        | 14.5        |
| F (days lost through injury per million hours worked) | 135.1                | 141.5       | 118.6       |
| Absence due to illness                                | 4.2 %                | 3.6 %       | 3.7 %       |

Seven lost-time injuries were recorded in the fourth quarter. In 2006 as a whole 24 lost-time injuries were recorded. The H1 figure for the fourth quarter totalled 7.2, which is almost half of what it was in the corresponding period in 2005. The H1 figure for 2006 as a whole totalled 6.3, slightly less than the 6.6 achieved in 2005, but still higher than the target for the year, which was 5.0.

Sickness absence in the fourth quarter rose slightly in relation to the same period in 2005. For the year as a whole the sickness absence rate totalled 4.1 per cent, compared with 3.8 per cent in 2005. The target is to achieve a sickness absence rate of less than 4 per cent. With respect to sickness absence, Statkraft is continuing the strategy established as a company participating in the government's inclusive workplace scheme. This includes active management follow up of those on sick leave and close cooperation with the company health service. Neither the annual employee satisfaction survey nor the company's own assessments indicate that there is any link between the marginal rise in sickness absence and the working environment. Statkraft has also initiated a long-term campaign, "Energy for Life", whose aim is to encourage a healthy lifestyle and health-promoting activities.

HSE is a priority area for the Group. This is underlined by the appointment of an SVP HSE. The gas power projects in Germany have been given additional HSE resources.

In connection with the review of the ISO certified quality and environment management systems (ISO 9001 and ISO 14001), management has adopted targets for the five most important environmental aspects of the company's operations. These targets are communicated in Statkraft's 2006 Annual Report, and will be followed up by means of specific activities. The environment management system will be further developed, with, among other things, the establishment of relevant environmental performance indicators.

Statkraft is working to meet the national target of 80 percent waste recycling by 2010. In 2006 the objective was to recycle 55 per cent of the waste produced by the environmentally certified part of the business. The actual performance rate will be published in the company's annual report.

The Group has not experienced any serious environmental non-compliances or incidents in the fourth quarter. However, there were eight less serious environmental non-compliances, five of which occurred in Sweden. These relate to the burning of demolition waste, the violation of minimum water flow requirements, the violation of discretionary minimum water flow requirements, a diesel leak as well as over and underdamming. All the incidents are being followed up in the non-compliance system. There were no serious environmental non-compliances during the year as a whole. However, Statkraft experienced a serious environmental non-compliance in 2005 at the Trollheim power plant, when a generator stoppage led to reduced water flow and the stranding of fish. The incident has since been under investigation by Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime, and their conclusion is expected to be announced by the end of February.

A project to identify and reduce the risk of environmental non-compliances has been initiated by the business unit Generation & Markets.

## Outlook

During the second half of 2006 the board of directors has been working to revise Statkraft's strategic platform. The company's vision of being a European leader in environment-friendly energy remains unchanged. For the period 2007-2009 the strategic focus will be continued and made more clear in respect of three areas: increased value creation through efficient power generation and energy trading; investment in new technology development as well as environment-friendly and profitable generating capacity; and the strengthening of the Group's position in the grid, retail sales and district heating segments.

At the beginning of December the government published its Report no. 13 (2006-2007) to the Storting, detailing its policy on state ownership. On the whole, the board is satisfied with the commercial guidelines contained in the report. The government agrees that Statkraft shall be a European leader in environment-friendly energy, and should continue to participate in the industrial development of both Norway and Europe. The government thereby gives Statkraft its full backing to pursue its strategy. However, the report also stipulates that the dividend payable by the company shall normally lie in the upper quartile. The board emphasises that a continued high level of dividend payment may necessitate an injection of capital if the company is to realise the opportunities for further growth and investment.

Despite the fact that 2006 was a challenging year from a market and operational point of view, Statkraft achieved strong financial results. The improvement compared with 2005 can be ascribed to a combination of good operations and energy optimisation and high electricity prices. The board has based its outlook for 2007 on a more normal market situation than that experienced in 2006 and an expectation that the high price and output levels will not be maintained. It therefore expects that power sales revenues will fall slightly and that the overall financial results achieved by the Group's underlying operations will not be quite as strong as in 2006.

Oslo, 14 February 2007  
The Board of Directors of Statkraft AS

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