

2011

STATKRAFT ENERGI AS
ANNUAL REPORT

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REPORT FROM THE BOARD OF DIRECTORS

STATKRAFT ENERGI AS' ACTIVITIES

Statkraft Energi AS is a company in the Statkraft Group. Statkraft is Europe's largest producer of renewable energy. The Group produces and develops hydropower, wind power, gas power and district heating, and is a significant player at the European energy exchanges, with specialist expertise within physical and financial energy trading. The Statkraft Group also has a substantial commitment to innovation.

Statkraft Energi AS is engaged in power production and trading with power and energy related products. Statkraft Energi AS' head office is located in Oslo.

Statkraft Energi AS owns 100% of the shares in Baltic Cable AB. Baltic Cable AB is located in Malmö in Sweden and operates a subsea cable between Sweden and Germany. Statkraft Energi AS owns 60.17% of AS Tyssefaldene as well as 100% of Trondheim Energi Kraft AS.

IMPORTANT EVENTS

2011 was a year characterised by major fluctuations in the resource situation in the Nordic region. At the beginning of the year, the resource situation was tight and prices were high. The situation improved significantly through the year and the reservoir water levels in the Nordic region were far higher than normal at year-end. The Nordic power prices fell as the water reservoir levels rose, and prices were on average 11% lower than in 2010. Statkraft Energi AS' power plants had high uptime rates, but hydropower production was lower than in 2010 due to the market situation. Total production in 2011 was 31.7 TWh (9% lower than in 2010).

Statkraft Energi AS increased the long-term power contract volume, and several new contracts were entered into in 2011. The new power agreements starting delivery in 2011 and 2012 amount to a total annual volume of 6.6 TWh, and the company's total long-term contract volume is now about 16 TWh per year. These are agreements entered into mainly with Norwegian companies.

The hydropower plants are in the process of being upgraded for more than NOK 1 billion. In Sogn og Fjordane County, Statkraft is constructing the Eiriksdal and Makkoren hydropower plants to replace three older power plants which will be shut down, and Nedre Røssåga power plant in Nordland County is also undergoing

modernisation. The Eiriksdal and Makkoren development is scheduled for completion in 2014, while the modernisation of Nedre Røssåga is scheduled for completion in 2015. In addition, efforts are underway to expand Svartisen power plant in Nordland with a new unit. The expansion has been delayed by 15 months due to technical problems, and is expected to resume operation in late 2012. The total investment for the Svartisen expansion is slightly less than NOK 400 million.

Leiro power plant came into operation in June 2011. This is a small-scale power plant with an average annual production of 8.9 GWh. A decision has been made to build a new Haukeli power plant. The power plant will have an average annual production of 38 GWh. The power plant will be ready for operation in May 2013.

Statkraft Energi AS and Troms Kraft Produksjon AS have agreed on the terms to redeem Bardufoss power plant. Statkraft Energi AS will redeem the properties and plants in connection with Bardufoss power plant from Troms Kraft Produksjon AS. The price is NOK 450 million. Bardufoss power plant has a normal production of 225 GWh. The Norwegian Competition Authority has issued a preliminary undocumented notification of intervention, while a possible documented notice of intervention could follow in May 2012. The background for a preliminary undocumented notification is that the Norwegian Competition Authority needs more time to look into the competition-related consequences of the take-over.

Eight local authorities have joined forces and sued Statkraft Energi AS. The case concerns a demand for subsequent financial settlement put forward by Statkraft Energi AS against the local authorities as a result of the decision made by the Ministry of Petroleum and Energy on 8 January 2010. The decision entails that, in the Ministry's opinion, the local authorities have received fees and power based a too high power basis for Saurdal power plants for 14 years.

FINANCIAL PERFORMANCE ¹⁾

Statkraft Energi AS' revenues come from spot sales (sale of own production in spot markets), concessionary power, contract sales to the industry and financial trading. The fundamental basis for Statkraft Energi AS' revenues comprises power prices, water management and production.

¹⁾ Figures in parentheses show the converted comparable figures for 2010. The accounts have been amended with retroactive effect as a consequence of write-down of energy purchase contracts. The equity effect amounts to NOK 1285 million.

A tight resource situation in the first half and relatively low spot prices in the second half of the year, as a result of high inflow and mild weather, resulted in the company's overall production at spot prices being substantially lower than in 2010. The low prices and production, compared with 2010, caused a significant decline in the company's revenues. In the accounts, net operating revenues totalled NOK 10 842 million and the operating profit NOK 6740 million. This represents a decline of 10% and 18%, respectively, compared with 2010.

The company's recorded pre-tax profit therefore amounted to NOK 6389 million, and the result after tax was NOK 3217 million, declines of 20% and 42%, respectively, compared with 2010.

The power market Statkraft Energi AS' production takes place in Norway.

Power prices in the Nordic region fell through 2011, and the average system price on Nord Pool ended at 47.2 EUR/MWh, 11% lower than in 2010. Compared with the average prices for the years 2006–2010, the price was 13% higher in the Nordic region.

Power consumption in the Nordic region is relatively high compared with other European countries as a result of the combination of cold winters and a high percentage of electric heating, as well as a relatively high percentage of power-intensive industry. In 2011, the demand for power fell by 4% in the Nordic region and 5% in Norway compared with the preceding year. Total production in Norway was 125.2 TWh, an increase of 4% from 2010, and 3.2 TWh was exported (corresponding to 3% of the production). 7.6 TWh was imported in 2010. Overall, 370.5 TWh was produced in the Nordic region, a decline of 1% from 2010, and 5.2 TWh was imported (corresponding to 1% of the consumption). 19.2 TWh was imported in 2010.

At the end of December, the overall water level in the Nordic region's reservoirs was 112% of normal, corresponding to 95 TWh. The water level was 79% of maximum capacity, which is 121 TWh. Measured in TWh, this represents an increase in the reservoir water levels of about 75% compared with the end of 2010, when the water level was 45% of maximum capacity and 64% of normal.

Production The Company's power production totalled 31.7 TWh, a decline of 9% compared with 2010.

The demand for power varies through the day and through the year, and the power markets are dependent on capacity that can be adjusted in line with demand. Statkraft Energi AS' large share of flexible production capacity in combination with sound expertise in analysis and production contribute to making the Statkraft Group generally able to achieve sound water resource management. This is achieved through carefully planned power optimisation as well as available power plants in peak demand periods. This expertise is also used in the flexible power production on the Continent.

Statkraft Energi AS' large reservoir capacity with a combination of seasonal and multiple-year reservoirs enables the Group to manage the water resources in a perspective spanning more than one year. Accordingly, the production can be kept high in periods with high prices and lower in periods with low prices.

OPERATING REVENUES

Gross operating revenues fell by 8% to NOK 12 801 million, while net operating revenues fell by 10% to NOK 10 842 million.

Power production is mainly sold in the spot market and under long-term industrial contracts. In addition, the company also delivers power at terms set by the authorities (concessionary power). The production revenues are optimised through financial power trading, and the company also engages in trading activities.

Long-term agreements with the power-intensive industry

Statkraft Energi AS is a major supplier to the energy-intensive industry, and a large share of the power has historically been sold to the industry at terms stipulated by the authorities. These contracts have successively expired over the past years, and the last one expired in July 2011. As these contracts have expired, the number of new contracts with the power-intensive industry has grown. The new power agreements starting delivery in 2011 and 2012 amounted to a total annual volume of 6.6 TWh at the end of 2011, and the Group's total long-term contract volume was about 16 TWh per year. These agreements have mainly been entered into with Norwegian industry.

Concessionary sales at statutory prices Statkraft Energi AS is required to cede a share of the power production to the local authorities and county authorities where the power is produced, so-called concessionary power. The price for this power corresponds to the average production cost, which is substantially lower than the power market price. In 2011, the revenues from concessionary sales amounted to NOK 273 million (NOK 233 million).

Portfolio management Revenues are optimised through financial power trading. The share of the production that is sold under contracts is adjusted in line with market development expectations. As power prices are influenced by the prices of other commodities, such as coal, oil, gas and CO₂, and as these prices can both be input factors in gas power production (gas and CO₂), and price adjustment factors in contracts, Statkraft Energi AS also engages in financial trading with these commodities.

The Statkraft Group's analysis activities are a key to the trading. The analysis activities are based on collection and processing of hydrological data and other market data. The data are used to estimate market prices and optimise the flexible production. In 2011, the result from the Nordic and Continental portfolio management amounted to NOK 1114 million, compared with a negative contribution of NOK 771 million in 2010. The negative value in 2011 relates to provisions for losses (lower value principle) on sales contracts

entered into before power prices rose sharply in the latter half of 2010. Provisions for losses in 2010 were reversed in 2011.

Trading and origination Statkraft Energi AS is also engaged in relatively short-term positioning with financial standard contracts (trading) and trading with structured products and customised agreements for industry and commerce (origination). The revenues can vary substantially from period to period and year to year. In 2011, the revenues from trading and origination amounted to NOK -295 million (NOK 915 million).

