REPORT FROM THE BOARD OF DIRECTORS

STATKRAFT ENERGI AS 2006

Nature of the business

Statkraft Energi AS is a company in the Statkraft Group, which is the third largest electricity generator in the Nordic region, and the second largest producer of renewable energy in Europe. The company is engaged in the generation and sale of electricity and power-related products.

The company's head office is in Oslo.

Statkraft Energi AS owns 66.7 per cent of Baltic Cable AB, headquartered in Malmö, Sweden. Baltic Cable AB operates an undersea power transmission cable between Sweden and Germany. Baltic Cable AB was transferred from Statkraft Energy Europe AS with effect from 1 October 2005. The subsidiary Baltic Cable AB posted better results for 2006 than had been expected at the time of the transfer.

Important events in 2006

Svartisen Power Plant

A severe storm in January 2006 damaged Statkraft Energi's plants, with the most serious damage involving the fault at the Svartisen power plant, which subsequently resulted in a shutdown of the plant in August. After a short period back in operation, the plant shut down again in October. The power plant is expected to be in operation again in March 2007. The company decided to invest in an additional generator in the fourth quarter. Implementation of this project is dependent on obtaining the necessary permissions and licences, and on achieving satisfactory profitability. A new generator will reduce the power plant's vulnerability to downtime. The power supply will be improved throughout the area, as well as in Central Norway, once the new generator starts operation, which is expected to take place in December 2009.

New agreements

Statkraft Energi AS took over Trondheim Energi's activities associated with energy optimisation, hedging, trading and all relevant support functions, with effect from 1 January 2007. Trondheim Energi owns and maintains the power plants. This transfer of business is in line with the Group's strategy of centralising energy optimisation and hedging.

The business transfer is the result of long-term initiatives to align Trondheim Energi with the other Statkraft companies. The collaboration is regulated by an energy purchase agreement between Statkraft Energi AS and Trondheim Energi Kraft AS. The takeover was planned in the fourth quarter and duties were successfully transferred with effect from 1 January 2007. The conditions of employment for 25 employees were transferred to Statkraft Energi AS.

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

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

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

Extraordinary dividend
Statkraft Energi AS paid an extraordinary dividend of NOK 7 billion to Statkraft AS as part of the continuing reorganisation of the Statkraft Group.

Profit, cash flow, investments, financing and liquidity

2006 was a very good year for Statkraft Energi AS. Profit before tax amounted to NOK 7,216 million, which represents an increase of NOK 1,829 million compared with 2005. The increase is primarily attributable to higher power sales revenues and lower operating and net financing costs.

Gross operating revenues were NOK 451 million higher than in 2005. The increase is primarily attributable to higher electricity prices. The average spot price in 2006 was NOK 391/MWh compared with NOK 235/MWh for 2005. Record average spot prices were achieved in nine months in 2006. However, towards the end of the year prices fell sharply as a result of higher than normal precipitation levels. High reservoir levels at the start of 2006, enabled the company to maintain high hydropower production despite weak inflow during parts of the year.

Operating and net financing costs were respectively NOK 573 million and NOK 1,097 million lower than in 2005. This is mainly attributable to costs incurred in 2005 in connection with establishing the Group. As a result of the adoption of IFRSs, with effect from 2006 periodic maintenance will be capitalised and depreciated until the next round of maintenance. With an identical level of maintenance, the change will result in a permanent reduction in other operating costs, which will be offset by a gradual increase in depreciation.

The company's net cash flow from operating activities was NOK 10,655 million. The company posted an operating profit of NOK 7,244 million.

The company's cash flow from investing activities amounted to NOK -565 million. A total of NOK 120 million was invested in measures to increase generating capacity, while further investments were made in maintenance and a total of NOK 44 million was realised from the sale of operating assets in 2006.

The cash flow from financing activities was NOK -10,134 million, which is primarily attributable to payments of dividends and Group contributions paid to Statkraft AS.

As of 31 December 2006, the company had cash and cash equivalents of NOK 125 million. The company's other liquid assets are held under a group account scheme, which means that the assets are classified as receivables due from Statkraft AS in the financial statements. The company is in a good position to finance its own investments due to the fact that operations are expected to continue to generate a good cash flow in the coming years.

As of 31 December 2006, the company's short-term liabilities accounted for 50.2 per cent of the company's total liabilities, compared with 40.5 per cent at the end of 2005. The increase is primarily attributable to the proposed dividend and the Group contribution paid for 2006. The company has a sound financial position.

At the end of the year, total assets amounted to NOK 29,225 million, compared with NOK 32,719 million twelve months previously. The reduction is primarily attributable to the payment of dividends and Group contributions paid to Statkraft AS. As a result of the above, receivables held under the Group account scheme therefore declined compared with 2005.

At the balance-sheet date the equity ratio was 34.4 per cent, compared with 54.5 per cent at the end of the previous year. The company paid an extraordinary dividend of NOK 7 billion to the parent company Statkraft AS. This is in line with the intentions of the reorganisation implemented in 2005. The board has decided to appropriate the profit for the year for the payment of dividends and Group contributions. As of 31 December 2006, equity was recognised at NOK 10,061 in the balance sheet, although the market value of equity is significantly higher than this amount. The board regards the company's equity levels as satisfactory. This assessment is based on the company's profit forecasts and market capitalisation and efficient and prudent business management.

Going concern

In accordance with Section 3-3a of the Norwegian Accounting Act, it is hereby confirmed that the company fulfils all the prerequisites necessary to continue as a going concern. This assumption is based on the profit forecasts for 2007, and the company's long-term forecasts for the years ahead. The company has a sound economic and financial position.

Working environment and personnel

The company had a sickness absence rate of 3.6 per cent of total hours worked in 2006, compared with 3.2 per cent in 2005. This is below the target of 4 per cent. The company has therefore reaped the rewards of measures implemented to reduce the sickness absence rate. The company has signed up to the inclusive working life agreement (IA), and has initiated several measures to fulfil the intentions of the agreement.

Statkraft's HSE vision is for its operations to result in zero lost-time injuries. The injury figures for 2006 were unsatisfactory. Eleven lost-time injuries were reported in 2006; three more than in 2005. The number of lost-time injuries among contractors increased from 2 last year to 8 in 2006. There were two serious injuries in 2006, one injury to an employee and one involving a contractor's employee. One trainee at Statkraft Energi AS received an electric shock in his right arm. One contractor employee lost the end of an index finger when this became caught in a rotor that was still moving. The total lost-time injuries indicator (H1)[1] in 2006 was 9.6, while the total injuries indicator (H2)[2] was 21.9. The company is actively working to reduce the injury figures. The HSE function at Statkraft Energi AS was strengthened in 2006. Courses are being held on the use of snow scooters. Other activities to be implemented in 2007 include talks between managers and employees and the establishment of routines to facilitate clearer follow-up management of contractors on HSE issues.

The working environment is considered to be good, and improvement measures are constantly being implemented. In 2006, the annual organisational and leadership survey, which covers issues including employees' satisfaction with their working environment, revealed that 86 per cent of employees are very satisfied with the working environment, compared with 80 per cent the year before.

Statkraft's various working environment committees held regular meetings in 2006. A number of issues were dealt with and solutions presented to the departments concerned.

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

[1] No. of lost-time injuries per million hours worked
[2] Total no. of injuries per million hours worked

Gender equality

The emphasis on gender equality is laid down in the company's business principles and is expressed in its personnel policy, recruitment practices and career development. Women make up 18 per cent of the company's total workforce, while 14 per cent of those in management positions are women; an improvement of 3 per cent compared with 2005. 33 per cent of the board of directors are women.

Statkraft aims to achieve equal pay for equal work and equal performance at all levels by means of salary systems that reflect individual competence, job complexity and level of performance. The company operates collective and individual bonus schemes. Emphasis is also placed on the implementation of flexi-time schemes, which meet the needs of both the company and individual employees. A life-course policy for employees over the age of 62 was introduced in 2005.

Environmental reporting

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

The company aims to achieve zero environmental non-compliances. There were no serious environmental non-compliances or serious environmental incidents in 2006. All environmental non-compliances and incidents in the company are recorded, reported and followed up.

Market risk

Statkraft Energi AS's core business is the generation and sale of electricity and power-related products. In a market in which hydropower plays an important role, and with water availability varying significantly from year to year, price and production volume will fluctuate considerably. In 2006, the price of carbon quotas and fuel also had a significant impact on electricity prices. These circumstances can have a major impact on Statkraft Energi AS's financial performance. However, risk associated with fluctuations in price and volume is to some extent self-regulating, since there is often a negative correlation between production volume and price, i.e. a lot of water and high output levels leads to low prices, and vice versa. Moreover, Statkraft Energi AS pursues an active risk management policy, adapted to the current market situation. In the long term, Statkraft Energi AS seeks by this means to achieve maximum revenues from its output, taking into consideration the company's risk profile.

