STATKRAFT ENERGI AS
ANNUAL REPORT
2005--

REPORT FROM THE BOARD OF DIRECTORS

STATKRAFT ENERGI AS 2005

Nature of the business

Statkraft Energi AS is a company in the Statkraft Group, 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 submarine link between Sweden and Germany. Baltic Cable AB was transferred from Statkraft Energy Europe AS with effect from 1 October 2005.

Important events in 2005

Acquisition of power plants in Sweden and Finland
During the fourth quarter of 2005 the Statkraft Group took over 20 hydropower plants in Sweden, one of which was subsequently sold, and four in Finland. The combined annual mean generation from these power plants totals 1.6 TWh. Operation and optimisation of the power plants is harmonised with Statkraft’s Norwegian facilities through an operating agreement with Statkraft Energi AS.

New power contracts with the industry
Statkraft Energi AS has signed long-term agreements to supply Fesil and Rio Doce Manganese Norway in Mo i Rana with 900 and 450 GWh/year respectively until the end of 2020. These contracts are at commercial terms and conditions and replace previous statutory-priced agreements.

Long-term leasing out of generation from the Rana power plant
Statkraft Energi AS has leased out 65 per cent of the generation from the Rana power plant for a period of 15 years. In return, Statkraft Energi AS received the sum of NOK 2.2 billion in the first quarter 2005. In addition, Statkraft Energi AS will receive an annual payment of NOK 65 million to cover operating expenses.

Reorganisation
The Norwegian Parliament (Stortinget) voted in June 2004 to turn Statkraft SF into a limited company, organised as a group. As part of this process, Statkraft Energi AS was incorporated on 25 June 2004. The company was wholly owned subsidiary of Statkraft SF and had an initial share capital of NOK 100,000.

Under the business transfer agreement of 27 September 2004, the bulk of Statkraft SF's operations and employees were transferred to Statkraft Energi AS, with effect from 1 September 2004. The company's share capital was raised to NOK 20 billion by means of a contribution in kind. On 1 October all the shares in the company were transferred to the new parent company in the Statkraft Group, Statkraft AS, which is itself a wholly owned subsidiary of Statkraft SF. At the same time the group's finance department, with associated assets, rights and liabilities was transferred to Statkraft AS. The transfer was undertaken such that corresponding receivables and payables between the companies were created, and accounting continuity maintained. A refinancing package, in which receivables and payables between Statkraft Energi AS and Statkraft AS were settled at fair value, was implemented on 1 January 2005.

The next phase in the formation of the Statkraft Group took place on 18 March 2005 when an agreement was signed to transfer Statkraft Energi AS's shares in Statkraft Energy Europe AS, Statkraft Energy Enterprise AS, Statkraft Regional Holding AS, Statkraft Forsikring AS, Statkraft Norfund Power Invest AS, Statkraft Development AS, Naturkraft AS and Hydra Tidal Energy Technology AS to Statkraft AS. Moreover, the employees working in Statkraft's corporate staff departments were transferred to Statkraft AS. At the same time, the operations associated with the New Energy business area were transferred to Statkraft Development AS. The shareholdings have been transferred such that accounting continuity has been maintained, while the other assets and liabilities were transferred at fair value.

In connection with the reorganisation process which took place in the autumn of 2004 and the spring of 2005, an adjustment was made in Statkraft Energi AS's equity. This resulted in a NOK 23 billion write-down of share capital and the share premium account. The amount of the write-down was distributed to Statkraft AS, and partially offset against Statkraft Energi AS's claim on the proceeds of the assets which were transferred from Statkraft Energi AS to Statkraft AS.

A further adjustment of the company's equity is planned for 2006. This will involve a write-down of the value of "Other paid-in equity". It is the opinion of the board that, assuming prudent management and the exercise of good business practice, as well as anticipated future losses, there will, also after the equity write-down, be full coverage for the company's share capital and other undistributable equity.

Profit, cash flow, investments, financing and liquidity
2005 was a good year for Statkraft Energi AS. Its financial performance derives from efficient energy management and high percipitation. The Nordic power market was characterised by mild weather, with higher than normal precipitation and inflow levels in 2005, factors which by themselves drive electricity prices down. However, this was counteracted by high prices for the fossil fuels used in thermal power plants, and high carbon prices. The year's lowest monthly price in the spot market came in January, while prices in the other months remained relatively stable above 20 øre/kWh. The system price on Nord Pool averaged 23,5 øre/kWh, just 0,7 øre/kWh lower than in 2004. Gross operating revenues

totalled NOK 10 061 million in 2005, while the company's net profit totalled NOK 2 807 million.

The 2005 financial statements include several internal non-recurring items. The reorganisation resulted in a loss for Statkraft Energi AS of NOK 741 million. Furthermore, the reorganisation resulted in the accrual of a considerable liability for stamp duty. NOK 278 million in stamp duty was expensed in 2005, as was NOK 182 million in losses on a property rental agreement. A non-recurring compensation payment of NOK 400 million from the group's wind power companies Hitra Vind AS, Smøla Vind AS and Smøla Vind 2 AS was taken to income as a result of the termination of an electricity purchasing agreement. The compensation payments are classified as power sales revenues in the accounts.

The company's cash flow from operating activities totalled NOK 4 973 million, while its operating profit totalled NOK 6 512 million.

The company had a negative cash flow of NOK 841 million from its investing activities. This can largely be ascribed to the acquisition of Baltic Cable AB for NOK 771 million, maintenance investments totalling NOK 127 million and a NOK 35 million investment in new generating capacity. Furthermore, NOK 172 million in property, plant and equipment was sold in 2005.

The company had a negative cash flow of NOK 3 815 million from its financing activities, largely due to the repayment of long-term debt.

The company had cash and cash equivalents totalling NOK 169 million at 31 December 2005. The company's other liquid assets are organised in a group account scheme, which means that they are classified as a receivable from Statkraft AS in the accounts. The company is well able to self-finance its investments.