Other operating revenues amounted to NOK 351 million, a decline of 25%. The decline relates to the expiry of a lease agreement in 2010.

Energy purchases totalled NOK 1394 million (NOK 779 million). The increase is due to changes to provisions for losses.

Transmission costs associated with the transport of power totalled NOK 565 million, a decline of 48%. The decline is mainly due to lower production and lower prices.

OPERATING EXPENSES

Operating expenses for 2011 amounted to NOK 4102 million, an increase of 6% from 2010.

Wage costs increased by 14%. The increase is due to higher pension costs.

Depreciation increased by 7% from 2010. The increase is primarily due to the incorporation of Trondheim Energi Kraft AS in 2010 and the acquisition of Mågeli power station.

Property tax and licence fees are on a par with 2010.

Other operating expenses include external services, materials, costs of power plants operated by third parties as well as compensation payments. In addition come other operating expenses, which include rent, IT expenses, marketing, insurance and travel expenses. The item other operating expenses includes write-down of the tolling agreement with Naturkraft amounting to NOK 447 million in 2011, the corresponding figure for 2010 was NOK 264 million.

R&D activities are capitalised continuously. The expensed amount in 2011 is NOK 38 million. The company's research activities are directed towards development of new methods within hydrology, power optimisation and maintenance activities.

FINANCIAL ITEMS

Net financial items amounted to NOK -351 million (NOK -239 million).

Financial income amounted to NOK 216 million (NOK 334 million). The decline is mainly due to lower dividend from Baltic Cable AB.

Financial expenses amounted to NOK 567 million, on a par with 2010.

TAXES

The recorded tax expense was NOK 810 million higher than in 2010, and amounted to NOK 3172 million. The increase in tax expense was mainly due to changes in deferred tax of NOK 2050 million where the recording of negative resource rent carryforwards as income in 2010 amounted to NOK 1400 million. The recognition of resource rent as income in 2010 is considered to be a non-recurring item. This is offset by a somewhat lower result before tax, reducing the income tax by NOK 760 million. Lower power prices and production have resulted in a reduction in the payable resource rent tax of NOK 486 million.

CASH FLOW AND CAPITAL STRUCTURE

The operating activities generated a cash flow of NOK 4884 million in 2011 (NOK 5847 million). Long and short-term items experienced a positive change of NOK 3746 million (negative change of NOK 691 million). Dividend received from associates was NOK 9 million (NOK 62 million). Net liquidity change from operations amounted to NOK 8639 million (NOK 5218 million).

For the year as a whole, a gross total of NOK 1301 million was invested (NOK 911 million). The largest investment items in 2011 were in connection with Mågeli power station, which was acquired from Statkraft SF, and the upgrading of hydropower plants.

The net liquidity change from financing contributed NOK -6812 million, a reduction of NOK 1784 million from 2010. New borrowings totalled NOK 145 million (NOK 0 million), while repayment of debt amounted to NOK 525 million (NOK 666 million). Disbursement of group contribution amounted to NOK 6433 million (NOK 4362 million).

The net liquidity change in 2011 was NOK -49 million (NOK 134 million). The company's cash and cash equivalents totalled NOK 221 million, compared with NOK 270 million at the beginning of the year.

At the end of 2011, the interest-bearing debt amounted to NOK 7962 million, compared with NOK 8341 million at the beginning of 2011. The interest-bearing debt-to-equity ratio was 20.8%, compared with 19.1% at year-end 2010. The increase is primarily due to lower equity.

At the end of 2011, current assets, except cash and cash equivalents, totalled NOK 3391 million and current interest-free debt amounted to NOK 7505 million.

At the end of 2011, Statkraft Energi AS' equity totalled NOK 12 905 million, compared with NOK 14 679 million at the start of the year. This corresponds to 33.8% of total assets. The decline from 2010 is due to disbursement of dividend and group contributions to Statkraft AS.

GOING CONCERN

In accordance with the provisions of the Norwegian Accounting Act, the board of directors confirms that the annual financial statements have been prepared on the assumption that the company is a going concern.

RISK MANAGEMENT

The key risk factors for the Statkraft Group and for Statkraft Energi AS relate to market operations, financial management, project execution, operating activities and framework conditions. Handling of risk is important for value creation and is an integrated part of all business activities. The administration has a central investment committee that considers risk, profitability and strategic adaptations related to individual investments and across the project portfolio. The most important risks from the individual units and risks that are relevant to the Group as a whole are aggregated and included in the Statkraft Group's overall risk map. The risk map is reported to and followed up by the corporate management and board.

There are substantial volume and price risks related to power production and trading. In the Nordic power market, precipitation levels and winter temperatures are of great significance and cause considerable fluctuations in both prices and output volumes. In addition, power prices are influenced by the price of gas, coal and oil, as well as carbon quota prices. Further on, gas power production is directly exposed to both gas, oil, electricity and carbon prices. The Statkraft Group manages this market risk by trading in physical and financial instruments in multiple markets. The increased integration of the energy markets is of great significance for business models and risk management, and great emphasis is placed on seeing the different markets in an overall context. Internal authorisations and limits have been established for all trading, and these are subject to continuous follow-up.

The central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity, including refinancing and new borrowing. The most important instruments of this management are forward currency contracts, interest swap agreements and forward interest agreements. Currency and interest rate risk are regulated by means of mandates. Furthermore, limits have been set for liquidity and counterparty risk, and the exposure and credit rating of counterparties are carefully monitored. Both market risk and the other financial risk, as well as exposure connected to the issued mandates, are followed up by independent middle office functions, and are regularly reported to Group management and the board.

All processes in the value chain are exposed to operational risk. There are many risks and challenges in connection with the implementation of the Group's investment projects and operations. The safety of our employees and sub-contractors is critical and requires high level of attention, both as regards injuries, accidents and safe surroundings. Major attention is devoted to development of sound systems for learning, establishing barriers and ensuring compliance to avoid delays, cost overruns and undesirable incidents.

Risk associated with the framework conditions of the business and the effect of political decisions is significant. The Group also has implemented a systematic approach for handling regulatory issues.

Exposure to subsidy regimes in connection with the development of clean energy in a number of markets and uncertainty in relation to their future development are emphasised when making investment decisions.

INTERNAL CONTROL

Internal control is a key element in sound risk management. The Statkraft Group and Statkraft Energi AS work focused to further develop this. The Group's system for internal control over financial reporting contributes to reliable financial reporting. The purpose of the corporate audit function is to assist the board and management in making an independent and impartial evaluation of whether the Group's internal control procedures and significant risks are sufficiently managed and supervised. The corporate audit function will also contribute to on-going quality improvements in internal management and control systems. A management system has been established that gathers all governing documents and facilitates a more efficient, systematic and uniform management of the Group with sufficient degree of formalisation, documentation and compliance.

ENVIRONMENTAL IMPACT

No serious environmental incidents were registered in 2011. However, less serious environmental incidents were reported. Most of the environmental incidents were short-term breaches of the operations provisions, minor chemical discharges and non-conformities in connection with waste management. These incidents had little or no effect on the environment.

EMPLOYEES AND ORGANISATION

Statkraft Energi AS had 855 full-time equivalents in 2011 (918). The decline is due to transfer of employees from the IT department to Statkraft AS.

The Statkraft Group wants to achieve a better gender balance and a higher percentage of women in management positions. In 2011, 21.7% (19%) of Statkraft Energi's employees were women and the percentage of women in managerial positions was 20.2 (17). 29% of the board members were women.

The Statkraft Group and Statkraft Energi AS strive to attain a diverse working environment and promotes equal treatment in its recruitment and HR policy. Employees and others involved in the Statkraft Group's activities must be chosen and treated in a manner which does not discriminate on the basis of gender, skin colour, religion, age, disability, sexual orientation, nationality, social or ethnic origin, political conviction, trade union membership or other factors.

The board would like to take this opportunity to thank all employees for their excellent contributions during 2011.

HEALTH AND SAFETY

The Statkraft Group has a clear goal of zero work accidents with serious consequences and zero breaches of the requirements

relating to physical safety measures in connection with the Group's activities. Clear requirements and close follow-up in all operations and project phases are decisive to achieve safe and sound workplaces and good results. Several measures have been implemented, including increased focus on applicable guidelines for working at heights and use of safety equipment. In general, all projects placed even greater emphasis on sound health and safety expertise among own employees and basic safety training of all contractors and subcontractors. The Statkraft Group emphasises learning from injuries, near-misses and unsafe conditions.

The indicator for lost-time injuries, H1, was 2.0 (1.3) among the company's employees in 2011, while the indicator for all types of injuries, H2, was 15.5 (5.6). In total, 3 (2) lost-time injuries and 20 (7) injuries without absence were registered among own employees. 5 lost-time injuries and 7 injuries without absence were registered among the contractors.

Absence due to illness in Statkraft Energi AS was 3.6% in 2011 (3.0%), which was below the target of 4.0%. From 2012, the company has set the target for absence due to illness to less than 3.5%.

