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Statkraft

2010

STATKRAFT ENERGI AS
ANNUAL REPORT

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Report from the Board of Directors

STATKRAFT ENERGI'S 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 in 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 related products. Statkraft Energi's head office is located in Oslo.

Statkraft Energi AS owns 66.7% of the shares in Baltic Cable AB as of 31 December 2010. 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

2010 was characterised by uncommonly cold and dry weather in the Nordic region, as well as increased consumption, resulting in the average system price for 2010 increasing by 52% compared with 2009. The prices peaked in January–February and November–December. Power consumption in the Nordic region increased by 3% in 2010. Through good management of the plants, Statkraft Energi AS had available production capacity in the peak demand periods. The total production in 2010 was 34.9 TWh. The resource situation at the beginning of 2011 is relatively tight. At the end of 2010, the overall reservoir water level in the Nordic region was 64.2% of normal, and this is expected to result in lower hydropower production than in 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. This will be considered in 2011.

The Ministry of Petroleum and Energy has confirmed a new power basis for the Saudal 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.

FINANCIAL PERFORMANCE ¹

Statkraft Energi AS had a considerable income growth in 2010 as a result of higher prices than in preceding years. The net operating revenues for 2010 were NOK 12 336 million and the accounting operating profit was NOK 8453 million. The increase from 2009 amounted to 17% and 21%, respectively. The financial performance of the subsidiaries was satisfactory.

Statkraft Energi's revenues come from spot sales (sale of own production in spot markets), contract sales to the industry and financial trading.

The power market Power prices both in the Nordic region and Germany rose in 2010 compared with 2009. The average system price in the Nordic market was higher in all the months in 2010 compared with the corresponding periods in 2009, and the average system price on Nord Pool was 53.1 EUR/MWh for the year (35.0 EUR/MWh). The average spot price (base) on the European Energy Exchange (EEX) was 44.6 EUR/MWh in 2010 (38.9 EUR/MWh). This corresponds to an increase of 52% in the Nordic region and 15% in Germany. Compared with the average prices for the years 2005–2009, the price was 43% higher in the Nordic region, while it was 7% lower in Germany.

The demand for power increased by 3% in the Nordic region and 3.7% in Norway from 2009 to 2010. Lower temperatures were the main reason for the increase in consumption. The power-intensive industry in Norway has increased its demand by 6.7% compared with 2009. Total production in Norway was 120.8 TWh, and 7.6 TWh or 6% of the consumption had to be imported to cover demand. In the Nordic region, imports amounted to 19.2 TWh, 5% of the total consumption of 392.7 TWh.

At the end of December, the overall water level in the Nordic region's reservoirs was 64.2% of normal, corresponding to 45.0 TWh. The water level was 45% of maximum capacity, which is 121.2 TWh.

Production Statkraft Energi's production is determined by capacity, access to resources (hydrological balance) and power optimisation.

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

Statkraft Energi's hydropower production in 2010 was 34.9 TWh, somewhat higher than the annual mean production. As a result of

uncommonly cold and dry weather in 2010, the resource situation was very tight at year-end.

OPERATING REVENUES

Gross operating revenues increased by 22% to NOK 14 741 million (NOK 12 055 million).

Net operating revenues amounted to NOK 12 336 million (NOK 10 554 million).

Power production is mainly sold in the spot market and under long-term commercial industrial contracts. In addition, Statkraft Energi AS also delivers power at terms set by the authorities (concessionary and industrial power). The production revenues are optimised through financial power trading, and the company also engages in pure 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 company's power has historically been sold at terms stipulated by the authorities. These contracts have successively expired in recent years, and the annual delivered volume will drop from about 7.9 TWh in 2010 to about 1 TWh in 2011. As these contracts have expired, the commercial energy-intensive industry contract portfolio has grown. In 2010, three major agreements were entered into with a total annual volume of about 3 TWh. The deliveries are divided into two terms, one from 2011 to 2020 and one from 2011 to 2022. After this, long-term contracts amount to about 14 TWh per year. In line with the expiration of the long-term agreements with statutory prices, Statkraft Energi's revenues from this volume of power will increase considerably. In 2010, the revenues from the commercial contract portfolio amounted to NOK 2660 million (NOK 2369 million), while the contracts with statutory prices amounted to NOK 1533 million (NOK 1671 million).

Concessionary sales at statutory prices Statkraft Energi AS is required to cede a share of the power production to the local 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 2010, the revenues from concessionary sales amounted to NOK 233 million (NOK 283 million).

Portfolio management To mitigate risk related to uncertainty in future price and production volumes, and to increase the long-term revenues, the company optimises production revenues through financial power trading. The share of the production that is optimised changes 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.

¹ Figures in parentheses show the comparable figures for 2009.