The company's current liabilities, as at 31 December 2005, amounted to 40.5 per cent of its total debt, compared with 17.75 per cent at the same date in 2004. The increase is due partly to the repayment of long-term debt in connection with the write-down of equity, partly to provisions for dividend and group contribution for 2005. The company has a strong financial position and, at 31 December 2005, could have repaid its current liabilities out of its most liquid assets (current assets – inventory).

At the close of the financial year, Total Assets amounted to NOK 32 719 million, compared with 74 673 million the year before. This reduction can largely be ascribed to the transfer of operations to Statkraft AS, as well as the subsequent write-down of equity. As at 31 December 2005, the company had an equity ratio of 54.5 per cent, compared with 43.8 per cent at the same date in 2004.

Going concern

In accordance with Section 3-3a of the Accounting Act, it is hereby confirmed that the company has all the prerequisites necessary to continue as a going concern. This assumption is based on the profit forecasts for 2006, and the company's long-term strategic forecasts for the years ahead. The company has a sound financial position.

Working environment and personnel

The company had a sickness absence rate in 2005 of around 3.2 per cent of total hours worked, compared with 4.3 per cent in 2004. The company has seen positive effects 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 intensions of the agreement.

Statkraft's HSE vision is for its operations to result in zero lost-time injuries. The company is implementing a long-term improvement programme to ensure local commitment to and management follow-up of health and safety issues in all operative units.

Though no serious operational accidents or incidents were reported in 2005, eight lost-time injuries did occur. None of the injuries has resulted in permanent disability, though one could have had a serious outcome. A chainsaw was being used during demolition work. The operator put his foot through the roof and lost his grip on the chainsaw, which hit his hand. The total number of lost-time injuries (H1)[1] in 2005 was 6.9, while the total number of all injuries (H2)[2] was 19.

The working environment is considered to be good, and improvement measures are continually being implemented. In 2005 the annual organisational and leadership survey, which also covers employees' satisfaction with their working environment, shows that 80 per cent of employees are very satisfied, compared with 78.5 per cent the year before.

Statkraft's various working environment committees held regular meetings in 2005. 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.

Gender equality

Statkraft Energi AS aims to achieve a greater balance between the genders and increase the number of women in management positions. 17 per cent of the company's total workforce and 11 per cent of those in management positions are women. Women make up 33 per cent of the board of directors.

Statkraft Energi AS wishes to have a diversity of competences. The group promotes equal treatment with respect to recruitment and personnel policy,

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

and, in the hiring process, it seeks to facilitate the consideration of persons with a multicultural background for relevant positions. Statkraft Energi AS will also ensure that freedom of speech and employee rights are upheld in all parts of the business. A life-course policy for employees over the age of 62 was introduced in 2005.

Statkraft aims to achieve equal pay for equal work and equal performance at all job levels by means of salary systems which reflect individual competence, job complexity and results achieved. Incentive schemes include collective and individual performance-related pay.

Environmental reporting

Hydropower is 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. In 2005 one serious environmental non-compliance occurred. The failure of a generator at the Trollheim power plant led to a reduction in the flow of water and the death of stranded fish. Measures to prevent future outages are being evaluated. Several less serious environmental non-compliances were also reported. These were largely minor violations of the minimum water flow regulations, which did not have a measurable impact on the environment.

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 from year to year, price and production volume will fluctuate considerably. In 2005, the price of carbon quotas and fossil fuels also had a significant impact on electricity prices. These circumstances can have a major effect on Statkraft Energi AS's financial performance. Risk associated with fluctuations in price and volume is to some extent, however, self-regulating, since there is often a negative correlation between production volume and price, ie a lot of water and high generation leads to low prices, and vice-versa. Moreover, Statkraft Energi AS has 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 generation, taking into consideration the company's risk criteria.

Risk management

Statkraft Energi AS makes extensive use of forward contracts and other financial instruments to hedge its revenues. Hedging helps to stabilise Statkraft Energi AS's revenues from year to year. This is considered desirable given the high level of uncertainty which 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 dealt with bilaterally or via a broker, and financial contracts in the forward market (Nord Pool) on the other. Price is the most important factor when selecting the method of sale. It is therefore crucial that new contracts are favourable in light of existing power contracts and the possible risk associated with the company's own generation 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, since part of its revenues is generated in foreign currencies. With effect from 1 January 2006, all trading over Nord Pool will be in EUR, which will further increase the company's currency risk. In line with Statkraft's finance strategy, forward contracts and other currency hedging agreements have been entered into at group level.

The company is also exposed to changes in interest rates, since its debt is at floating rates. Furthermore, changes in interest rates can have an impact on investment opportunities in future periods.

Credit risk

The risk of counter parties being unable to meet their financial obligations is considered to be low. Historically, Statkraft Energi AS has had small losses related to bad debts. Counterparty exposure is monitored on an ongoing basis and is kept within limits specified for each individual counter party.

Liquidity risk

The company's liquidity is good, and will remain so even after the equity write-down that is planned for 2006.

Future developments

In 2006 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 particularly on value creation from its core business: the generation and trading of electricity.

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 an approximately normal inflow of water during 2006, this will provide the basis for continued high revenues from electricity generation and sales. The board does not expect any significant changes operating 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 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 Directors of the Board proposes the following allocation of Statkraft Energi AS's profit for the year 2005:

• To other equity	NOK	410 million
• Group contribution paid	NOK	2 177 million
• Allocated to dividend	NOK	220 million
• Total allocation for the year	NOK	2 807 million

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

As at 31 December 2005 the company had a distributable reserve of:

• Other equity	NOK	757 million
• Other paid-in equity	NOK	8 508 million
• Deferred tax assets	NOK	- 753 million
• Distributable reserve	NOK	8 512 million