All Norwegian companies in the Group have entered into Inclusive workplace (IA) agreements, with active follow-up of absence and close cooperation with the company health service.

RESULT ALLOCATION

The net profit for the year after tax is NOK 3217 million. The Board of Directors proposes the following allocation of the annual profit for Statkraft Energi AS:

Amounts in NOK million

Group contribution payable	2698
Allocated to dividends	1994
Transferred from other equity	-1475
Total allocated	3217

Statkraft Energi AS had a distributable equity of NOK 207 million at year-end.

OUTLOOK

High inflow and mild weather combined with relatively low production in the Nordic region in the fourth quarter have resulted in a positive resource situation going into 2012. This ensures that the Company has the flexibility to meet increased demand and changes in the Nordic resource situation. The Nordic power prices are expected to be lower for 2012. Statkraft Energi AS' reservoir capacity and flexibility provides the opportunity for high production should the price situation so dictate. The power market is volatile, with major uncertainty as regards the resource situation and demand, and therefore also the development in power prices.

In 2012 and the coming years, the board of Statkraft Energi AS will work to further develop the company in line with the Group's strategic goals. Statkraft Energi AS will emphasise further development of value creation from the core activities within power production and market activities. A strong focus on sound operations will be maintained throughout the year.

The Board of Statkraft Energi AS
Oslo, 13 March 2012

Christian Rønning-Tønnesen
Christian Rønning-Tønnesen
Chair

Eli Skrøvset
Eli Skrøvset
Deputy chair

Kristin Steinfeldt-Foss
Kristin Steinfeldt-Foss
Board member

Arne Einungbrekke
Arne Einungbrekke
Board member

Olav Rabbe
Olav Rabbe
Board member

Øyvind Riber
Øyvind Riber
Board member

Steinar Bysveen
Steinar Bysveen
Board member

Asbjørn Grundt
Asbjørn Grundt
Chief executive

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Income Statement

STATKRAFT ENERGI AS

NOK million	Note	2011	2010 Restated
Sales revenues	3	12 450	13 471
Other operating revenues	5	351	465
Gross operating revenues		12 801	13 936
Energy purchases	6	-1 394	-779
Transmission costs		-565	-1 081
Net operating revenues		10 842	12 076
Salaries and payroll costs	7,8	741	647
Depreciation and impairments	14	768	721
Property tax and licence fees	9	846	844
Other operating expenses	10	1 747	1 671
Operating expenses		4 102	3 883
Operating profit		6 740	8 193
Financial income	12	216	334
Financial expenses	12	-567	-573
Net financial items		-351	-239
Profit before tax		6 389	7 954
Tax expense	13	3 172	2 362
Net profit		3 217	5 592
Group contribution payable		2 698	4 632
Allocated to dividends		1 994	-
Transferred from/to other equity		-1 475	960
Total allocated		3 217	5 592

Balance Sheet

STATKRAFT ENERGI AS

NOK million	Note	31.12.11	31.12.10 Restated
ASSETS			
Deferred tax asset	13	1 182	1 352
Property, plant and equipment	14	30 274	29 348
Investments in subsidiaries and associates	15	1 873	1 294
Other non-current financial assets	16	1 291	1 471
Non-current assets		34 620	33 465
Inventories	17	561	537
Receivables	18	2 830	9 357
Cash and cash equivalents	19	221	270
Current assets		3 612	10 164
Assets		38 232	43 629
EQUITY AND LIABILITIES			
Paid-in capital	20	12 197	12 197
Retained earnings	20	708	2 482
Equity		12 905	14 679
Provisions	21	7 954	7 657
Deferred tax	13	218	87
Long-term interest-bearing liabilities	22	6 938	7 601
Long-term liabilities		15 110	15 345
Short-term interest-bearing liabilities	23	1 024	740
Taxes payable	13	1 688	2 182
Dividends payable		1 994	-
Other interest-free liabilities	24	5 511	10 683
Current liabilities		10 217	13 605
Equity and liabilities		38 232	43 629

The Board of Statkraft Energi AS
Oslo, 13 March 2012


Christian Rynning-Tønnesen
Chair


Eli Skrøvset
Deputy chair


Kristin Steinfeldt-Foss
Board member


Arne Einung Brekke
Board member


Olav Rabbe
Board member


Øyvind Riber
Board member


Steinar Bysveen
Board member


Asbjørn Grundt
Chief executive

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Cash Flow Statement

STATKRAFT ENERGI AS

NOK million	2011	2010 Restated
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	6 389	7 954
Profit/loss on sale of non-current assets	30	-5
Depreciation, amortisation and impairments	768	721
Taxes paid	-2 304	-2 823
Cash flow from operating activities	4 884	5 847
Change in long-term items	1 138	493
Changes in short-term items	2 608	-1 184
Dividend from subsidiaries	9	62
Net cash flow from operating activities	A	8 639
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-1 301	-911
Proceeds from sale of non-current assets	5	6
Business combinations, net liquidity	-579	849
Net cash flow from investing activities	B	-1 875
CASH FLOW FROM FINANCING ACTIVITIES		
New interest-bearing debt	145	-
Repayment of long-term debt and subordinate loans	-525	-666
Dividends and Group contribution paid	-6 433	-4 362
Net cash flow from financing activities	C	-5 028
Net change in cash and cash equivalents during the year	A+B+C	134
Cash and cash equivalents 1 Jan.	270	136
Cash and cash equivalents 31 Dec. ¹⁾	221	270

¹⁾ The company's liquidity is organised in a group account scheme. The company's liquidity is formally a receivable against the parent company Statkraft AS.

Accounting Policies

STATKRAFT ENERGI AS

ACCOUNTING RULES

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 accounts as the subgroup is consolidated in Statkraft AS' consolidated accounts. The Statkraft Group prepares its accounts in accordance with the International Financial Reporting Standards (IFRS).

VALUATION AND CLASSIFICATION PRINCIPLES

Uncertainty in 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 recognition of revenues and expenses Recognition of revenues from sale of goods and services takes place when the revenues are earned, while costs are recognised in accordance with the matching principle. Revenues from energy trading are recognised net. Dividends from subsidiaries are recognised as income in the year earned, while dividends from other companies are recognised in accordance with the cash principle. Profit/loss from the sale of ordinary non-current assets is treated as operating revenues or expenses.

RECOGNITION OF SALES REVENUES

Power production Power production is recognised as income with produced volume multiplied by sales price.

Portfolio management Statkraft Energi AS is entering into physical and financial contracts to optimise future power sales revenues and to reduce risk. The portfolio management is recognised in accordance with the lower value principle at a portfolio level. Forward currency exchange contracts in the portfolio are valued at fair value in the portfolio. The portfolio is described further in Note 27.

Trading and origination The company has separate portfolios for trading and origination that are managed independently of the company's expected power production. The portfolios are normally recognised at fair value in accordance with Section 5–8 of the Accounting Act. One of the trading portfolios trades in contracts which are not traded in a marketplace, and is therefore recognised in accordance with the lower value principle. The origination portfolio does not meet the terms for accounting at fair value in accordance with Norwegian GAAP and the portfolio is therefore recognised in accordance with the lower value principle at a portfolio level. The portfolios are further described in Note 27.

PENSIONS

Defined benefit schemes A defined benefit scheme is a pension scheme that defines the retirement benefits that an employee will receive on retirement. The liability recognised in the balance sheet which relates to defined benefit schemes is the present value of the future pension benefits considered to have accrued on the balance sheet date, adjusted for the fair value of the pension assets and for non-recognised expenses connected with previous periods' accrued pension benefits.

Actuarial gains and losses attributable to changes in actuarial assumptions or base data are recognised in equity on an ongoing basis after provisions for deferred tax.

Changes in defined benefit pension liabilities attributable to changes in pension plans that have retroactive effect, i.e. where the earning of rights is not contingent on future service, are recognised directly in the income statement. Changes that are not issued with retroactive effect are recognised in the income statement over the remaining service time.

Net pension fund assets for overfunded schemes are classified as non-current assets and recognised in the balance sheet at fair value. Net pension benefit liabilities for underfunded schemes and non-funded schemes that are covered by operations are classified as provisions for liabilities.

The net pension cost for the period is included under salaries and other payroll costs, and comprises the total of the pension benefits accrued during the period, the interest on the estimated liability and the projected yield on pension fund assets.

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses are expensed as they are incurred. Development costs are capitalised to the extent that a future financial benefit can be identified from the development of an identifiable intangible asset.

PUBLIC SUBSIDIES

Public subsidies are evaluated separately, and are treated in the accounts as a correction to the item the subsidy is meant to cover.

COMPENSATION PAYMENTS

The company 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 compensational power. The present value of liabilities related to annual compensation payments and free power is classified as provisions for liabilities and set off against assets. Annual payments are recognised as other operating expenses, while non-recurring items are offset against the provision.