Statkraft Energi AS also holds its own portfolios within trading and structured products (origination). The trading portfolio consists of short-term financial positions, while the origination portfolio contains tailored contracts for industry and electricity plants. The company's riskmanagement follows up market risk. The portfolio generated income of NOK 208 million in 2006.

Risk management

Statkraft Energi AS makes extensive use of forward contracts and other financial instruments to hedge its revenues. Contract trading help to stabilise the company's revenues from year to year. This is considered desirable given the high level of uncertainty that is otherwise associated with total power sales revenues. In this connection, there is no difference between physical and financial contracts on the one hand, which are traded bilaterally or via a broker, and financial contracts in the forward market (Nord Pool) on the other. Price and risk are the most important factors when selecting the method of sale. It is therefore crucial that new contracts are favourable in the context of existing power contracts and the possible risk associated with the company's own output and spot prices. The contract portfolio is continually adjusted to maximise expected revenues within specified risk criteria. Internal market exposure guidelines have been drawn up for both hedging and trading transactions. An independent unit is responsible for the continuous monitoring of authorisations and transaction limits.

Financial risk

Interest rate and currency risk

The company is exposed to changes in foreign exchange rates, particularly the EUR, as all trading via Nord Pool is effected in EUR. The company is also exposed to changes in interest rates, since its debt is held at floating interest rates. Furthermore, changes in interest rates can have an impact on investment opportunities in future periods. In line with Statkraft's finance strategy, forward contracts and other currency and interest rate hedging agreements have been entered into at group level.

Credit risk

The risk of counterparties being unable to meet their financial obligations is considered to be low. Historically, Statkraft has had small losses through bad debts. Counterparty exposure is monitored on an ongoing basis and is kept within limits specified for each individual contract partner.

Liquidity risk

The company's liquidity is good.

Future developments

In 2007, Statkraft Energi AS will continue to develop its operations in line with its strategic targets and the vision of being a European leader in environment-friendly energy. The company will focus in particular on value creation from its core business: the production of electricity and market operations.

At the start of 2006, the water level in Statkraft Energi AS's reservoirs was somewhat higher than normal. Current forward prices on the Nordic power exchange indicate that price levels will remain relatively high. Given a relatively normal inflow of water during 2007, this will provide the basis for continued high revenues from electricity generation and sales. Technical uncertainty surrounds the operation of the Svartisen power plant until the new generator is installed in 2009.

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

Allocation of profit for the year

The company posted a profit after tax of NOK 4,284 million in 2006. The board proposes the following allocation of Statkraft Energi AS's profit for the year:

• Other equity	NOK	-1,039 million
• Group contribution paid	NOK	4,680 million
• Proposed dividend	NOK	643 million
• Total distribution for the year	NOK	4,284 million

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

As at 31 December 2006, the company had distributable reserves of:

• Other paid-in equity	NOK	1,508 million
• Deferred tax assets (net)	NOK	- 177 million
• Distributable reserves	NOK	1,331 million

Oslo, 12 March 2007
The Board of Directors of Statkraft Energi AS

Bård Mikkelsen
Chair

Eli Skrøvset

Ingelise Arntsen

Arne Einungbrekke

Olav Rabbe

Rolf Erik Teigstad

Jørgen Kildahl
CEO

INCOME STATEMENT

NOK million	Note	2 006	2 005
Power sales revenues	3	10 153	9 777
Other operating revenues	5	359	284
Gross operating revenues		10 512	10 061
Transmission costs		-845	-553
Net operating revenues		9 667	9 508
Salaries and payroll costs	6,7	405	451
Compensation and licence fees	8	279	284
Other operating costs	9	657	1 241
Depreciation and write-downs	14,15	620	616
Property tax		462	404
Operating expenses		2 423	2 996
Operating profit		7 244	6 512
Financial income	11	566	219
Financial expenses	11	-594	-1 344
Net financial items		-28	-1 125
Profit before tax		7 216	5 387
Taxes	12	2 932	2 580
Net profit		4 284	2 807
Allocation of net profit for the year			
Group contribution		4 680	2 177
Dividend		643	220
Transferred to other equity		-1 039	410
Total allocated		4 284	2 807

BALANCE SHEET

NOK million	Note	2 006	2 005
ASSETS			
Intangible assets	14	**1 292**	**1 768**
Property, plant and equipment	15	**22 832**	**21 473**
Investments in subsidiaries and associated compar	16	**772**	**772**
Other long-term financial assets	17	**491**	**91**
Fixed assets		**25 387**	**24 104**
Inventory		**38**	**39**
Receivables	18	**3 675**	**8 407**
Cash and cash equivalents	19	**125**	**169**
Current assets		**3 838**	**8 615**
Assets		**29 225**	**32 719**
EQUITY AND LIABILITIES			
Paid-in capital	20	**10 061**	**17 061**
Retained earnings	20	**0**	**757**
Total equity		**10 061**	**17 818**
Provisions	21	**4 696**	**4 175**
Deferred tax	12	**164**	**-**
Long-term interest-bearing debt	22	**4 682**	**4 686**
Long-term liabilities		**9 542**	**8 861**
Short-term interest-bearing debt	22	**164**	
Taxes payable	12	**1 395**	**1 592**
Other interest-free liabilities	23	**8 063**	**4 448**
Current liabilities		**9 622**	**6 040**
Equity and liabilities		**29 225**	**32 719**
Pledges	24	**1 899**	**6 264**
Guarantees	24	**1 888**	**1 586**

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STATEMENT OF CASH FLOW

NOK million		2 006	2 005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		7 216	5 387
Gains/ losses on the sale of fixed assets		-	-32
Depreciation and write-downs		620	616
Taxes paid		-1 436	-202
Cash flow from operating activities		6 400	5 769
Change in long-term items		147	
Change in short-term items		4 108	-796
Dividend from associated companies			
Net cash flow from operating activities	A	10 655	4 973
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment		-606	-643
Sale of fixed assets (gross proceeds)		44	172
Loans to third parties		-3	
Repayment of loans to third parties			
Investments in other companies		-	-771
Proceeds from the sale of other companies		-	20
Net cash flow from investing activities	B	-565	-1 222
CASH FLOW FROM FINANCING ACTIVITIES			
New interest-bearing liabilities		113	818
Repayment of long-term liabilities and subordinated loans		-3	-4 633
Change in long-term items		0	0
Capital introduced			
Dividend paid		-10 244	
Net cash flow from financing activities	C	-10 134	-3 815
Net change in cash and cash equivalents	A+B+C	-44	-64
Cash and cash equivalents as at 1 January		169	-64
Cash received relating to formation of the Group		0	0
Cash and cash equivalents as at 31 December		125	169

*The company's liquidity is organised in a group account scheme. The company's cash holdings are formally regarded as receivables due from the parent company Statkraft AS.

Accounting Principles

Accounting regulations
The annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP). Statkraft Energi AS does not prepare consolidated financial statements since the subgroup is included in the Statkraft AS's consolidated financial statements.

With effect from 2007 the Statkraft Group will prepare its financial statements in accordance with International Financial Reporting Standards (IFRSs). Most of the companies included in the Group will continue to prepare their financial statements in accordance with Norwegian GAAP. This also applies to Statkraft Energi AS. In areas where the Group's accounting principles are required to be changed in accordance with IFRSs, and where the IFRS solutions are compatible with Norwegian GAAP, Statkraft has also chosen to change its accounting principles in line with Norwegian GAAP. This relates primarily to tangible fixed assets and pensions, where the changes were implemented with effect from 1 January 2006 and are described in greater detail for the respective areas below.

Accounting policies

Uncertainty relating to estimates
The financial statements are based on assumptions and estimates that affect the book value of assets, liabilities, revenues and expenses. The best estimates available at the time the financial statements were prepared have been used, but actual figures may differ from the original estimates.

Principles for revenue and cost accounting
Revenues derived from the sale of goods and services are recognised when they are earned, while costs are recorded in accordance with the matching principle. Revenues from power trading are recorded at net value. Profits from subsidiaries are recognised in the year they are earned, while dividends from other companies are recognised in accordance with the cash principle. Gains/losses on the sale of ordinary fixed assets are treated as operating revenues or expenses.

Power trading revenues
Power generation. Power generation within the Group is taken to income as the volume generated multiplied by the sales price. Statkraft hedges its power generation by entering into physical and financial contracts. Financial instruments used in power trading are bilateral financial contracts, forward contracts and futures, and options. Physical and financial trading for the purpose of hedging future production output is recorded as hedging in the financial statements. The prerequisite for classification as a hedging instrument is that the level of hedging is within the company's generating capacity. Generating capacity is defined as the volume of power that the company is 80 per cent certain to produce. Losses and gains on hedging contracts, calculated as the margin between the contract price and spot price, are recorded on delivery and are included under power sales revenues. No valuation is made during the intervening period.