Oslo, 20 March 2006

The Board of Directors of
Statkraft Energi AS

Bård Mikkelsen
Chair

Eli Skrøvset

Ingelise Arntsen

Rolf Erik Teigstad

Olav Rabbe

Arne Einungbrekke

Jørgen Kildahl
CEO

INCOME STATEMENT

NOK million	Note	2005	01.09 - 31.12 2004
Power sales revenues	3	**9 777**	1 521
Other operating revenues	5	**284**	1 067
Gross operating revenues		**10 061**	2 588
Transmission costs		**-553**	-107
Net operating revenues		**9 508**	2 481
Salaries and payroll costs	6,7	**451**	271
Compensation and licence fees	8	**284**	92
Other operating costs	9,10	**1 645**	641
Depreciation and amortisation	14,15	**616**	227
Operating costs		**2 996**	1 231
Operating profit		**6 512**	1 250
Financial income	11	**219**	1 166
Financial expenses	11	**-1 344**	-1 042
Net financial items		**-1 125**	124
Profit before tax		**5 387**	1 374
Taxes	12	**2 580**	338
Net profit		**2 807**	1 036
Allocation of net profit for the year			
Group contribution		**2 177**	-
Dividend		**220**	5
Transferred to other equity		**410**	1031
Total allocated		**2 807**	1 036

BALANCE SHEET

NOK million	Note	31.12.05	31.12.04
ASSETS			
Intangible assets	14	**1 768**	1 732
Property, plant & equipment	15	**21 473**	21 582
Investments in subsidiaries & associated companies	16	**772**	19 785
Other long-term financial assets	17	**91**	22 549
Fixed assets		**24 104**	65 648
Inventory		**39**	36
Accounts receivable	18	**8 407**	8 755
Cash & cash equivalents	19	**169**	234
Current assets		**8 615**	9 025
Total assets		**32 719**	74 673
EQUITY AND LIABILITIES			
Paid-in capital	20	**17 061**	31 708
Retained earnings	20	**757**	1 031
Total equity		**17 818**	32 739
Provisions	21	**4 175**	2 178
Long-term interest-bearing debt	22	**4 686**	32 312
Long-term liabilities		**8 861**	34 490
Taxes payable	12	**1 592**	193
Other interest-free liabilities	23	**4 448**	7 251
Current liabilities		**6 040**	7 444
Total equity and liabilities		**32 719**	74 673
Pledges	24	**6 264**	2 090
Guarantees	24	**1 586**	1 691

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STATEMENT OF CASH FLOW

NOK million		2005	2004
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**5 387**	1 471
Gains/losses on the sale of fixed assets		**-32**	-982
Depreciation and amortisation		**616**	227
Tax paid		**-202**	-97
Cash flow from operating activities		**5 769**	619
Change in long-term items		**1 997**	
Change in short-term items		**-2 793**	-3 731
Net cash flow from operating activities	**A**	**4 973**	-3 112
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant & equipment		**-262**	-161
Sale of fixed assets (gross proceeds)		**172**	1 294
Repayment of loans to third parties			6 039
Investments in other companies		**-771**	-17
Sale of other companies		**20**	
Net cash flow from investing activities	**B**	**-841**	7 155
CASH FLOW FROM FINANCING ACTIVITIES			
New long-term borrowings		**818**	
Repayment of long-term borrowings		**-5 014**	-4 909
Change in other long-term items		**-**	46
Net cash flow from financing activities	**C**	**-4 196**	-4 863
Net cash flow	**A+B+C**	**-64**	-820
Cash and cash equivalents 1 Jan.		**233**	-
Cash received re. formation of Group		**-**	1 053
Cash and cash equivalents 31 Dec.		**169**	233

As part of the formation of the Statkraft AS Group following Statkraft's change of status to a limited company, Statkraft Energi AS has been involved in several major transactions which have not had any impact on its cash flow. An internal refinancing package was implemented with effect from 1 January 2005, by means of which Statkraft Energi AS reduced its debt to Statkraft AS by approx. NOK 39 billion. At the same time receivables from the same company were cut by approx. NOK 30 billion. Net debt therefore totalled NOK 9 billion.

Statkraft Energi AS had its equity written down by NOK 23 billion. However, this did not have any impact on the company's cash flow since the amount was offset by a payment of NOK 28 billion from Statkraft AS for the purchase of most of Statkraft Energi AS's subsidiaries. The outstanding NOK 5 billion has been used to reduce Statkraft Energi AS's debt to Statkraft AS following its refinancing, such that the outstanding debt after this now totals some NOK 4 billion.

Accounting Principles

Accounting regulations
The annual accounts have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Statkraft Energi AS does not prepare consolidated financial statements since its underlying subsidiaries are included in the Statkraft AS Group's consolidated accounts.

Valuation and classification principles

Uncertainty relating to estimates
The accounts are based on assumptions and estimates which affect the book value of assets, liabilities, revenues and expenses. The best estimates available at the time the accounts were closed 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. Profits from power trading are recorded as net values. Dividends 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 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 accounts. 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/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 generally accepted accounting principles in Norway for recording at fair value. The portfolio is therefore recorded in accordance with the lower value principle at the portfolio level.

Partly owned power plants. Co-owned power plants, ie those power plants in which Statkraft has an ownership interest, regardless of whether they are operated by Statkraft Energi AS or one of the other shareholders, are accounted for using the gross method on the basis of Statkraft Energi's percentage shareholding. 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 operating revenues, and operating costs are recorded under the relevant cost item.

Public subsidies
Public subsidies are assessed on an individual basis and are recorded in the accounts 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. Non-recurring compensation payments relating to new power generating facilities are capitalised as part of the investment in the plant, while recurring payments are charged as expenses as they accrue. The net present value of future compensation payments has been calculated and is stated in the notes to the financial statements.

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 net present value of future licence fees has been calculated and is stated in the notes to the financial statements.

Pension costs
Pension costs and pension liabilities are treated in accordance with the Norwegian Accounting Standard for pension costs. The group's pension schemes 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 is spread over the remaining average accrual period. Deviations in estimates that exceed 10 per cent of the value of the gross pension obligations or pension fund assets (corridor) are recognised immediately.

Net pension fund assets for overfunded schemes are recorded on the balance sheet as long-term assets and are made up of the difference between the fair value of pension fund assets and the net present value of estimated pension liabilities, together with the unamortised effect of plan changes and estimate deviations. Similarly, net pension obligations for underfunded pension schemes are classified as provisions under long-term liabilities.

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

Project development and feasibility study costs
Project development and feasibility studies are charged as costs until such time as the board of directors gives the final go-ahead and, if relevant, an operating licence has been granted.