LICENCE FEES

Licence fees are paid annually to central and local government authorities for the increase in generating capacity that is obtained from regulated watercourses and catchment transfers. These licence fees are charged as expenses as they accrue. The capitalised value of future licence fees is not recognised in the balance sheet, but is calculated and presented in Note 9.

CONCESSIONARY POWER

Each year concessionary sales are made to local authorities at regulated prices stipulated by the Norwegian Storting (parliament). In the case of certain concessionary power contracts, agreements have been made regarding financial settlement in which Statkraft is invoiced for the difference between the spot price and the concessionary price. Delivery and financial settlement of concessionary power are classified as sales revenues at delivery.

PROPERTY TAX

Property tax for power plants is calculated on the basis of actual production, with deductions for actual operating expenses and resource rent tax paid for the individual power plant. 0.2 to 0.7 per cent property tax is calculated to the individual municipality from the property tax basis. Property tax is presented as an operating expense.

TAXES

General Group companies that are engaged in power generation in Norway are subject to the special rules for taxation of energy companies. The Group must therefore pay income tax, natural resource tax, resource rent tax and property tax. Property tax is classified as an operating expense.

Income tax Income tax is calculated in accordance with ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income

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for the year. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax values and the tax effect of losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent that it is probable that the assets will be realised in the future. Tax related to equity transactions is recognised in equity.

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

Resource rent tax Resource rent tax is a profit-dependent tax that is calculated at a rate of 30 per cent of the net resource rent revenue generated by each power plant. Actual operating expenses, depreciation and a tax-free allowance are deducted from the calculated revenue in order to arrive at the net resource rent revenue tax base. Negative and positive resource rent tax from different power plants are presented net as far as the tax rules allow pooling of the positions for tax purposes. Deferred tax assets linked to loss carryforwards and deferred tax linked to other temporary differences are calculated per power plant on the basis of whether it is probable that the deferred tax asset will be realised within a time horizon of ten years. Provisions for deferred resource rent tax are made at a nominal tax rate of 30 per cent. The tax-free allowance is treated as a permanent difference in the year it is calculated, and therefore does not affect the calculation of deferred tax in connection with resource rent.

Deferred tax liabilities and deferred tax assets connected with income tax are recognised net provided that these are expected to reverse in the same period. The same applies to deferred tax liabilities and deferred tax assets connected to resource rent tax. Deferred tax positions connected with income tax cannot be offset against exposed tax positions connected with resource rent tax.

CLASSIFICATION AND EVALUATION OF ASSETS AND LIABILITIES

Assets intended for lasting ownership or 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. Similar criteria are applied to the classification of current and long-term liabilities.

Non-current assets are recognised at cost and are written down to fair value for any impairment in value not considered to be temporary in its nature. Non-current assets with a limited useful economic lifetime are depreciated or amortised according to plan. Long-term liabilities are recognised in the balance sheet at their nominal value, adjusted for any unamortised premium or discount. Current assets are valued at the lower of cost or fair value. Current liabilities are recognised in the balance sheet at the nominal amount received at the time the liability was incurred.

Property, plant and equipment Investments in production facilities and other property, plant and equipment are recognised at cost less accumulated depreciation and impairments. Depreciation is charged from the time the assets are available for use. The cost of property, plant and equipment includes expenses in connection with acquiring or bringing assets into a condition in which they can be used. Borrowing costs in connection with major investments are calculated and recognised in the balance sheet. Expenses incurred after the operating asset has been put to use, such as ongoing maintenance expenses, are recognised in the income statement, while other expenses that are expected to generate future economic benefits are recognised in the balance sheet. In connection with fixed-term licenses, provisions are made for removal obligations, as a counterpart item in increased book value of the relevant investment, which is depreciated over the licence period.

Depreciation is calculated on a straight-line basis over asset's useful economic lifetime. Residual values are taken into account

in the calculation of annual depreciation. Land is not depreciated. Waterfall rights are classified as land and are not depreciated, since there is no right of reversion to state ownership and the assets are deemed to have perpetual life. Compensation payments to landowners are recognised in the balance sheet as land, see description under compensation payments. Investments in plants not operated by Statkraft are depreciated similarly, using an average depreciation rate. Periodic maintenance is recognised in the balance sheet over the period until the time when the next maintenance round is expected to be performed. Estimated useful lives, depreciation methods and residual values are assessed annually.

When assets are sold or disposed of, the book value is deducted and any profits or losses are recognised in the income statement. Repairs and ongoing maintenance costs are recognised in the income statement when they are incurred. If new parts are recognised in the balance sheet, the parts that have been replaced are removed and any residual book value is recognised as a loss on disposal.

Impairments Property, plant and equipment that are depreciated are assessed for impairment when there is any indication that future earnings do not justify the book value. Impairments are recognised as the difference between book value and recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

In assessing impairments, non-current assets are grouped into the lowest level of identifiable assets that can generate independent cash flows (cash-generating units). The possibility of reversing earlier impairments is considered at each reporting date.

Subsidiaries/associates Subsidiaries are companies where the Group has controlling influence on financial and operational principles. Controlling influence is normally achieved when the company owns more than 50 per cent of the voting shares. Investments are recognised at the cost of the shares and are adjusted for any impairment where necessary. Dividends and Group contributions are recognised as income in the same year that the subsidiary makes the provision. If the dividends exceed 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.

Associates are companies where Statkraft Energi AS has significant influence. Significant influence is normally considered to exist where the company owns or controls 20 to 50 per cent of the voting shares.

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 owners, are accounted for in accordance with the gross method in line with Statkraft's shareholding. Produced power, with the exception of concessionary power, is at the disposal of co-owners directly. Power taken out from partially-owned companies organised as limited companies is included in gross power sales. Statkraft's share of other operating revenues and operating expenses is included in accordance with the shareholders' agreement.

Long-term shareholdings All long-term investments are accounted for using the cost method in the company's financial statements. Dividends received are treated as financial income.

Inventories CO₂ quotas and electricity certificates held for trading purposes are considered to be inventories. Purchased standard goods and spare parts in connection with the operation are classified as current assets. Inventories are evaluated in accordance with FIFO using the lower value principle on the portfolio level.

Water in reservoirs Water in reservoirs is not recognised in the balance sheet. Information relating to the amount of water in the reservoirs is provided in note 4.

Notes

STATKRAFT ENERGI AS

Receivables Accounts receivable and other receivables are recognised at nominal value less provisions for expected losses. Provisions for losses are recognised on the basis of an individual assessment of the receivables concerned.

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

Cash and cash equivalents The item Bank deposits, cash and cash equivalents also includes certificates and bonds with short residual duration. The market settlement of derivatives connected with financial activities (cash collateral) is recognised in the balance sheet.

Received advance payments are classified as long-term liabilities. The advance payment is recognised as income in line with the provision of the delivery the advance is meant to cover. An annual interest cost is calculated and recognised as a financial cost.

Contingent liabilities Contingent liabilities are recognised 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.

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

Currency and forward currency exchange contracts Cash items in foreign currencies are valued at the exchange rate at the balance sheet date. Transactions denominated in foreign currency are converted using the transaction date exchange rate. Currency effects are recognised as financial expenses or income. Forward currency exchange contracts are valued at fair value at the balance sheet date.

CASH FLOW STATEMENT PRINCIPLES

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

01 → IMPORTANT EVENTS

2011

Statkraft Energi AS increased the long-term power contract volume, and several new contracts were entered into in 2011. The new power agreements starting delivery in 2011 and 2012 amount to a total annual volume of 6.6 TWh, and the company's total long-term contract volume is now about 16 TWh per year. These are agreements entered into mainly with Norwegian companies.

The hydropower plants are in the process of being upgraded for more than NOK 1 billion. In Sogn og Fjordane County, Statkraft is constructing the Eiriksdal and Makkoren hydropower plants to replace three older power plants which will be shut down, and Nedre Røssåga power plant in Nordland County is also undergoing modernisation. The Eiriksdal and Makkoren development is scheduled for completion in 2014, while the modernisation of Nedre Røssåga is scheduled for completion in 2015. In addition, efforts are underway to expand Svartisen power plant in Nordland with a new unit. The expansion has been delayed by 15 months due to technical problems, and is expected to resume operation in late 2012. The total investment for the Svartisen expansion is slightly less than NOK 400 million.

Leiro power plant came into operation in June 2011. This is a small-scale power plant with an average annual production of 8.9 GWh. A decision has been made to build a new Haukeli power plant. The power plant will have an average annual production of 38 GWh. The power plant will be ready for operation in May 2013.

Statkraft Energi AS and Troms Kraft Produksjon AS have agreed on the terms to redeem Bardufoss power plant. Statkraft Energi AS will redeem the properties and plants in connection with Bardufoss power plant from Troms Kraft Produksjon AS. The price is NOK 450 million. Bardufoss power plant has a normal production of 225 GWh. The Norwegian Competition Authority has issued a preliminary undocumented notification of intervention, while a possible documented notice of intervention could follow

in May 2012. The background for a preliminary undocumented notification is that the Norwegian Competition Authority needs more time to look into the competition-related consequences of the take-over.