Paid and received option premiums for future power deliveries on fixed terms are recorded in the balance sheet according to the lower value principle. If the total value of the options in the portfolio is lower than the book value of the option premiums, it is written down to fair value.

Trading and Origination. The company has separate portfolios for trading and origination, which are managed independently of its expected power generation. The trading portfolio consists of financial power contracts and is used in the market with a view to exploiting short and long-term changes in market prices for electricity. The portfolio mainly comprises products traded on the Nord Pool exchange or bilateral standard products. The portfolio is recorded at fair value pursuant to Section 5-8 of the Norwegian Accounting Act. The origination portfolio comprises customised bilateral power contracts that are offered to customers as required. Since there is no market listing that can provide a satisfactory pricing of such non-standard contracts, the portfolio does not meet the requirements of Norwegian GAAP for recording at fair value. The portfolio is therefore recorded in accordance with the lower value principle at the portfolio level.

Public subsidies
Public subsidies are assessed on an individual basis and are recorded in the financial statements as a correction to the item to which the subsidy is intended to apply.

Compensation
The Group pays compensation to landowners for the right to use waterfalls and land. In addition, compensation is paid to others for damage caused to forests, land, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensatory power. These liabilities related to annual payments and free power were previously offset against the value of the right to use waterfalls and land. Under IFRSs, the gross value of these is required to be presented, a solution that is also permitted under Norwegian GAAP. Statkraft has therefore chosen to change its presentation of liabilities relating to compensation and free power in its reporting in accordance with Norwegian GAAP. The liabilities are calculated based on the current value of these at the time when the various companies in the Group prepared opening balances at fair values, with an addition for contracts entered into at a later juncture. The value of investments in plant is increased correspondingly, and is classified as land. The provision is valued at amortised cost.
The implementation effect of this reclassification is estimated at NOK 374 million, and capitalised as at 1 January 2006.

Licence fees
Licence fees are paid annually to central and local government authorities for the increase in generating capacity that is obtained from regulating watercourses and catchment transfers. These licence fees are charged as expenses as they accrue. The capitalised value of future licence fees has been calculated and is disclosed in Note 8.

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

Pension costs
In November 2005 the Norwegian Accounting Standards Board decided to grant Norwegian companies general permission to apply IAS 19 Employee Benefits, instead of the rules contained in Norwegian Accounting Standard 6 (NRS 6) Pension costs, with effect from the 2005 financial year. This has been regulated through the adoption of NRS 6A: Application of IAS 19 under Norwegian accounting legislation.
In order to harmonise its accounting principles, Statkraft has chosen to implement IAS 19 in accordance with Norwegian GAAP with effect from 1 January 2006. The most important difference in relation to previous accounting principles concerning pensions is that in connection with the transition to IAS 19 the Group has chosen to charge estimate deviations directly to equity on an ongoing basis. At the time of implementation on 1 January 2006, NOK 90 million of non-capitalised estimate deviations and plan changes for the Group's schemes was charged as an increase in pension liabilities, and a contra entry was made to reduce other equity and deferred tax assets.

The Group's pension schemes for Norwegian units are defined-benefit plans.

The net pension cost for the period is included under salaries and other payroll costs, and is made up of the pension benefits accrued during the period, the interest on the estimated liability and the projected yield on pension fund assets. The effect of plan changes that are made retroactively, i.e. where the earning of pension rights is not dependent on continued

service time, is recorded directly in the income statement. The effect of plan changes that are not made retroactively is spread over the remaining accrual period. Deviations in estimates are charged against equity.
Net pension fund assets for overfunded schemes are classified as long-term assets and recorded in the balance sheet at fair value. Net pension obligations for underfunded schemes are classified as provisions under long-term liabilities.

Research and development (R&D) costs
Research costs are charged as current expenses. Development costs are capitalised to the extent that a future financial benefit can be identified as deriving from the development of an identifiable intangible asset.

Maintenance costs
The cost of maintenance was previously charged as an expense as it accrued. Under IFRSs, periodical maintenance must be recorded by depreciating costs over the entire period up until such time as similar maintenance is expected to be carried out. This solution is also permitted under Norwegian GAAP. Statkraft has therefore chosen to change the accounting principle regarding periodical maintenance under Norwegian GAAP as well, with effect from 1 January 2006. Daily maintenance costs will continue to be expensed as they accrue.
In connection with the change in principle, a review has been made of maintenance projects concluded in previous years as well as ongoing maintenance projects, where these have been assessed in accordance with the new principles. On the basis of this review, an implementation effect of NOK 976 million has been capitalised as an increased value of fixed assets, with a contra entry in equity and deferred tax. The implementation effect was capitalised with effect from 1 January 2006.
This change in principle will result in a reduction in other operating costs, and an increase in annual depreciation. In the first years the reductions in other operating costs will be greater than the increase in depreciation. In the longer term these effects are expected to cancel each other out.

Property tax
Property tax on power plants is calculated on the basis of actual output, less the individual facility's actual operating costs and resource rent tax paid. The revenue side is calculated in the same way as the resource rent tax, taking as its starting point the plant's production hour by hour, multiplied by the spot price for the hour in question. Actual contract prices are used with respect to deliveries of licence power.

The property tax base is arrived at by discounting the previous five years' net operating revenues of the power plant at a fixed interest rate in perpetuity and deducting the net present value of the power plant's calculated costs for the replacement of operating assets. Property tax is charged at a rate ranging from 0.2 per cent to 0.7 per cent and is paid to the individual local authority. Property tax is presented as an operating cost.

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

Income tax is calculated in accordance with the ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. The taxes payable are calculated on the basis of the year's taxable income. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the values for accounting and taxation purposes and the tax effect of losses carried forward. Deferred tax assets are only recorded in the balance sheet to the extent that it is probable that the asset will be realisable in the future. Tax related to equity transactions is recorded against equity.

Natural resource tax is a profit-independent tax that is calculated on the basis of the individual power plant's average output over the past seven years. The tax rate is NOK 13/MWh. Income tax can be offset against the natural resource tax paid. Any natural resource tax that exceeds income tax can be carried forward with interest to subsequent years, and is recorded as prepaid tax (long-term interest-bearing receivable).

Resource rent tax is a profit-dependent tax and is calculated at a rate of 27 per cent of the net resource rent revenue generated by each power plant. Resource rent revenue is calculated on the basis of the individual power plant's production hour by hour, multiplied by the spot price for the corresponding hour. With respect to deliveries of licence power and power subject to contracts with a term exceeding seven years, the actual contract price is applied. Actual operating costs, depreciation and a tax-free allowance are deducted from the calculated revenue in order to arrive at the net resource rent revenue tax base. The tax-free allowance is set each year on the basis of the taxable value of the power plant's operating assets, multiplied by a normative interest rate set by the Ministry of Finance. The normative interest rate for 2006 was set at 7.2 per cent.
If a power plant's calculated resource rent revenue is negative, the amount can be carried forward with interest and offset against future positive resource rent revenues from the same power plant. Deferred tax assets linked to loss carryforwards and deferred tax liabilities linked to other temporary differences are calculated on the basis of power plants where it is probable that there will be positive resource rent revenues in the foreseeable future. Previously the timeframe for calculating the deferred resource rent tax asset was set at 15 years. With effect from 1 January 2006, this timeframe has been changed to 10 years. Earlier an estimated actual rate of resource rent tax was calculated for power plants where it was probable that there would be positive resource rent revenues. With effect from 1 January 2006, this principle was changed, so that a nominal rate of resource rent tax is applied. NOK 96 million as the implementation effect of these changes was capitalised as at 1 January 2006, which reduces the deferred resource rent tax asset and equity.

Classification and valuation of assets and liabilities
Assets intended for permanent ownership or long-term use are classified as fixed assets. Other assets are classified as current assets. Receivables falling due for payment within one year are classified as current assets. The same criteria are applied to the classification of current and long-term liabilities.
Fixed assets are recorded at acquisition cost and are written down to fair value when the impairment in value is not considered to be of a temporary nature. Fixed assets with a limited useful economic life are depreciated systematically. Long-term liabilities are recorded in the balance sheet at the nominal amount, adjusted for any unamortised premium or discount. Current assets are valued at the lower of acquisition cost or fair value. Current liabilities are recorded in the balance sheet at the nominal amount received at the time the liability was incurred.

Intangible assets. Costs relating to intangible assets, including waterfall rights and goodwill, are recorded in the balance sheet at historic cost to the extent to which the requirements for doing so have been met. Goodwill deriving from the acquisition of business activities is amortised in a straight line over its expected economic life. Waterfall rights are not depreciated, since there is no right of reversion to state ownership and the assets are deemed to have perpetual value.