Maintenance costs
The cost of maintenance is charged as expenses as it accrues.

Property tax
Property tax on power plants is calculated on the basis of actual output, less deductions for the individual facility's actual operating costs and resource rent tax paid. With respect to property tax, the revenue side is calculated in the same way as the resource rent tax, taking as its starting point the plant's output hour by hour, multiplied by the spot price for the hour in question. Actual contract prices are used with respect to deliveries of concessionary power. The property tax base is arrived at by discounting the previous five years' net operating revenues for the power plant at a fixed rate of interest in perpetuity, less 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 has been classified 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 corporation tax, natural resource tax and resource rent tax.

Corporation 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 effect of forwardable losses on taxes. Deferred tax assets are only recorded on the balance sheet to the extent that it is probable that the asset will be realised in the future. Tax related to equity transactions is 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. Corporation tax can be offset against the natural resource tax paid. Any natural resource tax that exceeds corporation tax can be carried forward with interest to subsequent years, and is recorded as prepaid tax (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 output hour by hour, multiplied by the spot price for the corresponding hour. With respect to deliveries of concessionary power and power subject to contracts with a term exceeding seven years, the actual contract price is applied. Actual operating costs, depreciation and a tax-free allowance are deducted from the calculated revenue in order to arrive at a taxable resource rent revenue. 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 2005 was set at 7.4 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 tax loss carryforwards and deferred tax liabilities linked to other temporary changes are calculated on the basis of power plants where it is probable that there will be positive resource rent revenues in the foreseeable future. An estimated actual resource rent tax rate has been used, with the calculation based on all the power plants that are likely to produce positive resource rent revenues taken together.

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 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 on 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 on 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 on the balance sheet to the extent to which the requirements for doing so have been met. Goodwill deriving from the acquisition of business entities is depreciated 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 on 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 Energi AS are similarly depreciated using an average rate of depreciation. Accrued costs of own investments in the Statkraft Group are recorded on the balance sheet as facilities under construction. Interest on building loans in connection with major investments is calculated and capitalised.

Subsidiaries/associated companies. Subsidiaries and associated companies are valued in accordance with the cost method. The investment is valued at the acquisition cost of the shares, unless a write-down has been necessary. A write-down to fair value is carried out when the fall in value is due to circumstances that cannot be

supposed to be of a temporary nature, and good accounting practice would seem to require such an action. Write-downs are reversed when the basis for the write-down no longer applies.
Dividends and other such payments are taken to income in the same year that the subsidiary made the allocation. If the dividend exceeds that portion of withheld profit after acquisition, the excess amount represents a repayment of invested capital, and the payments are deducted from the investment's book value.

Inventories/spare parts. Standard inventories and spare parts that have been purchased for the operation of the power plants are classified as current assets and are valued in accordance with FIFO at the lower value principle. Non-standard spare parts that are related to particular fixed assets or groups of fixed assets are capitalised and depreciated over the economic life of the underlying asset.

Reservoirs. Water held in reservoirs is not recorded as an item of inventory. Information relating to reservoir water levels is stated in the notes to the financial statements.

Receivables. Accounts receivable and other receivables are recorded at nominal value less 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.

Prepayments received are classified as long-term liabilities. The amount prepaid is taken to income at the same rate as the product it is intended to cover is delivered.

An annual interest cost is calculated and recorded as a financial expense.

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 directly against the provision.

Financial Instruments
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 accounts 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 on the balance sheet day. Translation differences are recorded as financial costs or income.

Reclassification
Individual items from previous years have been reclassified to make them comparable with this year's accounts.

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

NOTE 1 IMPORTANT EVENTS

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 inter-company balances between Statkraft AS and Statkraft Energi AS. At the same time, most of the companies which were owned by Statkraft Energi AS have been 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 were recorded using accounting continuity. These transactions completed the implementation of the legislation relating to Statkraft's limited-company status and the establishment of a group structure.

Refinancing
A refinancing package was implemented with effect from 1 January 2005, in which receivables and payables between Statkraft Energi AS and Statkraft AS were 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 is expected to accrue in 2006.

Long-term leasing out of power generation at the Rana power plant
Statkraft Energi AS has leased out 65 per cent 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 operating fee 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 generation of 1.6 TWh. Operation and optimisation of these units is harmonised with Statkraft's power plants in Norway by means of 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 i Rana with 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 fully-functioning market for long-term contracts in Norway.

Termination of power purchasing agreements
A non-recurring compensation payment of NOK 400 million from the group's wind power companies Hitra Vind AS, Smøla Vind AS and Smøla Vind 2 AS was taken to income as a result of the termination of an electricity purchasing agreement. The compensation payments are classified as power sales revenues in the accounts.

2004

Reorganisation
In connection with the transformation of Statkraft SF to a limited company, Statkraft SF's existing business activities were, with certain exceptions, transferred to the newly created company, Statkraft Energi AS. The reorganisation, which has been undertaken such that accounting continuity has been maintained, came into effect from 1 September 2004. Subsequent reorganisation resulted in Statkraft Energi AS becoming a wholly owned subsidiary of Statkraft AS with effect from 1 October 2004.

Major sales transactions
Statkraft Energi AS sold its 50 per cent stake in Kraftverkene i Øvre Namsen in December for the sum of NOK 1,265 million, which resulted in a net gain of NOK 1,010 million before tax.

NOTE 2 SEGMENT INFORMATION

The bulk of Statkraft Energi AS's business activities lie within the fields of power generation and sales. The Trading segment generated 1 per cent of the company's operating revenues in 2005.

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

NOTE 3 POWER SALES

Statkraft optimises its power 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 generation, 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	2005	2004
Production sold at spot price	9 025	1 972
Difference between spot price and statutory-priced contracts 1)	-2 020	-860
Revenues from commercial contracts 2)	1 766	621
Other net power sales revenues 3)	1 006	-212
Total	**9 777**	**1 521**

[1] Industrial contracts at prices determined by the Norwegian Parlament (Stortinget) as well as power supplied to local authorities at concessionary prices. In 2005 the average prices were NOK 83 and 115 MWh respectively. The majority of statutory-priced industrial contracts are due to expire in the years to 2011.
[2] Includes a financial export contract for 652 GWh which runs until 30.6.2020.
[3] Includes gains/losses on trading, margin on production optimisation, international power exchange contracts and third-party concessionary power.