Eight local authorities have joined forces and sued Statkraft Energi AS. The case concerns a demand for subsequent financial settlement put forward by Statkraft Energi AS against the local authorities as a result of the decision made by the Ministry of Petroleum and Energy on 8 January 2010. The decision entails that, in the Ministry's opinion, the local authorities have received fees and power based on a too high power basis for Saurdal power plants for 14 years.

2010

In 2010, Statkraft Energi AS entered into long-term contracts with Elkem, Norske Skog and Finnjord Smelteverk. In total, these contracts involve an annual volume of 3 TWh. At the beginning of 2011, Statkraft Energi AS has a contract portfolio of about 14 TWh per year in long-term power agreements. These agreements are in addition to energy service agreements with the industry.

Statkraft Energi AS invests in hydropower plants. The largest investments are in connection with Eiriksdal and Makkoren, Nedre Røssåga and Svartisen. Svartisen is expected to start operation in the summer of 2011, Eiriksdal and Makkoren are scheduled for completion in 2013 and the rehabilitation of Nedre Røssåga will continue to 2017. In total, these investments will increase the company's installed capacity by 231 MW (Statkraft Energi's share). In addition, several minor projects and upgrades and expansions of existing plants are underway.

Statkraft Energi AS took over responsibility for the employees in Trondheim Energi Kraft AS from 1 January 2009 in preparation for the incorporation of the power plant activities. The stages in the merger process were completed in 2010. Statkraft Energi AS has taken over assets related to power production amounting to NOK 6632 million.

In October 2010, Statkraft Energi AS entered into an agreement with E.ON to acquire the remaining shares (33.3%) in Baltic Cable AB with accounting effect from 1 January 2011. The 600 MW subsea cable between Sweden and Germany will become wholly owned by Statkraft Energi AS as a result.

As a result of the expiry of the lease agreement for Mågeli power plants to AS Tyssefaldene on 31 December 2010, Mågeli power plant has been transferred from Statkraft SF to Statkraft Energi AS from 1 January 2011. The amendments to the licensing legislation also allow for the transfer of other power plants that are still leased from Statkraft SF to Statkraft Energi AS.

The Ministry of Petroleum and Energy has confirmed a new power basis for the Saurdal power plant in the Ulla-Førre river system.

The decision entails a reduction of the total power basis, and a minor change in the distribution between the affected local authorities. The decision took effect on 1 January 1996 and provides a basis for financial claims against the recipients of license fees and concessionary power. However, several local authorities and county authorities have not accepted the claim. The total claim including interest amounts to NOK 96 million.

Troms Kraft Produksjon's lease agreement for the waterfall rights in Bardufoss expired on 1 May 2010. The parties disagree as regards the rights and obligations upon expiry of the agreement. Statkraft Energi AS has issued a writ of summons to establish that the company has the right to redeem the power station at technical value. The case is expected to be resolved in 2011, either through a negotiated settlement or legal ruling.

02 → SEGMENT INFORMATION

Statkraft Energi AS's business activities lie within the Statkraft Group's segments Nordic Hydropower and Continental Energy and Trading. The majority of the company's operating revenues are generated in Norway.

03 → SALES REVENUES

Statkraft Energi AS 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 cases where Statkraft Energi AS has physical contractual obligations to supply power that deviate from actual output, the difference is either bought or sold on the spot market. Such spot purchases are recorded as a correction to power sales. Physical and financial contracts are used to hedge underlying production in the form of purchase and sales positions. Short positions are taken to hedge the price of a specific share of the planned future output. Long positions are taken to adjust the hedging level if assumptions change and Statkraft Energi AS realises its hedged position is too high. All contracts are recognised as adjustments to the underlying revenue from production based on the margin between the contract price and the spot price.

NOK million	2011	2010
Net physical spot sales	5 670	9 706
Concessionary sales at statutory prices	273	233
Industrial sales at statutory prices	130	1 533
Long-term sales contracts	5 235	2 660
Dynamic hedging	1 114	-771
Trading and origination	-295	915
Other	323	-805
Total	12 450	13 471

Statkraft Energi AS has obligations to supply power to local authorities at concessionary prices.

Annual delivery volume for concessionary sales at statutory prices:

TWh	2012	2011
Concessionary power	2.5	2.6
Total fixed sales agreements	2.5	2.6

Price and volume for industrial and concessionary power at statutory prices

	2011	2010
Industrial power – Volume (TWh)	1.0	7.9
Industrial power – Price (NOK/MWh)	13.3	19.3
Concessionary power – Volume (TWh)	2.5	2.4
Concessionary power – Price (NOK/MWh)	10.3	10.9

04 → RESERVOIR LEVELS AND PRODUCTION (UNAUDITED)

TWh	Reservoir levels as of 31 Dec.		Reservoir capacity	Production ¹⁾		
	2011	2010		2011	2010	Mean
Statkraft Energi AS	28.5	15.2	33.8	31.7	34.9	31.7

¹⁾ After loss.

In Norway, inflow was 62% above normal. Statkraft's Norwegian reservoirs ended the year at 128% of normal level.

05 → OTHER OPERATING REVENUES

NOK million	2011	2010
Power plant leasing revenues	10	126
Other leasing and service revenues	180	117
Other operating revenues	161	222
Total	351	465

06 → ENERGY PURCHASES

Energy purchases are mainly related to purchase of gas as input in the gas fired power plants. Provisions are made for gas supply agreements with a negative market value.

07 → SALARIES AND PAYROLL COSTS

NOK million	2011	2010
Salaries	492	503
Employer's national insurance contributions	69	79
Pension costs	148	48
Other benefits	32	17
Total	741	647

Pension costs are presented in further detail in note 8.

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

Members of the board elected by employees received NOK 55 000 in fees (per board member). No other fees were paid to members of the board in 2011. Nor were any loans or pledges granted with respect to board members.

On average, the company had the equivalent of 855 full-time employees in 2011. The corresponding figure for 2010 was 916.

08 → PENSIONS

OCCUPATIONAL PENSION SCHEMES

The company is obliged to have an occupational pension scheme under the Mandatory Occupational Pension Act. Statkraft Energi AS operates an operational pension scheme for its employees in the Norwegian Public Service Pension Fund scheme. The pension scheme fulfils the statutory requirements. The benefits include retirement, disability, surviving spouse and child's pensions. For individuals qualifying for the full entitlement, the scheme provides pension benefits amounting to 66 per cent of pensionable salary, up to a maximum of 12G (12 times the National Insurance Scheme's basic amount). The company also offers early retirement at the age of 62 under the AFP pension scheme. Pension benefits from the Norwegian Public Service Pension Fund are guaranteed by the Norwegian state (Section 1 of the Pension Act).

Statkraft Energi AS pays an annual premium to the Norwegian Public Service Pension Fund and is responsible for the financing of the scheme. The Norwegian Public Service Pension Fund scheme is, however, not asset-based. Management of the pension fund assets (fictive assets) is simulated as though the assets were invested in long-term government bonds. In this simulation it is assumed that the bonds are held to maturity.

UNFUNDED PENSION LIABILITIES

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

A pension scheme has been introduced for operations and professional workers that will provide additional benefits to the AFP from 62 to 65 years. The scheme compensates for previous agreements on special retirement ages in relation to the Norwegian Public Service Pension Fund.

Breakdown of pension costs for the period

NOK million	2011	2010
Current value of accrued pension entitlements for the year	106	96
Interest costs on pension liabilities	69	75
Return from pension assets	-36	-41
Recognised effect of pension plan changes	-	-90
Contributions from employees	-10	-10
Employer's national insurance contributions	19	18
Net pension costs incl. employees contribution	148	48

Reconciliation of pension liabilities and pension fund assets

NOK million	2011	2010
Gross pension liabilities	2 294	1 887
Pension assets in the Norwegian Public Service Pension Fund	-1 110	-1010
Net pension liabilities in defined benefit schemes, asset-based	1 184	831
Pension liabilities in defined benefit schemes, not asset-based	68	46
Employer's national insurance contributions	177	124
Net pension liabilities	1 429	1 001

Breakdown of increased pension liability recognised in the balance sheet due to the recognition of estimate deviations in equity:

NOK million	2011	2010
Cumulative amount recognised directly in equity before tax as of 1 Jan.	812	661
Recognised in the period	393	151
Cumulative amount recognised directly in equity before tax as of 31 Dec.	1205	812
Recognised in equity after tax	868	585
Recognised in deferred tax	337	227

Financial assumptions:	31.12.11	01.01.11	31.12.10	01.01.10
Annual discount rate	2.80%	3.70%	3.70%	4.40%
Salary adjustment	4.00%	4.00%	4.00%	4.25%
Adjustment of current pensions	3.00%	3.00%	3.00%	4.00%
Adjustment of the National Insurance Scheme's basic amount (G)	3.75%	3.75%	3.75%	4.00%
Forecast voluntary exit				
• Up to age 45	3.50%	3.50%	3.50%	3.50%
• Between ages 45 and 60	0.50%	0.50%	0.50%	0.50%
• Over age 60	0.00%	0.00%	0.00%	0.00%
Projected yield	2.80%	3.70%	3.70%	4.40%
Rate of inflation	2.00%	2.00%	2.00%	2.25%
Tendency to take early retirement (AFP)	30.00%	30.00%	30.00%	30.00%

For demographic factors the K2005 and IR73 tariffs are used to establish mortality and disability risks.