Property, plant and equipment. Investments in production facilities and other property, plant and equipment are recorded in the balance sheet and depreciated in a straight line over the expected useful economic life of the assets from the date on which the asset went into ordinary operation. Investments in facilities that are not operated by Statkraft are similarly depreciated using an average rate of depreciation. Accrued costs of own investments in the Statkraft Group are recorded in the balance sheet as facilities under construction. Acquisition cost consists solely of directly attributable costs. Indirect administration costs in connection with the recording of own hours worked are therefore not included. Interest on building loans in connection with major investments is calculated and capitalised. Waterfall rights and rights to take over power plants that revert to state ownership are capitalised at cost and are not depreciated. Power plants that will revert to state ownership in the future will be depreciated from the takeover date to the reversion date. In connection with time-limited licences, provisions are made for removal obligations, with a contra entry in increased capitalised value of the relevant investment, which is depreciated over the licence period. As regards the capitalisation of future compensation payments and free power for landowners, reference is made to the description provided under “Compensation” above.

Subsidiaries/associated companies. Subsidiaries and associated companies are recognised using the cost method. Investments are recognised at the cost of acquisition of the shares and are adjusted for any write-downs where necessary. Shares are written down to fair value where the impairment in value is attributable to causes that are not deemed to be temporary in nature and this is deemed necessary in accordance with good accounting practice. Write-downs are reversed when the basis for the write-down no longer exists. Dividends and other distributions are recognised in income the same year they are proposed in the subsidiary. If the dividend exceeds the share of the retained earnings after the purchase, the excess share is deemed to represent a repayment of the invested capital and the distributions are deducted from the value of the investment in the balance sheet.

Partly owned power plants
Co-owned power plants, i.e. those power plants in which Statkraft owns shares, regardless of whether they are operated by Statkraft or one of the other shareholders are accounted for using the gross method in line with Statkraft’s ownership share. The electricity generated by such power plants is, with the exception of concessionary power, at the direct disposal of the co-owners. Power drawn from partly-owned limited companies is included in the figure for gross power sales revenues. Statkraft’s share of other operating revenues and operating costs is included in accordance with the specific shareholders’ agreements. The shares are recorded at cost.

Leased power plants
Power plants that are leased to third parties are recorded according to the gross method. Gross leasing revenues are included in other operating revenues, and operating costs are recorded under the relevant cost item.

Long-term shareholdings. All long-term investments are accounted for using the cost method in the company financial statements. Dividends received are treated as financial income. Investments in which the company does not have a controlling or considerable influence are valued at acquisition cost in the consolidated financial statements.

Inventories/spare parts. Standard inventories and spare parts relating to operations are classified as current assets and are valued in accordance with FIFO using the lower value principle.

Reservoirs. Water held in reservoirs is not capitalised. Information relating to reservoir water levels is disclosed in Note 4. The purchase of water is capitalised until the point of production.

Receivables. Accounts receivable and other receivables are recorded at nominal value minus provisions for bad debts. Provision for bad debts is made on the basis of an individual assessment of the receivable concerned.

Short-term financial investments. Shares, bonds, certificates, etc. that have been classified as current assets are recorded at fair value.

Cash and cash equivalents. The item “Bank deposits, cash and cash equivalents” also includes certificates and bonds with short-term remaining life. The settlement of financial instruments (cash collateral) is capitalised.

Advance payments received are classified as long-term liabilities. The amount prepaid is taken to income at the same rate at which the product it is intended to cover is delivered. An annual interest cost is calculated and recorded as a financial cost.

Contingent liabilities are recorded in the income statement if it is probable that they will have to be settled. A best estimate is used to calculate the value of the settlement sum.

Restructuring provisions. Once it has been decided to implement restructuring measures, provisions are made with respect to expected costs associated with the realisation of the measure. The size of each provision is based on a best estimate and is revised at the close of each period. Expenses accruing during the realisation of restructuring measures are charged against the provision on an ongoing basis.

Long-term liabilities. With respect to fixed-rate loans, borrowing costs and over or undervaluations are recorded in accordance with the effective interest-rate method (amortised cost).

Financial instruments

Hedging. The treatment of financial instruments is dependent on the purpose of the specific agreement. When it is entered into, each agreement is defined either as a hedging transaction or a commercial transaction. Where an agreement is treated in the financial statements as a hedging transaction, revenues and costs are accrued and classified in the same way as the underlying position. If cash flow hedging is undertaken, unrealised gains/losses on the hedging instrument are not capitalised.

Foreign currencies. Balance sheet items in foreign currencies are valued at the exchange rate in effect at the balance sheet date. Translation differences are recorded as financial costs or income. Gains/losses resulting from changes in exchange rates on debt intended to hedge net investments in a non-Norwegian subsidiary are taken to Group equity together with any translation differences arising from the translation of the investment.

Interest
Interest instruments are recorded in the financial statements in the same way as interest on interest-bearing debt and receivables. Unrealised gains/losses on fixed interest rate positions that are linked to interest-bearing balance sheet items are not taken to income since they are considered to be part of the hedging position. In the event that loans are repaid before the end of their fixed term (buyback), the gain/loss is taken to income. Swaps associated with repaid loans are normally cancelled. Gains/losses on such swaps are taken to income together with the underlying loan.

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

IFRSs
The EU has adopted a directive that requires all listed companies in the EU to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs). As a result of the EEA agreement, these rules also apply to Norwegian listed companies. Reporting in accordance with IFRSs was required to be implemented no later than 1 January 2005 for companies that issue listed equity instruments and by 1 January 2007 for companies that issue listed debt instruments. As an issuer of listed debt instruments through its issued bonds, Statkraft has elected to report in accordance with IFRSs from 1 January 2007. Statkraft's first annual financial statements prepared in accordance with IFRSs will be the annual financial statements for 2007, although comparable figures for 2006 will be prepared. An opening balance sheet as at 1 January 2006 will be established in accordance with IFRSs. As quarterly figures are reported in 2007, comparable figures will be prepared in accordance with IFRSs for the corresponding quarters in 2006.
The final and audited figures will be published in the annual financial statements for 2007. Up until the presentation of the annual financial statements for 2007, new standards may be introduced, existing standards may be changed, and new interpretations and statements may be made in respect of existing standards.

NOTE 1 IMPORTANT EVENTS

2006

Svartisen Power Plant
A severe storm in January 2006 damaged Statkraft Energi's plants, with the damage at the Svartisen power plant subsequently resulting in a shutdown of the plant in August. After at short period back in operation, the plant shut down again in October. The Group decided to invest in an additional generator in the fourth quarter. Implementation of this project is dependent on obtaining the necessary permissions and licences. A new generator will reduce the power plant's vulnerability to downtime. The power supply will be improved throughout the area, as well as in Central Norway, once the new generator starts operation, which is expected to take place in December 2009.

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

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

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

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

Extraordinary dividend
Statkraft Energi AS paid an extraordinary dividend of NOK 7 billion to Statkraft AS as part of the continuing reorganisation of the Statkraft Group.

2005

Reorganisation
Following Statkraft's change of status to a limited company, it was further reorganised into a group. As part of this process Statkraft undertook an internal refinancing programme. This has reduced the size of the outstanding intercompany balances between Statkraft AS and Statkraft Energi AS. At the same time, most of the companies that were owned by Statkraft Energi AS were transferred to Statkraft AS with effect from 1 January 2005. Operations associated with the New Energy business area were transferred to Statkraft Development AS with effect from 1 April 2005. The reorganisation has had no impact on accounting continuity. These measures complete the implementation of the legislation relating to Statkraft's limited-company status and the establishment of a group structure.

Refinancing
With accounting effect from 1 January 2005, refinancing measures were introduced under which receivables and payables between Statkraft Energi AS and Statkraft AS are settled at fair value.

Stamp duty
The reorganisation of Statkraft has resulted in a liability for stamp duty in connection with the transfer of assets. Statkraft Energi AS paid NOK 278 million in stamp duty in 2005. A further NOK 46 million in stamp duty was incurred in 2006.

Long-term leasing out of power production at the Rana power plant
Statkraft Energi AS has leased out 65% of the power generated by the Rana power plant for a period of 15 years, for which it received a lump-sum payment of NOK 2.2 billion in the first quarter of 2005. Statkraft Energi AS will, in addition, receive an annual compensation of NOK 65 million.

Acquisition of hydropower plants in Sweden and Finland
During the fourth quarter the Statkraft Group acquired 20 hydropower plants in Sweden, one of which was subsequently sold, and 4 in Finland, with an annual mean output of 1.6 TWh. Operation and production management of these units is harmonised with Statkraft's power plants in Norway through an operating agreement with Statkraft Energi AS.