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 Norwegian Parlament (Stortinget), as well as obligations to supply power to local authorities at concessionary prices:

Figures in TWh	2006	2007	2008	2009	2010	2011	2012 - 2020	2021 -
Statutory-priced industrial contracts	13,1	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	2,3
Total fixed-price contracts	15,4	13,2	11,2	11,2	11,2	3,4	2,4	2,3

NOTE 4 RESERVOIR WATER LEVELS AND POWER GENERATION (unaudited)

	Reservoir levels as at 31.12		Max.	Power generation *		
Tall i TWh	2005	2004	capacity	2005	2004	Middel
Statkraft Energi AS	25,7	26,3	31,9	38,9	8,6	31,7

* After losses. Power generation in 2004 applies to the period 01.10.2004-31.12.2004

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 well over that of a normal year. Despite high output levels through the year, therefore, reservoir water levels at 31 December 2005 were still higher than normal.

NOTE 5 OTHER OPERATING REVENUES

NOK million	2005	2004
Power plant leasing revenues	103	22
Other leasing and service sales revenues	72	56
Gains/losses on sale of property, plant & equipment	32	982
Compensation payments	77	8
Total	**284**	**1 067**

In 2004 gains on the sale of fixed assets relate largely to the sale of Statkraft's shareholding in Kraftverkene i Øvre Namsen.

NOTE 6 SALARIES AND OTHER PAYROLL COSTS

NOK million	2005	2004
Salaries	300	194
Employers' national insurance contributions	63	27
Pension costs	87	48
Other benefits	1	1
Total	451	271

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 CEO of Statkraft AS, may qualify for an annual bonus of up to NOK 200 000. Payment of the bonus depends on the achievement of specific individual goals. Thegroup management do not have any severence pay agreements in addition to those mentioned above. Nor have any loans or pledges been granted.

No directors' fees were paid to members of the board in 2005. Nor have any loans or pledges with respect to board members been granted.

On average the company had the equivalent of 633 full-time employees in 2005.

NOTE 7 PENSIONS

NOK million

Transfer of pension schemes from Statkraft SF in 2004
Statkraft SF's pension schemes were transferred to Statkraft Energi AS on 1 September 2004 along with its other assets. The transfer of pension liabilities and assets was undertaken such that accounting continuity was assured and based on actuarial calculations as at 1 September 2004.

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, while employees working in the development and innovation-related areas were transferred to Statkraft Development AS with effect from 1 April 2005. The transfer of pension liaiblities and assets was undertaken at fair value based on actuarial calculations valid when the transfer took place.

Occupational pension schemes
Statkraft Energi AS has an occupational pension scheme for its employees through the National Pension Fund. This scheme covers a total of 721 people. 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). Pension scheme benefits are coordinated with the benefits provided by the National Insurance Scheme. The scheme is a member of the transfer agreement. Moreover, the company offers early retirement at the age of 62 under the AFP pension scheme.

The National Pension Fund scheme is not asset-basel. 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.

Other schemes
Statkraft's Pension Fund
In addition to the National Pension Fund, Statkraft SF had a supplementary scheme with its own pension fund, which provided a retirement, disability, surviving spouse's and child's pension equivalent to 44% of pensionable income in the interval from 8 to 12G. The scheme was terminated 1 May 2000, and the employees' benefits were converted to free paid-up policies which were included in the pension assets transferred to Statkraft Energi AS. The scheme also provided a surviving spouse's pension in excess of the National Pension Fund's benefits for employees who joined the pension scheme after 1976. The scheme was closed to staff employed after 1 July 2002. The bulk of Statkraft Energi AS's scheme through the National Pension Fund was transferred to Statkraft AS with effect from 1 January 2005.

The Statkraft Pension Fund ceased to operate in 2005, with free paid-up policies being issued to cover the pension fund's remaining liabilities. The outstanding balance of pension fund assets after the issue of free paid-up policies has been taken to income, such that the Statkraft Pension Fund had zero net liabilities/assets as at 31 December 2005 .

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

	2005	1.09-31.12 2004
Net present value of accrued pension entitlements for the year	27	10
Interest costs on pension liabilities	31	14
Yield on pension fund assets	-26	-12
Recognised change in estimates	29	36
Reconised effect of plan changes	0,3	-
Net loss from transfer of pension liabilities to Statkraft AS and Statkraft Development AS	26	-
Closure of Statkraft Pension Fund	-0,8	-
Net pension cost	87	48

Reconciliation of pension liabilities and pension fund assets	2005	2004
Gross pension liabilities	736	855
Pension assets in the National Pension Fund	-612	-734
Unamortised estimate deviations	-68	-73
Unrecognised plan changes	-6	-17
Employers' national insurance contribution	7	4
Net pension liabilities	57	34

Financial assumptions:

	2005	2004
Discount rate	4,5 %	5,1 %
Expected salary adjustment	2,7 %	3,3 %
Expected pension adjustment	2,4 %	2,9 %
Expected G adjustment	2,4 %	2,9 %
Projected yield on pension fund assets	4,5 %	5,7 %
Forecast voluntary exit		
• Up to age 45	2,5 %	2,5 %
• Between age 45 and 60	0,5 %	0,5 %
• Over age 60	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.

NOTE 8 COMPENSATION AND LICENCE FEES

NOK million	2005	2004
Licence fees	208	62
Compensation payments	76	30
Total	284	92

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. Permanent annual compensation payments for damage or inconvenience arising from the construction of hydropower facilities are adjusted in accordance with the same rules as for licence fees. The net present value of permanent current licence fee and compensation obligations related to the group's generating facilities is estimated at NOK 5 200 million and NOK 800 million respectively, discounted at an interest rate of 4% in accordance with the regulations relating to licence fees, annual compensation, funds, etc.