In connection with the pension reform a reduction of current regulations of future pensions has been adopted in 2010. Current pensions are to be regulated with G (1 time the National Insurance Schemes's basic amount.) minus a fixed factor of 0.75 percentage points. The amendment has retrospective effect and is treated in the accounts as a plan changes reducing the pension liabilities with NOK 90 million recognized as a reduction in pension cost in 2011.

09 → PROPERTY TAX AND LICENCE FEES

NOK million	2011	2010
Property tax	603	609
Licence fees	243	235
Total	846	844

Licence fees are adjusted in line with the Consumer Price Index, with the first adjustment taking place on 1 January five years after the licence was granted and every fifth year thereafter. The present value of current and permanent licence fees related to the company's generating facilities is estimated at NOK 6075 million and is discounted at an interest rate of 4 per cent in accordance with regulations relating to the adjustment of licence fees.

10 → OTHER OPERATING EXPENSES

NOK million	2011	2010
Materials	106	102
Purchase of third-party services	480	390
Costs of power plants operated by third parties	504	663
Compensation payments	51	45
Other operating expenses	606	471
Total	1 747	1 671

R&D activities are expensed on an ongoing basis. An amount of NOK 38 million was recognised in 2011 (NOK 19 million in 2010). The company's research activities are intended to provide further knowledge and develop new methods within hydrology, energy optimisation and maintenance activities.

Annual compensation obligations are estimated at NOK 488 million, see note 21. Costs of power plants operated by third parties include the tolling agreement with Naturkraft AS. The item Other operating expenses includes write-down of the tolling agreement amounting to NOK 447 million in 2011, the corresponding figure for 2010 was NOK 264 million.

11 → FEES PAID TO EXTERNAL AUDITOR

Deloitte AS is Statkraft Energi AS' auditor.

Deloitte also audits the subsidiaries Baltic Cable AB and Trondheim Energi Kraft AS.

For Statkraft Energi AS, the total fees paid to the auditor for auditing and other services were as follows:

Amounts in NOK ¹⁾	2011	2010
Statutory auditing	1 176 700	1 409 220
Other certification services	447 735	125 869
Tax consultancy services	-	-
Other services	-	-
Total	1 624 435	1 535 089

¹⁾ The amounts are exclusive of VAT

12 → FINANCIAL ITEMS

Financial income

NOK million	2011	2010
Interest income from Group companies	152	45
Interest income other	6	10
Dividends	62	278
Currency gains	-	-
Other financial income	-4	1
Total	216	334

Financial expenses

NOK million	2011	2010
Interest expenses paid to Group companies	371	250
Currency losses	5	122
Imputed interests long-term energy contracts	170	208
Other financial expenses	41	10
Capitalized borrowing costs	-21	-18
Total	567	573

13 → TAXES

The tax expense comprises the following:

NOK million	2011	2010
Income tax	1 565	2 325
Resource rent tax	1 172	1 658
Corrections related to previous years	25	19
Change in deferred tax, resource rent	170	-
Change in deferred tax, income tax	240	-1 640
Total tax expense in the income statement	3 172	2 362

Income tax payable:

Income taxes payable on the Group's profit for the year	1 560	2 325
Effect of Group contributions on tax liability	-1 049	-1 801
Income tax payable	511	524

Payable tax in the balance sheet:

Natural resource tax	499	491
Resource rent tax	1 172	1 658
Income tax exceeding natural resource tax	1 066	1 834
Effect of Group contributions on tax liability	-1 049	-1 801
Tax payable in the balance sheet	1 688	2 182

Reconciliation of nominal tax rate and effective tax rate

NOK million	2011	2010
Profit before tax	6 389	8 214
Expected tax expense at a nominal rate of 28%	1 789	2 300
Effect on taxes of:		
Resource rent tax including change in deferred tax	1 342	109
Tax-free income	-25	-76
Changes relating to previous years	49	86
Other permanent differences, net	17	15
Total tax expense	3 172	2 434
Effective tax rate	50%	30%

Breakdown of temporary differences and deferred tax

The following table specifies the tax effect of temporary differences and tax loss carryforwards. Deferred tax assets are recognised in the balance sheet to the extent that it is probable that these will be utilised.

The company presents deferred tax assets and deferred tax liabilities connected with different regimes individually:

NOK million	2011	2010
Current assets/current liabilities	894	1 008
Property, plant and equipment	-1 511	-1 375
Pension liabilities	400	280
Total deferred tax asset	-218	-87
NOK million	2011	2010
Temporary differences, resource rent tax	-1 663	-1 558
Resource rent carryforwards	2 845	2 910
Total deferred tax/tax asset	1 182	1 352

14 → PROPERTY, PLANT AND EQUIPMENT

NOK million	Regulation facilities	Turbines, generators etc.	Shares in power plants operated by		Land, underground facilities, buildings, road, bridge and quay facilities	Facilities under construction	Other ²⁾	Total
			other	quay facilities				
Cost 1 Jan. 2011	19 582	9 197	2 590	10 186	1 486	1 167	44 208	
Additions 2011 ¹⁾	58	34	46	255	1 314	22	1 729	
Transferred from facilities under construction	52	96	-	32	-203	23	-	
Disposals 2011	-	-	-26	-2	-3	-7	-38	
Cum depr./impairments 31 Dec. 2011	-6 171	-5 331	-1 072	-2 201	-	-850	-15 625	
Book value 31 Dec. 2011	13 521	3 996	1 538	8 270	2 594	355	30 274	
Ordinary depreciation for the year	-291	-244	-56	-107	-	-70	-768	
Impairments during the year	-	-	-	-	-	-	-	
Depreciation period	30–75 years	15–40 years	5–50 years	0–75 years		3–40 years		

¹⁾ Capitalized borrowing costs make a total of NOK 18 million.

²⁾ The item Other mainly includes buildings, office and computer equipment, electro-technical installations and vehicles.

A more detailed specification of the useful economic lifetime of the various assets is provided below:

	Depreciation period (years)		Depreciation period (years)
Dams		Buildings (admin etc.)	75
– riprap dams, concrete dams	75	Other fixed installations	
– other dams	30	– permanent	20
Tunnel systems	75	– less permanent	10
Mechanical installations		Miscellaneous fixtures	5
– pipe trenches	40	Land	perpetual
– units (turbine, valve)	40	Office and computer equipment	3
– other mechanical installations	15	Furnishings and equipment	5
Underground facilities	75	Vehicles	8
Roads, bridges and quays	75	Construction equipment	12
Electrotechnical installations		Small watercraft	10
– transformer/generator	40		
– switchgear (high voltage)	35		
– control equipment	15		
– operating centre	15		
– communication equipment	10		

The following waterfall rights held by Statkraft Energi AS, are leased by others.

Waterways	Municipality	Lessee	Agreement entered	Duration	Comments
Guolasjåkka	Kåfjord	Troms Kraft	1972	As long as the concession runs	Troms Kraft has the right to buy the waterfall rights by the end of the concession period.
Bjoreio	Eidfjord	Indre Hardanger Kraftlag	1989	Could be terminated with two years notice. Termination by Statkraft can at the earliest be effective from 2019	All technical equipment at Statkraft's sites shall be removed at expiry of the rental period
Smørkleppåi	Vinje	Kjetil Negarden	1981/ 1984/ 2012	2031. Statkraft may terminate the agreement in 2021.	Statkraft has a right to redeem the lessee's assets at technical value or have it removed at expiry of the rental period.

The figures stated for power plants under co-ownership, or where other parties have the right to appropriate a proportion of output in return for a share of the costs, represent the company'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 plants	Third-party shareholdings
Eidfjord	35.00%
Folgefonn ¹⁾	14.94%
Grytten	12.00%
Kobbelv	17.50%
Leirdøla	35.00%
Svartisen	30.00%
Svorka	50.00%
Ulla-Førre	28.00%
Vikfalli	12.00%

¹⁾ The appropriation right in Folgefonn applies to a fixed volume of 170 GWh.

Statkraft Energi AS has a right to purchase the shareholdings of other parties in Folgefonn in 2030 and other parties' shareholdings in Grytten in 2035.

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

NOK million	Shareholding	Share of property, plant and equipment
Aurlandsverkene	7.00%	298
Mørkfoss-Solbergfoss	33.33%	7
Røldal-Suldal Kraft AS	8.74%	-
I/S Sira-Kvina kraftselskap	32.10%	1 192
Total		1 497

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 shareholding in the company is therefore 4.79 per cent.

ECo has a right to acquire Statkraft Energi's shareholding in Aurlandsverkene in 2029.