New industrial contracts
Statkraft Energi AS has entered into long-term agreements to supply Fesil and Rio Doce Manganese Norway in Mo in Rana with respectively 900 and 450 GWh/year up to and including 2020. The agreements are at commercial terms and conditions, and replace previous statutory-priced contracts. The agreements show that there is a functioning market for long-term contracts in Norway.

Termination of power purchasing agreements
An amount of NOK 400 million in non-recurring compensation was received from the Group's wind power companies Hitra Vind AS, Smøla Vind AS and Smøla Vind 2 AS as a result of the termination of power sale agreements. The compensation is classified as power sales revenues in the financial statements.

Baltic Cable AB
Baltic Cable AB was transferred from Statkraft Energy Europe AS on 1 October 2005.

Environmental non-compliance
There was a serious environmental non-compliance at Statkraft Energi in December 2005. A breakdown in a generator in the Trollheim power station resulted in reduced rate of water flow and the stranding of fish. The matter is being investigated by the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). The investigation could result in the imposition of fines/penalties.

NOTE 2 SEGMENT INFORMATION

The bulk of Statkraft Energi AS's business activities lie within the power generation and hedging segment.
The trading and origination segment generated 2% of the company's operating revenues in 2006.

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

NOTE 3 POWER SALES

Statkraft optimises its hydropower generation based on an assessment of the value of available water in relation to actual and expected future spot prices. This is done irrespective of contracts entered into. In the event that Statkraft has physical contractual obligations to supply power that deviate from actual output, the difference is either bought or sold on the spot market. Necessary spot purchases are recorded as a correction to power sales revenues. Physical and financial contracts are used to hedge underlying production by entering into positions to buy or sell. Short positions are taken to hedge the price of a specific fraction of the planned future output. Long positions are taken to adjust the hedging level if assumptions change and Statkraft realises its hedged position is too high. All contracts are recorded as an adjustment to the underlying revenue from power generation, based on the margin between the contract price and the spot price (system price for financial contracts).

NOK million	2006	2005
Net physical power sales	6 574	4 950
Concessionary sales at statutory prices	160	153
Sales of electricity to industry at statutory prices	1 773	1 685
Long-term commercial contracts	1 489	1 395
Dynamic hedging	28	1 442
Trading and origination	208	26
Other	-79	126
Total	**10 153**	**9 777**

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

Figures in TWh	2007	2008	2009	2010	2011	2012 - 2020	2021 -
Statutory-priced industrial contracts	10,9	8,9	8,9	8,9	1,1	0,1	0,0
Concessionary power sales	2,3	2,3	2,3	2,3	2,3	2,3	2,3
Total fixed-price contracts	13,2	11,2	11,2	11,2	3,4	2,4	2,3

Price and volume of concessionary sales and statutory-priced contracts	2006	2005
Statutory-priced contracts – Volume (TWh)	13,1	14,3
Statutory-priced contracts – Price (NOK/MWh)	135,0	115,0
Concessionary sales – Volume (TWh)	1,8	1,8
Concessionary sales – Price (NOK/MWh)	82,0	83,0

Statutory-priced industrial contracts will largely expire on an ongoing basis up until 2011. As the statutory-priced contracts have expired, they have mainly been replaced by commercial agreements. The total volume which will be supplied to industry under commercial contracts in the period 2007–2020 is approximately 165 TWh.

NOTE 4 RESERVOIR WATER LEVELS AND POWER GENERATION (unaudited)

	Reservoir levels at 31.12		Max.	Power generation [1]		
Figures i TWh	**2006**	**2005**	**capacity**	**2006**	**2005**	**Mean**
Statkraft Energi AS	18,5	25,8	31,9	36	38,9	31,7

[1] After losses.

In a normal year reservoir water levels will vary in relation to a mean, with a -11 TWh minimum in April and a +5 TWh maximum in October. The inflow of water in 2005 was under that of a normal year. Reservoir water levels at the end of the year were therefore lower than normal.

NOTE 5 OTHER OPERATING REVENUES

NOK million	2006	2005
Power plant leasing revenues	110	103
Other leasing and service sales revenues	111	72
Gains/losses on sale of property, plant &	4	32
Compensation payments	32	77
Insurance income	102	-
Total	**359**	**284**

Insurance income relates to probable insurance settlements relating to stoppages at Bleikvatn and Svartisen.

NOTE 6 SALARIES AND OTHER PAYROLL COSTS

NOK million	2006	2005
Salaries	311	300
Employers' national insurance	59	63
Pension costs	34	87
Other benefits	1	1
Total	**405**	**451**

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

Members of Group management may retire at the age of 65 with a pension amounting to 66 per cent of annual salary. During the period between 60 and 65, members of Group management have agreements providing a mutual right to gradually scale back their workload and compensation. Members of Group management, with the exception of the President and CEO, may qualify for an annual bonus of up to NOK 200,000. Payment of the bonus depends on the achievement of specific individual goals. The Group management does not have any severence pay agreements in addition to those mentioned above. Nor have any loans or pledges been granted.

Members of the board elected by employees received NOK 50,000 in fees. No other directors' fees were paid to members of the board in 2006, nor were any loans or pledges with respect to board members granted.

On average the company had the equivalent of 633 full-time employees in 2006.

NOTE 7 PENSIONS

NOK million

Transfer of pension schemes from Statkraft Energi AS in 2005
As a result of Statkraft's reorganisation, Group management and staff department employees were transferred from Statkraft Energi AS to Statkraft AS with effect from 1 January 2005. The transfer of pension liabilities and assets was undertaken at fair value and based on actuarial calculations as at the time of the transfer.

Occupational pension schemes
Statkraft Energi AS operates an occupational pension scheme for its employees through the National Pension Fund. The benefits include retirement, disability, surviving spouse's and child's pensions. For individuals qualifying for the full entitlement, the scheme provides pension benefits amounting to 66% of pensionable salary, up to a maximum of 12G (12 times the National Insurance Scheme's basic amount). Moreover, the company offers early retirement at the age of 62 under the AFP pension scheme.

The National Pension Fund scheme is not asset-based. The pension benefits are guaranteed by the Norwegian state (Section 1 of the Pension Act). Management of the pension fund assets (fictive assets) is simulated as though the assets were invested in long-term government bonds. In this simulation it is assumed that the bonds are held to maturity.

Unfunded pension liabilities
In addition to the above, Statkraft Energi AS has entered into pension agreements that provide all employees whose pensionable incomes exceeds 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G.

Pension cost breakdown

	2006	2005
Net present value of accrued pension entitlements for the	34	27
Interest costs on pension liabilities	32	31
Yield on pension fund assets	-32	-26
Recognised effect of estimate changes	-	29
Recognised effect of plan changes	-	0,3
Net loss from transfer of pension liabilities to Statkraft AS and Statkraft Development	-	26
Discontinuation of Statkraft Pension Fund	-	-0,8
Net pension cost	34	87

Reconciliation of pension liabilities and pension fund assets	**2006**	**2005**
Gross pension liabilities	1031	736
Pension assets in the National Pension Fund	-653	-612
Unamortised estimate deviations		-68
Unrecognised plan changes		-6
Employers' national insurance contribution	53	7
Net pension liabilities	431	57

Specification of capitalised pension liability as a result of the charging of estimate deviations to equity	**2006**
Unamortised estimate deviations as at 01.01.2006 (implementation effect in connection with transition to Norwegian	127
Estimate deviations as at 31.12.2006	250
Total increase in capitalised pension liability including employers' contributions when charging to equity and deferrec	377
Charged to equity	271
Charged to deferred tax	106

Financial assumptions:

	31.12.2006	**01.01.2006**	**2005**
Annual discount rate	4,4 %	4,2 %	4,5 %
Salary adjustment	4,0 %	2,7 %	2,7 %
Adjustment of current pensions	4,0 %	2,4 %	2,4 %
Adjustment of National Insurance Scheme's	4,0 %	2,4 %	2,4 %
Projected yield on pension fund assets	4,4 %	4,2 %	4,5 %
Forecast annual exit			
• Up to age 45	2,5 %	2,5 %	2,5 %
• Between age 45 and 60	0,5 %	0,5 %	0,5 %
• Over age 60	0,0 %	0,0 %	0 %

The actuarial assumptions are based on those commonly used by the insurance industry with respect to demographic factors.

The tendency to take early retirement under the AFP scheme is estimated at 20 per cent.

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

NOTE 8 COMPENSATION AND LICENCE FEES

NOK million	**2006**	**2005**
Licence fees	213	208
Compensation payments	66	76
Total	**279**	**284**

Licence fees are adjusted in line with the Consumer Price Index, with the first adjustment taking place on the 1 January five years after the licence was granted and every fifth year thereafter. The net present value of current and permanent licence fees related to the company's generating facilities is estimated at NOK 5,300 million and is discounted at an interest rate of 4% in accordance with regulations relating to the adjustment of licence fees.