NOTE 9 OTHER OPERATING COSTS

NOK million	2005	2004
Materials	55	25
External services	615	195
Costs, power plants operated by third parties	122	54
Property tax	404	97
Other operating costs	449	270
Total	1 645	641

NOTE 10 FEES TO EXTERNAL AUDITOR

(NOK)
Deloitte Statsautoriserte Revisorer is Statkraft Energi AS's auditor.
Deloitte is also the auditor of the subsidiarie Baltic Cable AB.

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

	2005	2004
Statutory auditing	1 250 000	327 000
Other certification services	96 000	-
Tax advisory services	9 000	-
Other services	195 000	1 267 920
Total	1 550 000	1 594 920

NOK 1,008,500 of 'Other services' for 2004 relate to the transfer of businesses from Statkraft SF

NOTE 11 FINANCIAL INCOME AND EXPENSES

Financial income

NOK million	2005	2004
Interest received from group companies	106	325
Other interest received	10	63
Dividend from subsidiaries	23	749
Other financial income	80	29
Total	219	1 166

NOK 687 million of the NOK 749 million in dividend received from subsidiaries in 2004 came from Statkraft Energy Europe and Statkraft Energy Enterprise, which were both transferred to Statkraft AS with effect from 18 March 2005. The sales price for these two companies took the dividend for 2004 into consideration. The dividend should therefore have been taken to income by Statkraft AS. In Statkraft Energi AS's accounts for 2005, this has been corrected directly against equity, as a correction of previous years' errors.

Financial expenses

NOK million	2005	2004
Interest paid to group companies	167	689
Other interest paid	390	77
Other financial expenses	787	276
Total	1 344	1 042

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

NOTE 12 TAX

The total tax expense is calculated as follows:

NOK million	2005	2004
Corporation tax	1915	
Natural resource tax	524	45
Correction of previous years' tax	79	-
Change in deferred tax	62	293
Total tax expense	2580	338
Corporation tax payable:		
Tax payable on profit for the year	1915	-
Impact on tax of group contribution/dividend	-847	-
Corporation tax payable	1 068	-
Tax payable in the Balance Sheet:		
Natural resource tax	456	148
Resource rent tax	524	45
Difference between corporation tax and natural resource tax	612	-
Tax due from previous financial year	-	-
Tax payable in the Balance Sheet	1 592	193

Property tax is recorded as an operating cost with effect from the 2005 financial year.

Reconciliation of nominal tax rates and effective tax rates

NOK million	2005	2004
Profit before tax	5 387	1 374
Expected tax expense at a nominal rate of 28%	1 508	385
Effect on taxes of:		
Resource rent tax	674	212
Tax-free earnings	-7	-274
Changes relating to previous years	79	
Other permanent changes - net	326	15
Total tax expense	2 580	338
Effective tax rate	48 %	25 %

Specification of temporary differences and tax loss carryforwards

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

NOK million	2005	2004
Current assets/current liabilities	-46	60
Property, plant & equipment	-518	-480
Pension liabilities	-16	-11
Other long-term items	-42	3
Tax loss carryforward/credit		-
Sum of temporary differences and tax loss carryforward	-622	-428
Temporary differences, resource rent tax	-130	-281
Negative resource rent carryforward		0
Total deferred tax asset	-752	-709
Tax rates	20%/28%	20%/28%

Statkraft Energi AS has put up 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.

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 which 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	**2005**	**1.09-31.12 2004**
Power sales revenues	856	209
Other operating revenues*	9	985
Transmission costs	-42	-10
Net operating revenues	823	1 184
Compensation and licence fees	20	6
Other operating costs	122	54
Depreciation	72	26
Property tax	33	9
Operating costs	247	95
Operating profit	576	1 089

* Other operating revneues for 2004 includes the gain on the sale of the power plant in Øvre Namsen

NOTE 14 INTANGIBLE ASSETS

NOK million	**2005**	**2004**
Waterfall rights,etc	1 015	1 023
Deferred tax assets	753	709
Total	1 768	1 732

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

NOK million	**Licences, waterfall rights, etc.**
Acquisition cost 1.1.2005	1 122
Consolidation of new companies	6
Additions 2005	-
Disposals 2005	-
Accumulated depreciation 31.12.2005	-113
Book value 31.12.2005	1 015
Depreciation for the year	19

Estimated economic life

Waterfall rights	Perpetuity
Licences etc.	7 years to perpetuity

NOTE 15 PROPERTY, PLANT & 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 1.1.2005	15 625	6 032	2 402	4 820	289	985	30 153
Consolidation of new companies	430	178	-	234	-	3	845
Additions 2005	24	-	6	2	135	95	262
Disposals 2005	-	-	-	-27	-24	-198	-249
Capitalised interest on building loans							0
Foreign exchange effects							0
Accumulated depreciation and write-down	-3 847	-3 092	-746	-1 322	-	-532	-9 538
Book value 31.12.2005	**12 232**	**3 118**	**1 662**	**3 707**	**400**	**353**	**21 473**
Depreciation for the year	-226	-154	-53	-72	-	-59	-563
Write-downs in the year						-34	-34
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' economic life:

	Depreciation period		Depreciation period
Dams		**Buildings (admin., etc)**	50
- riprap dams, concrete dams	75	**Other fixed installations**	
- other dams	30	- permanent	20
Tunnel systems	75	- less permanent	10
Mechanical installations		**Miscellaneous moveables**	5
- pipe trenches	40	**Land**	perpetual
- generators (turbines, valves)	40	**Office and computer equipmer**	3
- other mechanical installations	15	**Furnishings and equipment**	5
Underground facilities	75	**Vehicles**	8
Roads, bridges and quays	75	**Construction equipment**	12
Electrical installations		**Small craft**	10
- transformers/generators	40		
- switchgear (high voltage)	35		
- control gear	15		
- operating centres	15		
- communications equipment	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 %	354
Mørkfoss-Solbergfoss	33,33 %	46
Røldal-Suldal Kraft AS *	8,74 %	-
I/S Sira-Kvina kraftselskap	32,10 %	1 262
Total		**1 662**

* 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 shareholding in the copany 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 2005
Baltic Cable AB	Malmö	66,7 %	2 552	771 333	93 208	89 642

Shares in associated companies (NOK '000)

Name	Shareholding	Book value
Settefiskanlegget Lundamo AS	47,0 %	700
Aktieselskapet Tysselaldene	20,3 %	101
Aursjøvelen AS	33,0 %	17

In addition, Statkraft Energi AS has investments in power plants operated by third parties, see Note 15, which are recorded in the accounts according to the gross method.