AS Tyssefaldene, jointly controlled assets

AS Tyssefaldene produces and distributes hydropower. The power production of AS Tyssefaldene is based on the leased power stations Oksla, Mågeli, Tysso II, and Håvardsvann. The lease of Mågeli power station expired in 2010. Statkraft Energi AS and Eramet have appropriation rights to the production output and also have an agreement regarding allocation of costs and financing. The offices of AS Tyssefaldene are located in Tysseidal in the municipality of Odda.

As of 1 January 2009, AS Tyssefaldene has been classified as a jointly controlled asset and is consolidated in accordance with the proportionate consolidation method.

Statkraft Energi AS recognises its share of revenues, costs, assets and liabilities in accordance with the proportionate consolidation method. The specification in the accounts takes place by specifying the share as a separate item for each main group. Internal transactions are eliminated.

Specification of result items	AS Tyssefaldene	Shareholding	Shareholding Statkraft Energi AS
Operating revenues	33	60.17%	20
Operating expenses	-16	60.17%	-10
Finance	-	60.17%	-
Taxes	-5	60.17%	-3
Profit/loss	12		7

Income Statement
Balance Sheet
Cash Flow Statement
Accounting Policies

→ **Notes**

Auditor's Report

Specification of balance sheet items as of 31 Dec. 2011:	AS Tyssefaldene	Shareholding	Shareholding Statkraft Energi AS
Non-current assets	93	60.17%	56
Current assets	65	60.17%	39
Long-term liabilities	-5	60.17%	-3
Current liabilities	-61	60.17%	-37
Equity	-92	60.17%	-55
Cost price for shares			52
Valuation difference fund (cf. Note 20)			10

15 → SHARES IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are measured at cost.

Shares in subsidiaries

NOK thousand		Shareholding and voting rights	Share capital	Book value	Equity	Profit for 2011
Company name	Registered office					
Baltic Cable AB	Malmö	100%	3 000	1 350 270	36 994	31 887
Trondheim Energi Kraft AS	Trondheim	100%	219 604	522 297	664 475	175 746
Total				1 872 567		

Baltic Cable AB owns and operates a subsea power transmission cable between Sweden and Germany. The shareholding has been increased to 100% effective from 1 January 2011. The company EMCC is responsible for the market coupling of the cable. Trondheim Energi Kraft AS merged the mainpart of the powerplants into Statkraft Energi AS during 2010. Remaining business in the company is limited to a 48.6% share of the powerplants in Orkla (KVO).

Shares in associates

NOK thousand	Shareholding and voting rights	Book value
Company name		
Aursjøveien AS	33.00%	17

16 → OTHER NON-CURRENT FINANCIAL ASSETS

NOK million	2011	2010
Loans to associates	-	21
Long-term receivables	262	274
Long-term power agreements	1 023	1 170
Other shares and ownership interests	6	6
Total	1 291	1 471

17 → INVENTORIES

NOK million	2011	2010
Spare parts	38	38
CO ₂ quotes held for trading purposes	26	53
Green certificates held for trading purposes	447	435
Gas inventories	50	11
Total	561	537

18 → RECEIVABLES

NOK million	2011	2010
Accounts receivable – external	1 407	1 614
Accounts receivable – Group	438	1 117
Accrued revenues etc.	219	-
Other receivables	69	693
Derivatives	-	813
Current receivables from Group companies	697	5 120
Total	2 830	9 357

Derivatives are described in further details in note 26.

The item Current receivables due from Group companies primarily relates to the Group's group account scheme, see Note 19.

19 → CASH AND CASH EQUIVALENTS

The company's liquidity is organised in a group account scheme. This means that the subsidiaries' cash holdings are formally considered to be receivables due from the parent company, and all Group companies are jointly and severally liable for the Group's drawdowns.

The amount of tax payable is secured by guarantee, see Note 25.

20 → EQUITY

NOK million	Paid-in capital			Retained earnings		Total equity
	Share capital	Share premium reserve	Other paid-in capital	Fund for valuation differences	Retained earnings	
Equity as of 31 Dec. 2009	5 500	3 053	1 508	6	1 132	11 199
Profit for the year	-	-	-	-	5 592	5 592
Merger of power plant business in Trondheim Energi Kraft AS	-	3 170	-1 035	-	627	2 762
Estimate deviation pensions	-	-	-	-	-110	-110
Equity transactions in associated companies	-	-	-	-	-4	-4
Recognised directly in equity AS Tyssefaldene	-	-	-	2	-	2
Changes in accounting principles	-	-	-	-	-130	-130
Group contribution paid	-	-	-	-	-4 632	-4 632
Equity as of 31 Dec. 2010	5 500	6 224	473	8	2 475	14 679
Profit for the year	-	-	-	-	3 217	3 217
Estimate deviation pensions	-	-	-	-	-283	-283
Equity transactions in associated companies	-	-	-	-	-19	-19
Recognised directly in equity AS Tyssefaldene	-	-	-	2	-	2
Group contribution paid	-	-	-	-	-2 698	-2 698
Allocation of profit for the year	-	-	-	-	-1 994	-1 994
Equity as of 31 Dec. 2011	5 500	6 224	473	10	698	12 905

Nordic Hydropower and forward currency exchange contracts are described in Note 26.

The company has a share capital of NOK 5.5 billion, divided on 55 million shares, each with a par value of NOK 100. All the shares have the same voting rights and all are owned by Statkraft AS. The company's registered office is in Oslo (PO. Box 200 Lilleaker).

Corrections related to losses on long-term energy purchase contracts

Statkraft Energi AS has made a re-assessment of energy purchase contracts where as it is concluded that for impairment purposes under Norwegian GAAP, these contracts shall be assessed individually. Three contracts are considered to be onerous contracts (contracts with negative net present value). These three contracts also were onerous contracts in 2010.

The financial statements for 2010 are changed retrospectively as follows:

	NOK million
Long-term provisions	1 785
Equity	1 285
Deferred tax	500
Sales revenues	-805
Energy purchases	544
Change in deferred tax	73

21 → PROVISIONS

NOK million	2011	2010
Pension liabilities	1 429	1 001
Provisions for annual compensation payments	488	488
Provision for losses on contracts	2 845	2 763
Other provisions	3 192	3 405
Total	7 954	7 657

Pension liabilities are described in further details in Note 8.

The item Other provisions includes prepayments of NOK 2740 million received in connection with future power sales agreements (NOK 2925 million). The largest of these are the agreements with Elsam and Rana respectively.

22 → LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	2011	2010
Loans from Group companies	6 938	7 601
Total	6 938	7 601

Nominal average interest rate NOK	3.86%	3.44%
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The loans are denominated in NOK.

	2012	2013	2014	2015	2015-
Maturity schedule, long-term liabilities	67	467	67	1 285	5 053

23 → SHORT-TERM INTEREST-BEARING LIABILITIES

NOK million	2011	2010
Loans from Group companies	600	740
Interest-bearing loan Troms Kraft	424	-
Total	1 024	740

24 → OTHER INTEREST-FREE LIABILITIES

NOK million	2011	2010
Accounts payable – external	568	988
Accounts payable – Group	-29	69
Indirect taxes payable	444	1 087
Other interest-free liabilities	451	872
Current liabilities to Group companies	3 774	6 301
Forward currency exchange contracts to Group companies	-	127
Provision for unrealised loss in accordance with the lower value principle	303	1 239
Total	5 511	10 683

Of short-term liabilities to Group companies for 2011, NOK 3 747 million relate to group contributions paid for 2011. In 2010, the group contributions paid was NOK 6 433 million.

25 → PLEDGES, CONTRACTUAL 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 14. 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 local authorities under this scheme totals NOK 1 289 million. As of 31 December 2011, the book value of the pledged assets in Statkraft Energi AS totalled NOK 5 547 million.

CONTRACTUAL OBLIGATIONS

Statkraft Energi AS has an obligation concerning the Elsam agreement amounting to NOK 937 million.

GUARANTEES

Statkraft Energi AS has total off-balance-sheet guarantees amounting to NOK 3 070 million. Of this, NOK 3 000 million relates to Nord Pool and NOK 70 million to other guarantees.

26 → DERIVATIVES

Statkraft Energi AS trades in financial instruments for various purposes. The treatment of these instruments in the financial statements will depend on their purpose as described in the note on accounting policies.

Currency derivatives	31.12.11		31.12.10	
	Book value	Fair value	Book value	Fair value
Total	34	34	-127	-127

Fair value of forward currency contracts is determined using valuation techniques where expected future cash flows are discounted to current value. Valuation of forward currency contracts is based on observable currency exchange rates, from which the forward exchange rate is extrapolated. Calculated present values are checked against the corresponding calculations from counterparties to the contracts.