Annual compensation obligations are estimated at NOK 374 million, see Note 21.

NOTE 9 OTHER OPERATING EXPENSES

NOK million	**2006**	**2005**
Materials	76	55
External services	303	615
Costs, power plants operated by third	96	122
Other operating costs	182	449
Total	**657**	**1 241**

Research and development activities are expensed on an ongoing basis. An amount of NOK 13 million was recognised in the income statement in 2006. The company's research activities focus on gaining new knowledge and developing new methods within hydrology, energy optimisation and maintenance activities.

NOTE 10 FEES TO EXTERNAL AUDITOR
(NOK)

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

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

NOK	2006	2005
Statutory auditing	1 417 178	1 250 000
Other certification services	53 100	96 000
Tax advisory services	-	9 000
Other services		195 000
Total	**1 470 278**	**1 550 000**

NOTE 11 FINANCIAL INCOME AND EXPENSES

Financial income

NOK million	2006	2005
Interest received from Group companies	262	106
Other interest received	22	10
Dividend from subsidiaries	269	23
Other financial income	13	80
Total	**566**	**219**

Financial expenses

NOK million	2006	2005
Interest paid to Group companies	585	167
Other interest paid	-	390
Foreign currency losses	7	-
Other financial expenses	2	787
Total	**594**	**1 344**

Other financial expenses for 2005 includes losses in the amount of NOK 741 million resulting from the transfer of the finance function to Statkraft AS.

NOTE 12 TAXES

The total tax expense is calculated as follows:

NOK million	2006	2005
Income tax	1820	1915
Resource rent tax	929	524
Correction of previous years' tax	-74	79
Change in deferred tax	257	62
Total tax expense per income statement	**2932**	**2580**
Income tax payable:		
Tax payable on profit for the year	1820	1915
Impact on tax of Group contribution	-1820	-847
Income tax payable	0	1 068
Tax payable in the balance sheet:		
Natural resource tax	465	456
Resource rent tax	930	524
Excess of income tax over natural		612
Tax payable per balance sheet	**1395**	**1 592**

Reconciliation of nominal tax rate and effective tax rate

NOK million	2006	2005
Profit before tax	7 216	5 387
Expected tax expense at a nominal rate of	2 020	1 508
Effect on taxes of:		
Property tax	1 073	674
Tax-free income	-79	-7
Changes relating to previous years	-74	79
Other permanent changes – net	-8	326
Total tax expense	**2 932**	**2 580**
Effective tax rate	**41 %**	**48 %**

Specification of temporary differences and tax loss carryforwards

The following table specifies temporary differences and the tax loss carried forward. Deferred tax assets are recorded in the balance sheet to the extent that it is probable that they will be utilised. Net deferred tax assets presented as an intangible asset relate to companies that, according to the tax regulations, are treated as a single taxable entity.

The company presents deferred tax assets and deferred tax connected with different regimes individually. From 2006 deferred tax relating to resource rent is reported separately. The net deferred tax asset relating to resource rent for previous years is included in the company's total deferred tax assets.

NOK million	2006	2005
Current assets/current liabilities	45	46
Property, plant and equipment	132	518
Pension liabilities	121	16
Other long-term items	43	42
Sum of temporary differences and tax loss carryforward	341	622
Temporary differences, resource rent tax		130
Total deferred tax asset	**341**	**753**
Tax rate	28 %	20%/28%

Statkraft Energi AS has pledged NOK 508 million in security for tax relating to assets transferred in connection with the reorganisation of Statkraft SF.

The lien has a term of 3 years starting in 2005.

Specification of temporary differences that cannot be offset

The following is a specification of temporary differences and deferred tax that are not offset against deferred tax assets.

NOK million	2006	2005
Temporary differences, resource rent tax	325	0
Negative resource rent carryforward	-161	0
Total deferred tax (27%)	**164**	**0**

NOTE 13 SHARE OF REVENUES AND COSTS IN POWER PLANTS OPERATED BY THIRD PARTIES

With respect to power utilities in which Statkraft Energi AS has shares but no operating responsibility, cf. Note 15, the company appropriates for its own use a proportion of the power utility's output corresponding to its shareholding. This electricity is included in Statkraft's ordinary power sales in the same way as electricity produced by power plants operated by the company itself. Exception is made for mandatory sales of concessionary power that are handled by the power utility concerned, and where the sales revenues are distributed among the shareholders.

Where such co-ownership exists, the operating costs and revenues associated with the power utility's sale of concessionary power, etc, are distributed among the shareholders on an ongoing basis. The following is a summary of Statkraft Energi's share of revenues and costs related to these power utilities. The calculated revenues are Statkraft's actual power appropriation, multiplied by the average price for saleable electricity, as well as Statkraft's share of concessionary power sales revenues. The figures are included on separate lines in the income statement.

NOK million	**2006**	**2005**
Power sales revenues	1297	856
Other operating revenues	10	9
Transmission costs	-52	-42
Net operating revenues	1255	823
Compensation and licence fees	20	20
Other operating expenses	96	122
Depreciation	72	72
Property tax	38	33
Operating expenses	226	247
Operating profit	1029	576

NOTE 14 INTANGIBLE ASSETS

NOK million	**2006**	**2005**
Waterfall rights	951	1 015
Deferred tax assets	341	753
Total	**1292**	**1 768**

Deferred tax assets are discussed in greater detail in Note 12.

NOK million	**Waterfall rights**
Acquisition cost 1.1.2006	1 083
Additions 2006	-
Disposals 2006	-
Accumulated depreciation 31.12.2006	-132
Book value 31.12.2006	**951**
Depreciation for the year	-20

Estimated useful economic life

Waterfall rights	In perperuity
Licences etc.	7 years to perpetuity

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

NOK million	Water regulation facilities	Turbines, generators, etc	Share in power plants operated by third parties	Underground facilities roads, bridges and quays	Plants under construction	Other **	Total
Aquisition cost 1.1.2006	16 079	6 210	2 408	5 030	399	885	31 011
Implementation of new accounting principles (cost)	305	205		420	553	11	1 494
Additions 2006	345	131	4	48	-63	138	603
Disposals 2006		-	-	-2		-93	-95
Implementation of new accounting principles (depr.)	(39)	-52				(5)	-96
Accumulated depreciation and write-downs	-4 094	-3 258	-798	-1 405	-	-530	-10 085
Book value 31.12.2006	**12 596**	**3 236**	**1 614**	**4 091**	**889**	**406**	**22 832**
Depreciation for the year	-238	-165	-53	-82	-	-53	-591
Write-downs in the year	-9						-9
Depreciation period	30–75 years	15–40 years	5–50 years	50–75 years	3–40 years		

** Comprises mainly buildings, office and computer equipment, electrical installations and vehicles.

The following is a more detailed specification of the various assets' useful economic lives:

	Depreciation period years
Dams	
- riprap dams, concrete dams	75
- other dams	30
Tunnel systems	75
Mechanical installations	
- pipe trenches	40
- generators (turbines, valves)	40
- other mechanical installations	15
Underground facilities	75
Roads, bridges and quays	75
Electrical installations	
- transformers/generators	40
- switchgear (high voltage)	35
- control facilities	15
- operating centre	15
- communications equipment	10

	Depreciation period years
Buildings (admin., etc)	75
Other fixed installations	
- permanent	20
- less permanent	10
Miscellaneous moveables	5
Land	in perpetuity
Office and computer equipment	3
Furnishings and equipment	5
Vehicles	8
Construction equipment	12
Small craft	10

The figures given for power plants under co-ownership or where other parties have the right to appropriate a proportion of output in return for a share of the costs represent the Group's relative shareholding.

County authorities and publicly owned energy companies have the following appropriation rights with respect to the output of power plants operated by Statkraft Energi AS:

Power plant	Third-party shares
Eidfjord	35,00 %
Folgefonn	14,94 %
Grytten	12,00 %
Kobbelv	17,50 %
Leirdøla	35,00 %
Svartisen	30,00 %
Svorka	50,00 %
Ulla-Førre	28,00 %
Vikfalli	12,00 %

Statkraft Energi AS has the following shareholdings in power plants operated by third parties:

NOK million	Shareholding	Share of property, plant & equipment
Aurlandsverkene	7,00 %	345
Mørkfoss-Solbergfoss	33,33 %	39
Røldal-Suldal Kraft AS [1)]	8,74 %	-
I/S Sira-Kvina kraftselskap	32,10 %	1 230
Total		**1 614**

[1)] Statkraft Energi AS owns 8.74 per cent of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79 per cent of the IS Røldal-Suldal Kraft power plant. Statkraft's indirect shareholdling in the company is therefore 4.79 per cent.