NOTE 17 OTHER LONG-TERM FINANCIAL ASSETS

NOK million	2005	2004
Loans to group companies	-	22 325
Bonds and other long-term receivables	84	152
Pension fund assets	-	45
Other shares and securities	7	27
Total	91	22 549

For the group, bonds and other long-term receivables include paid natural resource tax which may subsequently be offset against payable corporation tax.

NOTE 18 RECEIVABLES

NOK million	2005	2004
Accounts receivable - external	895	156
Accounts receivable - group companies	662	1 583
Accrued revenues	-	282
Other receivables	89	551
Other short term receivables from group companies	6 761	6 183
Total	8 407	8 755

Accounts receivable are net of a NOK 570 000 provision for bad debts.

Current receivables from group companies refers primarily to Statkraft'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 and cash equivalents are, formally regarded as receivables 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
Initial capital	0,1		0,1
Effect of group formation 01.10.2004	31 553		31 553
Profit 2004		1 036	1 036
Group contribution received after tax	154		154
Allocated to dividend for 2004		-5	-5
Equity as at 31.12.2004	31 707	1 031	32 738
Profit 2005		2 807	2 807
Group contribution paid after tax		-2 177	-2 177
Capital write-down	-23 000		-23 000
Allocated to dividend for 2005		-220	-220
Correction of previous years' errors	-154	-687	-841
Change resulting from merger with Finnmark Energiverk		3	3
Transfer of businesses	8 508		8 508
Equity as at 31.12.2005	17 061	757	17 818

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	2005	2004
Pension liabilities	57	79
Other provisions	4 118	2 009
Total	4 175	2 088

Pension obligations are described in more detail in Note 7.

The item 'Other provisions' for 2005 includes prepayments of NOK 3 637 million in connection with future power sales agreements. The largest of these is 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 ot 2010 has been recorded on the balance sheet.

NOTE 22 LONG-TERM INTEREST-BEARING DEBT

NOK million	2005	2004
Loans from Statkraft SF	-	28 236
Loans not guaranteed by the Norwegian state	3 906	4 059
Long-term debt Statkraft Energy Europe AS	766	-
Other debt	14	17
Total	4 686	32 312

The figures include the effect of underlying currency swaps.

As at 31.12.04, Statkraft Energi AS had debts to Statkraft AS of NOK 37.8 billion. These outstanding intercompany balances were refinanced in 2005. In 2006 a further refinancing of the outstanding internal group debt is planned. No repayment plan for long-term intercompany loans has therefore been drawn up.

Breakdown of debt by currency:

NOK million	2005	2004
Debt in NOK	4 686	-14 700
Debt in SEK	-	14 717
Total for the Company	4 686	17
Nominal average interest rate NOK	6,36 %	6,88 %
Nominal average interest rate SEK	2,05 %	2,53 %

The foreign currency breakdown in the table above takes into consideration the underlying currency swap agreements.

NOTE 23 OTHER INTEREST-FREE LIABILITIES

NOK million	2005	2004
Accounts payable - external	267	217
Accounts payable to group companies	556	12
Public charges payable	285	97
Accrued costs	24	218
Other interest-free liabilities	21	46
Allocated to dividend	220	5
Other short term liabilities to group companies	3 075	6 656
Total	4 448	7 251

NOK 3 024 million of 'Current liabilities to group companies' for 2005 relates to group contribution for 2005.

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 1 901 million. As at 31.12.2005, the book value of the pledged assets in Statkraft Energi AS totals NOK 6 264 million.

Obligations and guarantees

Statkraft Energi AS has off-balance-sheet obligations and guarantees totalling NOK 2 094 million. Of this NOK 1 549 million are power swap agreements, NOK 508 million has been pledged as security for tax on assets transferred during the reorganisation of Statkraft SF , NOK 23 million are guarantees to the tax authorities and NOK 14 million other guarantees.

NOTE 25 FINANCIAL INSTRUMENTS

Statkraft Energi AS trades in financial instruments for various purposes. Their treatment in the accounts 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

	31.12.2005		31.12.2004	
	Book value	Fair value	Book value	Fair value
Interest rate swaps	-	-	-	642
Interest rate and currency swaps	-	-	203	897
Forward currency agreements	-	18	-12	-15
Total	-	18	191	1 523

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

Interest rate instruments (including the interest portion of interest rate and currency swaps) are used to manage the company's interest rate risk, and are therefore recorded as hedging instruments. They are recorded at acquisition cost, zero, on the balance sheet. Unrealised gains on these contracts are largely offset against unrealised losses on fixed-interest loans, which are also recorded on the balance sheet at nominal value. The fair value stated in the table does not include accrued interest.

The currency component of interest rate and currency swap agreements is recorded at the exchange rate in effect on the balance sheet day. The change in value recorded in the Income Statement is accompanied by a comparable change in value of underlying loans in the same currency. The difference between book value and fair value for currency forward contracts is due to currency forward contracts that have been entered into as cash-flow hedging instruments where unrealised gains/losses are not recorded in the accounts.

Power contracts

Derivatives are recorded at fair value

NOK million	Fair value 2004	Recognised change in value 2005	Fair value 2005
Trading portefolio	40	-26	14

With respect to power trading, it is the trading portfolios that are valued at fair value in accordance with Section 5-8 of the Accounting Act. The portfolios comprise financial forward and option contracts traded over Nord Pool, as well as bilateral financial contracts with terms otherwise identical to standardised contracts traded over Nord Pool. With respect to the trading portfolios, acquisition cost relates solely to the net of paid and received option premiums. At the end of 2005 this amounted to a net of NOK 22.2 million in received premiums.