Energy trading

Commodity derivatives valued at fair value

NOK million	Fair value	Recognised	Fair value
	2011	in P/L in 2011	2010
Trading portfolio (external)	-29	-842	813

With respect to power trading, the trading portfolios are valued at fair value in accordance with Section 5-8 of the Norwegian Accounting Act. The portfolios comprise short-term financial forward and option contracts for power and carbon contracts traded via Nord Pool. The portfolios also comprise bilateral financial contracts normally with identical terms to standardised contracts traded via Nord Pool. Nord Pool's closing prices are used to calculate fair value. The swap interest rate is used as a discounting factor.

Contracts in the trading portfolios are traded with a short time horizon. As of 31 December 2011, fair value was broken down as follows per future time period:

NOK million	
2012	-20
2013	-11
2014	1
2015	1
Total fair value 31 Dec. 2011	-29

Commodity derivatives portfolios not valued at fair value:

Nordic hydropower
Continental Assets
Origination
Statkraft Financial Energy

Statkraft Energi AS has five portfolios which are valued in accordance with the lower value principle at a portfolio level. Forward currency exchange contracts in the portfolios are valued at fair value. Nordic Hydropower was previously recognized as hedge accounting. From 2010 the accounting policy has been changed to lower value principle. See note regarding accounting policies for further description of the policies.

27 → MARKET RISK

RISK AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS GENERALLY

Statkraft Energi's financial instruments are exposed to market risk. Market risk is the risk that a financial instrument's fair value or future cash flows will fluctuate as a result of changes in market prices. Market risk primarily relates to risk in connection with electricity prices, CO₂ prices, gas prices, interest rates and currency exchange rates.

Risk management in Statkraft Energi AS focuses on the entire contract portfolio. Internal guidelines for the degree of market exposure have been established for all portfolios. The responsibility for ongoing follow-up of issued authorisations and frameworks lies with independent organisational units. The frameworks for trading in both financial and physical contracts are continually monitored and regularly reported.

The following section contains a more detailed account of the various types of market risk, and how these are managed.

DESCRIPTION OF THE VARIOUS PORTFOLIOS AND THE RISK MANAGEMENT OF THE PORTFOLIOS

Nordic hydropower The Nordic hydropower portfolio is intended to cover hydropower production in the Nordic region and the associated risk.

Net exposure in this portfolio is derived from updated production forecasts, buying and selling commitments under long-term physical contracts, as well as contracts traded via energy exchanges and bilateral financial contracts.

Statkraft Energi AS is exposed to both price and volume risk, because both future price and inflow are unknown. Mandates are based on annual volume thresholds and available production. The objective of the portfolio management is to optimise portfolio revenues and reduce risk. The risk is quantified using simulations of various scenarios for relevant risk factors.

Continental Assets The assets in the portfolio are Baltic Cable AB, long-term power purchase agreement, gas agreements and tolling agreements. The purpose of the portfolio is to handle energy production in continental Europe, including the gas power plant at Kårstø as well as associated risk. The contract portfolio consists of financial and physical contracts relating to the assets.

The market risk in the portfolio is made up by the future market prices for power, CO₂, gas, coal and oil products. Mandates are based on annual volume thresholds and available production. The objective of the portfolio management is to optimise portfolio revenues and reduce the risk. The risk is quantified using simulations of various scenarios for relevant risk factors.

Trading and origination Statkraft Energi AS has various portfolios for trading and origination that are managed independently of the company's expected power production. Trading teams have been established in Oslo, Trondheim and Stockholm. The portfolios act in the market with the aim of realising gains on changes in the market value of energy and energy-related products, as well as gains on non-standardised contracts.

Statkraft Energi AS has allocated risk capital for the trading and origination business. Clear restrictions have been established for permitted trading products. The mandates for trading and origination activities are adhered to through specified limits for Value-at-Risk and Profit-at-Risk.

FOREIGN EXCHANGE AND INTEREST RATE RISK

Currency risk Statkraft Energi AS incurs currency risk in the form of transaction risk, mainly in connection with power sales revenues and investments.

The operational currency for trading on the energy exchange in Norway is EUR, which means that all contracts that are entered into via energy exchange are denoted in EUR and are thus exposed to EUR. Corresponding currency exposure arises from energy trading on other exchanges.

Currency exposure related to cash flows is hedged in accordance with the Group's financial strategy.

Interest risk The main part of Statkraft Energi's interest rate exposure is related to a long-term floating-rate loan from Group companies.

For further information on market risk, also see corresponding descriptions in the group accounts of Statkraft AS. Descriptions there are relevant also for the understanding of risk exposures and risk management in Statkraft Energi AS.

28 → CREDIT RISK, LIQUIDITY RISK AND INSURANCE RISK

CREDIT RISK

Credit risk is the risk of a party in a financial instrument inflicting a financial loss on the other party by not fulfilling its obligations. Statkraft Energi AS assumes counterparty risk in connection with energy trading and physical sales, when placing surplus liquidity and when trading in financial instruments.

It is assumed that no counterparty risk exists for financial energy contracts which are cleared through an energy exchange. For all other energy contracts entered into, the limits are stipulated for the individual counterparty using an internal credit rating. In order to reduce credit risk, bank guarantees are used in some cases when entering into agreements. Parent company guarantees are also used. Statkraft Energi AS has netting agreements with several of its energy trading counterparties. Statkraft Energi AS has good follow-up routines for ensuring that outstanding receivables are paid as agreed.

Placement of surplus liquidity is handled by Statkraft AS and the liquidity is mainly divided among institutions with a credit rating of BBB or better. For financial instruments, loss exposure is calculated in the event of breach of contract by the counterparty.

The individual counterparty exposure limits are monitored continuously and reported regularly. In addition, the counterparty risk is quantified by combining exposure with the probability of defaulting for the individual counterparty. The overall counterparty risk is calculated and reported for all relevant units.

LIQUIDITY RISK

Statkraft Energi AS assumes liquidity risk in that the term to maturity of financial liabilities does not correspond with the cash flow which the assets generate, and by variations in security requirements related to financial contracts in the forward market (energy exchanges). The Statkraft Group has good borrowing opportunities from the Norwegian and European money markets and banking market. Drawdown facilities are used to secure access to short-term financing. Liquidity risk exposure is continually followed up by the section for risk management in Statkraft AS' financial department.

INSURANCE

Statkraft Energi AS has substantial risk exposure in the operations through potential damage to own assets and lost production as well as potential liability as a result of injury or damage to a third party's person or property. Insurance coverages have been established which limit the negative effect of these significant risk exposures. All assets in Statkraft Energi AS are insured according to the reacquisition value with the exception of insurance of dams, where the maximum compensation per incident is NOK 400 million and tunnels, where the maximum compensation per incident is NOK 100 million. Statkraft Energi also has water loss insurance, where maximum compensation is NOK 500 million per incident.

For further information on credit risk and liquidity risk, also see corresponding descriptions in the group accounts of Statkraft AS. Descriptions there are relevant also for the understanding of risk exposures and risk management in Statkraft Energi AS.

29 → RELATED PARTIES

The operations, the production management and power optimisation of the Group's power plants in Sweden and Finland are coordinated with Statkraft's power plants in Norway through an operating agreement with Statkraft Energi AS. In addition, Statkraft Energi AS has operational responsibility for the group's Norwegian wind turbine companies and the power plants in Nepal and Turkey.

Statkraft Energi's operative units manage and administrate the power plant operations in the Nordic region and in Continental Europe. The parties are Statkraft Energi AS and Statkraft Markets GmbH.

The management of the SFE portfolio and the Continental Assets portfolio will be handled by Statkraft Financial Energy AB and Statkraft Markets GmbH, respectively.

Portfolio management for Fjordkraft AS and Trondheim Energi Kraftsalg AS will be handled by Statkraft Energi AS.

Statkraft Energi AS buys administration, accounting services, office service and IT services from Statkraft AS.

The administration of Statkraft Carbon Invest AS will be handled by Statkraft AS and Statkraft Energi AS.

Statkraft Energi AS has a tolling agreement with Naturkraft AS. Statkraft AS owns 50 per cent of Naturkraft AS.

Statkraft Energi AS has entered into agreements relating to power purchase from the Group company Kraftwerkgesellschaft Herdecke GmbH & Co.

The agreements have been entered into at market terms.

The company's transactions with related parties:

NOK million	2011
Sales of goods and services	
Sales revenues with related parties	3 340
Sale of services:	
– To parent company (Statkraft AS)	32
– To other related parties	154
Total sales of goods and services	3 526
Purchase of goods and services	
Purchase of goods	
– From associates	714
– From other related parties	99
Purchase of services	
– From parent company (Statkraft AS)	341
– From other related parties	92
Total purchase of goods and services	1 246

Revisors beretning

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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Statkraft Energi AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Statkraft Energi AS, showing a profit of NOK 3.217 million. The financial statements comprise the balance sheet as at 31 December 2011, and the income statement, and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Statkraft Energi AS as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

**Report on Other Legal and Regulatory Requirements***Opinion on the Board of Directors' report and the allocation of the profit*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit complies with the law and regulations and that the information is consistent with the financial statements.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 13 March 2012
Deloitte AS

Ingebret G. Hisdal
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]

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