NOTE 16 SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Shares in subsidiaries (NOK '000)

Name	Registered office	Shareholding	Share capital	Book value	Total equity	Profit 2006
Baltic Cable AB	Malmö	66,7 %	2 552	**771 333**	719 081	232 390

Statkraft Energi AS pays a monthly rent for the use of the cable. An amount of NOK 284 million was recognised as rent in the income statement in 2006. Statkraft Energi AS has a short-term loan from Baltic Cable, see Note 22. All agreements are entered into on commercial terms. No intercompany profits are generated.

Shares in associated companies (NOK '000)

Name	Shareholding	Book value
Settefiskanlegget Lundamo AS	47,0 %	700
Aktieselskapet Tyssefaldene	20,3 %	101
Aursjøveien AS	33,0 %	17
Total		**818**

Statkraft Energi AS also has investments in power plants operated by third parties, see Note 15, which are recognised in accordance with the gross method.

NOTE 17 OTHER LONG-TERM FINANCIAL ASSETS

NOK million	2006	2005
Long-term receivables	484	84
Other shares and securities	7	7
Total	**491**	**91**

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

NOTE 18 RECEIVABLES

NOK million	2006	2005
Accounts receivable – external	519	895
Accounts receivable – Group companies	77	662
Accrued revenues etc.	464	-
Other receivables	511	89
Current receivables from Group companies	2 104	6 761
Total	**3 675**	**8 407**

The item 'Accounts receivable – Group companies' primarily relates to the Group's group account scheme.

NOTE 19 CASH AND CASH EQUIVALENTS

The company's liquidity is held in a group account scheme. This means that the subsidiaries' cash holdings are formally regarded as receivables due from the parent company, and all Group companies are jointly and severally liable for the Group's dispositions.

The amount of tax payable is secured by guarantee, see Note 24.

NOTE 20 EQUITY

NOK million	Paid-in capital	Retained earnings	Total equity
Equity as at 01.01.2005	**31 707**	**1 031**	**32 738**
Capital reduction	-23 000		-23 000
Transfer of business	8 508	3	8 511
Correction of previous years' errors	-154	-687	-841
Profit 2005		2 807	2 807
Group contribution paid after tax		-2 177	-2 177
Dividend 2005		-220	-220
Equity as at 31.12.2005	**17 061**	**757**	**17 818**
Change in accounting principle periodic maintenance		703	703
Change in accounting principle pensions		-271	-271
Change in accounting principle resource rent tax		-150	-150
Profit 2006		4 284	4 284
Dividend 2006	-7 000	-643	-7 643
Group contribution paid		-4 680	-4 680
Equity as at 31.12.2006	**10 061**	**0**	**10 061**

The company has a share capital of NOK 5.5 billion, divided into 55 million shares, each with a face value of NOK 100. All the shares have the same voting rights and all are owned by Statkraft AS.

NOTE 21 PROVISIONS

NOK million	2006	2005
Pension liabilities	431	57
Provisions for annual compensation payments	374	-
Other provisions	3 891	4 118
Total	**4 696**	**4 175**

Pension obligations are described in more detail in Note 7.

The item 'Other provisions' for 2006 includes prepayments of NOK 3,637 million in connection with future power sales agreements. The largest of these are the agreement with Elsam and the Rana power leasing contract.

Furthermore, a gain of NOK 360 million linked to terminated foreign exchange contracts which are amortised in the period to 2010 has been recorded in the balance sheet.

NOTE 22 INTEREST-BEARING LIABILITIES

Long-term interest-bearing liabilities:

NOK million	2006	2005
Loans from Statkraft AS	4671	3 906
Long-term debt Statkraft Energy Europe AS	-	766
Other liabilities	11	14
Total	**4 682**	**4 686**
Nominal average interest rate NOK	3,47 %	6,36 %

The loans are denominated in NOK.

Short-term interest-bearing liabilities:

Short-term interest bearing liabilities relates to liabilities due to the subsidiary Baltic Cable AB.

NOTE 23 OTHER INTEREST-FREE LIABILITIES

NOK million	2006	2005
Accounts payable – external	369	267
Accounts payable to Group companies	144	556
Public charges payable	182	285
Accrued costs	225	24
Other interest-free liabilities		21
Proposed dividend	643	220
Current liabilities to Group companies	6500	3 075
Total	**8 063**	**4 448**

NOK 6,500 million of 'Accounts payable to Group companies' for 2006 relates to the Group contribution paid for 2006.
In 2005 the Group contribution amounted to NOK 3,024 million.

NOTE 24 PLEDGES, OBLIGATIONS AND GUARANTEES

Pledges

Under certain circumstances county authorities and publicly owned energy utilities are entitled to a share of the output from power plants belonging to Statkraft Energi AS in return for paying a share of the construction costs, cf. Note 13.
To finance the acquisition of such rights, the county authorities/companies have been granted permission to pledge the power plant as security. The mortgage debt raised by the county authorities under this scheme totals NOK 1,899 million. As at 31.12.2006, the book value of the pledged assets in Statkraft Energi AS totals NOK 6,435 million.

Obligations and guarantees

Statkraft Energi AS has off-balance-sheet obligations and guarantees totalling NOK 1,888 million. Of this NOK 1,448 million are power swap agreements, NOK 23 million guarantees to the tax authorities, NOK 400 million guarantees to Nord Pool and NOK 17 million other guarantees.

NOTE 25 FINANCIAL INSTRUMENTS

Statkraft Energi AS trades in financial instruments for various purposes. Their treatment in the financial statements will depend on their purpose as described in the note on accounting principles.

Currency and interest rate agreements

Book value and fair value of interest rate and currency instruments

	31.12.2006		31.12.2005	
	Book value	Fair value	Book value	Fair value
Forward currency agreements		(38)	-	18
Total	**-**	**(38)**	**-**	**18**

Fair value is calculated on the basis of relevant market prices and forward curves, since the bulk of the instruments are not traded on organised markets.

Power trading

Derivatives are recorded at fair value

NOK million	Fair value 2005	Recognised change in value 2006	Fair value 2006
Trading portfolio (external)	31	28	59

With respect to power trading, the trading portfolios are valued at fair value in accordance with Section 5-8 of the Norwegian Accounting Act. The portfolios comprise financial forward and option contracts traded via Nord Pool, as well as bilateral financial contracts with terms otherwise identical to standardised contracts traded via Nord Pool. With respect to the trading portfolios, acquisition cost relates solely to the net of paid and received option premiums.

With respect to the trading portfolios, contracts are traded within a three-year timeframe. As at 31.12.2006 fair value was broken down as follows per future time period:

NOK million	
2007	59
2008	2
2009	-2
Total fair value 31.12.2006	59

Derivatives not recorded at fair value

Statkraft Energi AS has three power portfolios whose financial instruments are not recorded at fair value in the financial statements. All these portfolios consist of both physical and financial contracts. When assessing the risks and value attached to each portfolio, the physical and financial contracts are taken together. Fair value on financial power contracts will therefore not be representative of the value of the entire portfolio.

Portfolio	Accounting treatment	
Nordic Asset	Hedging	Norwegian Accounting Act, Section 4-1, Paragraph 1, no. 5
Origination	Lower value principle	Norwegian Accounting Act, Section 5-2
Statkraft Financial Energy	Lower value principle	Norwegian Accounting Act, Section 5-2
Baltic Cable	Lower value principle	Norwegian Accounting Act, Section 5-2

A brief description of the portfolios is presented below.

Nordic Asset

Net exposure in this portfolio is derived from updated production forecasts, buying and selling commitments pursuant to long-term physical contracts, as well as contracts traded via Nord Pool and bilateral financial contracts. A net financial short position is deemed to hedge future cash flows from power generated, while a net financial long position is deemed to hedge the fair value of future supply commitments. As at 31.12.2006, the trading portfolio had a net financial short position.

The physical sales commitments consist of statutory-priced industrial contracts, commercial sales contracts, concessionary power commitments, as well as miscellaneous free power and compensation power contracts. The majority of the statutory-priced industrial contracts will expire in the period to 2011. The commercial contracts have varying terms, but the longest runs until 31.12.2020. Concessionary power agreements run in perpetuity. For some of these sales obligations the price is indexed against other market risk such as metals and foreign exchange (USD, EUR and GBP).

Financial contracts in the portfolio are both contracts traded via Nord Pool and bilateral contracts. These generally have terms of less than five years, but some bilateral financial contracts run until and including 2015 (see the Elsam agreement below). To some extent the perpetual concessionary power agreements have been renegotiated to provide financial settlement for shorter periods of time.