With respect to the trading portfolios, contracts are traded within a three-year timeframe. As at 31.12.2005 fair value was broken down as follows per future time period:

NOK million	
2006	14
2007	0
2008	0
Total fair value 31.12.2005	14

Derivatives not recorded at fair value

Statkraft Energi AS has three power portfolios whose financial instruments are not recorded at fair value in the accounts. 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	
Hedge portfolio	Hedging	Accounting Act, Section 4-1, Paragraph 1, no. 5
Origination	Lower value principle	Accounting Act, Section 5-2
Statkraft Financial Energy	Lower value principle	Accounting Act, Section 5-2
Baltic Cable	Lower value principle	Accounting Act, Section 5-2

There follows a brief description of the portfolios:

Hedge portfolio
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 over 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 31.12.2005, 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 non-financial sales obligations the price is indexed against other market risk such as metals and foreign exchange (USD, EUR and GBP).

Financial contracts in the hedging portfolio are both contracts traded over Nord Pool and bilateral contracts. They generally have terms of less than five years, but some bilateral financial contracts run until 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 consists of customised bilateral physical and financial contracts. As a rule efforts are made to offset the bulk of the volume exposure (ie the risk which can be directly ascribed 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 currency forward contracts. The majority of contracts in the portfolio have terms of up to five years, but certain contracts run until 2015.

As at 31.12.2005, fair value was higher than acquisition cost.

Statkraft Financial Energy
This portfolio consists of bilateral physical and financial as well 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 31.12.2005, 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.

As at 31.12.2005, fair value was higher than acquisition cost.

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

In its business Statkraft Energi AS is exposed to various types of risk. The most important, naturally enough, relates to the generation of and trading in electrical power, but the company is also exposed to other financial and operational risks.

Market Risk

Statkraft's main activities include the generation and trading of electrical 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 2005, the price of carbon quotas and fossil fuels also had a significant impact on electricity prices. This may have a marked impact on Statkraft's results. However, since power generation and price are often negatively correlated, ie high water levels and a high level of generation resulting in lower prices and vice versa, the range of possible financial outcomes is naturally restricted. In addition, Statkraft Energi AS actively manages its risks 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 Statkraft's revenues from year to year. This is desirable because of the great uncertainty that otherwise surrounds the total revenues from power sales, which are dependent on a volatile spot price and uncertain production capacity. In this connection 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 Energi'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 also 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 2005 the company had presold more than 40 per cent of its mean production up to and including 2015.

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 extremely 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 for the group.

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 company'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' Energis foreign exchange risk is primarily linked to power sales revenues in foreign currencies. The market division at Stakraft Energi AS will convert to EUR as its operational currency ahead of 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 interest rate exposure on the net borrowing portfolio should be at floating interest rates. As a rule fixed interest rates shall apply for a period of more than five years.

In addition to interest rate 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 on Statkraft's group account scheme are used to ensure 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 med "Stable Outlook" Statkraft has good opportunities for borrowing in the Norwegian money market and in the banking market. Drawing rights are used to secure access to short-term financing. 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).

Statkraft has a liquidity capacity target of between 1.5 and 2.5. Liquidity capacity in this context is defined as cash and cash equivalents, plus committed drawing rights, plus projected receipts for the next six months, divided by projected payments for the next six months.

Credit risk. Statkraft assumes a credit risk through physical power trading and trading in financial instruments. The limits for each debtor 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 debtor, with regard to volume, amount and duration. For financial instruments a loss potential is calculated in the event the debtor should fail to fulfil his obligations. Statkraft has entered into agreements on periodical settlement of the market value of the financial instruments with the majority of its debtors (cash collateral). 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 (primarily power plants) and subsequent production loss, as well as damage to third-party lives and property, eg in the event of fire, flood or innundation resulting from dam damage/failure. Statkraft Energi's insurance cover is channelled mainly through the group wholly owned captive insurance company, Statkraft Forsikring AS. Statkraft Forsikring AS retains only a limited risk per claim, with the excess risk being covered in the reinsurance market. All Statkraft Energi'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 CLOSELY RELATED PARTIES

The operation and optimisation of the Statkraft's power plants in Sweden and Finland is harmonised with the group's power plants in Norway by means of an operating agreement with Statkraft Energi AS. Statkraft Energi AS is also responsible for operating the group's Norwegian wind power facilities and the power plants in Nepal and Laos. These agreements have been entered into on commercial terms and conditions.

Statkraft has entered into an agreement for the purchase of transport services from the company Helikopterdrift AS. Statkraft's CEO is sole shareholder in a company which leased a helicopter to Helikopterdrift AS.

The agreement relating to the purchase of transport services has been entered into on commercial terms and conditions. NOK 25 000 was paid under the contract in 2005.

NOTE 28 TRANSITION TO IFRS

The EU has adopted a directive that requires all listed enterprises in the EU and EEA to prepare consolidated accounts in accordance with the International Financial Reporting Standards (IFRS) from 2005. Statkraft AS is bound by these regulations through its listed bonds, but has the option to postpone implementation of the IFRS until 2007. Statkraft will avail itself of its right to postpone implementation.

For the consolidated account, the greatest changes in connection with the implementation of the IFRS derive from the IAS 39 standard relating to financial investments and hedging.

As a result of the transition to IFRS in 2007, Statkraft Energi AS will, with effect from 1 January 2006, adjust its accounting principles to IFRS, where NGAAP allows IFRS solutions. This applies primarily to the treatment of pensions and fixed assets. With effect from 1 January 2006, substantial maintenance projects will be capitalised from the date on which the maintenance work was carried out and depreciated in a straight line until the next maintenance date.

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To the Annual Shareholders' Meeting of Statkraft Energi AS

AUDITOR'S REPORT FOR 2005

We have audited the annual financial statements of the Statkraft Energi AS as of 31 December 2005, showing a profit of NOK 2,807 million. 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 produce the financial statements. These financial statements are the responsibility of the Company's Board of Directors and CEO. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We 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 the law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2005, 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 maintain the Company's accounting records and documentation in a proper and well-arranged manner in accordance with the 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 are consistent with the financial statements and complies with the law and regulations.

Oslo, 20 March 2006
Deloitte

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State Authorised Public Accountant (Norway)

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