In 2000 Statkraft and Elsam signed a contract converting a physical power exchange agreement signed in 1994 into a financial net settlement between the contract price (indexed against coal, etc) and a market-based reference price (area spot). The contract runs until 30.06.2020 and has an annual volume of 1,462.5 GWh. The Elsam agreement is built on a partnership agreement between several Norwegian energy companies. Statkraft Energi AS has a 44.64 per cent share of the above-mentioned volume.

Origination

This portfolio primarily consists of customised bilateral physical and financial contracts. As a rule efforts are made to offset the basic exposure (i.e. the risk that can be directly attributed to price fluctuations in forward system price agreements traded in the market) against corresponding standardised financial contracts. The risk associated with the portfolio is therefore primarily derived from the area price risk, profiles, volatility (options and user time contracts), load, temperature and foreign exchange. Foreign exchange risk is partially hedged by means of internal currency forward contracts. The majority of contracts in the portfolio have terms of up to five years, but certain contracts run until and including 2015.

As at 31.12.2006, fair value was higher than acquisition cost.

Statkraft Financial Energy

This portfolio consists of bilateral physical and financial as well as cleared contracts to the Norwegian, Danish, Swedish and Finnish markets, in addition to currency contracts in SEK and EUR. As a rule efforts are made to offset the bulk of the volume exposure against corresponding standardised financial contracts, such that the portfolio's total net exposure remains relatively moderate.

The risk associated with the portfolio is primarily derived from the area price risk (Helsinki, Stockholm and Norwegian price areas), spread risk and foreign exchange (mainly SEK and EUR). Foreign exchange risk is largely hedged by means of currency forward contracts.

As at 31.12.2006, fair value was higher than acquisition cost.

Baltic Cable

Statkraft Energi AS's 66.7 per cent shareholding in Baltic Cable AB entitles the company to import or export up to 400 MW a day between Sweden and Germany. This allows for a profit to be made on the difference in price between the two areas. The Baltic Cable portfolio also comprises financial hedging contracts whose purpose is to hedge individual price differences over a timeframe of 3-5 years. The company has initiated hedging activities for gas, provisionally on a small scale.

As at 31.12.2006, fair value was higher than acquisition cost.

NOTE 26 MARKET-RELATED RISK, FINANCIAL RISK AND INSURANCE RISK

Market Risk

Statkraft Energi AS's main activities include the generation and trading of power. In a market in which hydropower plays an important role and where the supply of water varies a great deal from year to year, price and generating capacity will also vary considerably. In 2006, the price of carbon quotas and fuels also had a significant impact on electricity prices. These factors can have a marked impact on the company's results. However, since power generation and price are often negatively correlated, i.e. high water levels and a high level of output resulting in lower prices and vice versa, the range of possible financial outcomes is naturally restricted. In addition, Statkraft actively manages its risk in relation to the actual market situation. In so doing Statkraft Energi AS endeavours to realise the maximum long-term earnings potential from its generating facilities, given the company's risk criteria.

Risk management. Statkraft Energi AS makes considerable use of forward contracts and other financial instruments to hedge its revenues. Contract trading helps to stabilise the company's revenues from year to year. This is desirable because of the great uncertainty that otherwise surrounds total revenues from power sales, which are dependent on a volatile spot price and uncertain production capacity. In this respect there is no difference between physical and financial contracts that are traded bilaterally or via brokers, and financial contracts in the forward market (Nord Pool). Price is the prime criterion when selecting a trading method. Hence, the most important factor is that new contracts are advantageous in relation to existing power contracts, optimising the outcome of Statkraft's own production and spot prices. The company continually adjusts the contract portfolio to maximise expected earnings within the given risk criteria. Internal guidelines for market exposure have been adopted for both hedging and trading activities. An organisationally independent unit is responsible for the continual monitoring of authorisations and limits.

Use of derivatives for hedging purposes. Statkraft Energi AS trades in various physical and financial instruments to hedge revenues. This hedging, which takes into consideration the company's present and future generating capacity, is intended to ensure an optimal contract position in relation to recognised risk criteria. Statkraft Energi AS is exposed to both price and volume risks because future prices and water inflow are unknown. At the end of 2006 the company had presold more than 40 per cent of its mean production up to and including 2016.

Use of derivatives for trading purposes. In addition to hedging activities, Statkraft Energi AS also uses financial derivatives to take limited, short-term positions in the market. Value-at-Risk is an important risk management tool. The volume traded is significant, but the financial exposure at any given time is limited compared to the hedging activities.

Origination. Statkraft Energi AS offers customised bilateral contracts to its customers. By adapting the contract terms and conditions to individual customer needs, added value is generated in relation to standard quoted contracts. The risk associated with this activity is hedged to a great extent by trading in standard contracts. The remaining financial exposure is very small in relation to the hedging activities and is quantified by Value-at-Risk and Profit-at-Risk. Internal restrictions on these performance indicators are used to ensure that exposure remains within company guidelines.

Financial Risk

Statkraft focuses primarily on cash flow in connection with its follow-up of financial performance and risk management. This is because cash flow is considered to be decisive for value creation.

Use of interest rate and currency instruments. Statkraft uses interest rate and currency instruments in its management of the company's interest rate and foreign exchange exposure. Interest rate swaps and forward contracts are used to achieve the desired interest rate profile on the Group's borrowing portfolio. Interest rate and cross currency swaps are used to achieve the desired currency for the company's borrowing portfolio.

Foreign exchange risk. Statkraft Energi AS's foreign exchange risk is primarily linked to power sales revenues in foreign currencies. Statkraft's markets division converted to EUR as its operational currency in relation to Nord Pool's conversion to EUR in 2006. Expected future cash flows in foreign currencies over the next three years are gradually being hedged. The degree of hedging is highest for the most immediate cash flows. Financial investments in foreign currencies are fully hedged. Exposure is hedged by means of both financial instruments and loans in foreign currencies.

Interest rate risk. An interest rate management framework has been adopted based on a spread between fixed and floating interest rates. The objective is to ensure that the bulk of the net borrowing portfolio is exposed to floating interest rates. As a rule fixed interest rates shall apply for a period of more than five years.

In addition to interest rate swap agreements linked to the respective loans, financial instruments are widely used to keep the individual portfolio within the given risk limits.

Liquidity risk. Statkraft Energi AS assumes a liquidity risk because the term of its financial obligations is not matched to the cash flow generated by its assets, and because of variations in collateral requirements linked to financial contracts in the forward market (Nord Pool). Drawing rights in the Group's group account scheme are used to secure access to short-term financing. Statkraft has long-term credit ratings from Standard & Poor's and Moody's Investor Service of BBB+ and Baa1, respectively, both with "Stable Outlook". The Statkraft Group has good opportunities for borrowing in the Norwegian money market and in the banking market. Statkraft's drawing rights are large enough to cope with a significant increase in the collateral required for financial contracts in the forward market (Nord Pool). It is the company's policy to limit short-term borrowing to the sum of cash reserves and committed lines. Short-term financing is primarily used for bridging financing.

Credit risk. Statkraft Energi AS is exposed to credit risk through physical power trading and trading in financial instruments. The limits for each counterparty are determined by a formal credit rating or an analysis of key financial figures. Credit risk associated with physical and financial power contracts is calculated, monitored and reported on a weekly basis. Bilateral contracts are subject to limits for each counterparty, with regard to volume, amount and duration. For financial instruments a loss potential is calculated in the event the counterparty should fail to fulfil his obligations. Statkraft Energi AS has entered into agreements on periodical settlement of the market value of the financial instruments with the majority of its counterparties. Credit exposure associated with such agreements is therefore substantially reduced.

Insurance risk

Statkraft Energi AS has a considerable risk exposure in its operations related to damage/loss relating to its own assets and subsequent production loss, as well as damage to third-parties' bodies and property. The company has established insurance schemes that limit the negative effect of key risk exposures. All Statkraft Energi AS's assets are insured to their replacement value. For dams and tunnels, however, a maximum payout per incident has been set, after a thorough assessment of the risk involved, at NOK 400 million and NOK 50 million respectively.

NOTE 27 RELATED PARTIES

The operation and production management of the Group's power plants in Sweden and Finland is coordinated with Statkraft's power plants in Norway through an operating agreement with Statkraft Energi AS. Statkraft Energi AS also has operating responsibility for the Group's Norwegian wind turbine companies and the power plants in Nepal and Laos.

The SFE and Baltic Cable portfolios are managed by Statkraft Financial Energy AB and Statkraft Markets GmbH, respectively.

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

Agreements are entered into on market terms.

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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Statkraft Energi AS

AUDITOR'S REPORT FOR 2006

We have audited the annual financial statements of Statkraft Energi AS as of 31 December 2006, showing a profit of NOK 4,284 millions. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing practice, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2006, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit, is consistent with the financial statements and complies with law and regulations.

Oslo, 12 March 2007
Deloitte AS

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