Statkraft Energi's analysis activities occupy a key position in the trading. The analysis activities are based on collection and processing of hydrological data and other market data. These data are used to estimate market prices and optimise the flexible production. In 2010, revenues from the trading through the Nordic and Continental portfolio management amounted to NOK -771 million (NOK 1654 million). The decline was caused by contract losses in the first quarter due to the dry and cold winter with less available nuclear power than expected resulting in very high power prices.

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). Revenues can vary considerably between periods and years, and must also be seen in the context of unrealised changes in value for origination. In 2010, the revenues (realised and unrealised changes in value for trading) amounted NOK 915 million (NOK 307 million).

Other operating revenues amounted to NOK 465 million for the year (NOK 567 million). The decline primarily relates to recognition of compensation relating to termination of a power purchase agreement in 2009 as income.

Energy purchases totalled NOK 1324 million (NOK 817 million). The increase is due to higher costs for gas purchased for energy production and resale of gas.

Transmission costs associated with the transport of power totalled NOK 1081 million (NOK 684 million). The increase primarily related higher Nordic power prices.

OPERATING EXPENSES

The operating expenses for 2010 were NOK 3883 million. This is an increase of 9.7% from 2009. Achieving higher efficiency is emphasised. In addition, efforts are underway to improve purchasing routines and processes for important input categories to reduce costs.

Salaries and payroll costs fell by NOK 54 million to NOK 647 million. The changes in the pension plans explain the reduction, while the general wage growth has the opposite effect.

License 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 calculation basis for property tax on power plants is based on an average of the results for the power plant over the last five years, and high power prices will therefore influence tax costs. Statkraft Energi AS' license fees are relatively stable. Property tax has increased in recent years as a result of an increase in the calculation basis. In total, property tax and licence fees increased by NOK 76 million to NOK 844 million.

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, insurance and travel expenses. In 2010, these expenses amounted to NOK 1671 million in total. The increase of NOK 267 million, corresponding to 19%, primarily relates to increased shareholdings and increased rent for part-owned power plants (AS Tyssefaldene).

R&D activities are expensed continuously. The expensed amount in 2010 is NOK 19 million. The company's research activities are directed towards achieving new knowledge and development of new methods within hydrology, power optimisation and maintenance activities.

OPERATING RESULT

The operating profit is NOK 8453 million (NOK 7013 million). This is an improvement of 21%.

FINANCIAL ITEMS

Net financial items amounted to NOK -239 million in 2010 (NOK -444 million).

Financial income amounted to NOK 334 million (NOK 221 million). The increase is mainly due to increased dividend from Baltic Cable AB.

Financial expenses amounted to NOK 573 million (NOK 665 million). Interest charges fell as a result of lower market interest rates.

TAXES

Accounting tax expenses decreased by NOK 710 million from 2009 to 2010, and amounted to NOK 2434 million. The effective tax rate in 2010 was 30% (48%). The ordinary payable tax before the effect of group contributions increased by NOK 651 million, mainly due to a higher profit. High power prices have furthermore resulted in an increase in resource rent tax payable of NOK 586 million. The reduction in change of deferred tax of NOK 1955 million is mainly due to recognition of estimated deferred tax assets related to negative resource rent tax carryforwards as income. The recognition as income is a combination of changed assumptions during the year, as well as improved methods for estimation of deferred tax assets.

CASH FLOW AND CAPITAL STRUCTURE

The operating activities generated a cash flow of NOK 6107 million in 2010 (NOK 5375 million). Long and short-term items had a net negative change of NOK 951 million (negative change of NOK 2470 million). Dividend received from subsidiaries amounted to NOK 62 million. The net change in liquidity from the activities was thus NOK 5218 million (NOK 2905 million).

In 2010, NOK 911 million was invested, of which NOK 367 million in maintenance of existing plants.

Repayment of debt amounted to NOK 666 million. Group contribution was disbursed in the amount of NOK 4362 million (NOK 3497 million).

The net liquidity change was NOK 134 million in 2010 (NOK -92 million). The company's other cash and cash equivalents are organised in a group account scheme, which entails that the funds are classified as a receivable from Statkraft AS in the accounts. The company is in a good position to finance its own investments due to the fact that operations are expected to continue to generate good cash flows in the years to come.

Interest-bearing debt amounted to NOK 8341 million at the end of 2010, compared with NOK 5928 million at the start of the year. Statkraft Energi AS took over long-term debt in the merger with Trondheim Energi Kraft AS. The interest-bearing debt-to-equity ratio is 34.3%, compared with 32.5% at year-end 2009.

At the end of the year, current assets, except cash and cash equivalents, totalled NOK 9894 million and short-term interest-free debt amounted to NOK 10 683 million. At the end of 2010, Statkraft Energi AS' equity totalled NOK 15 964 million, compared with NOK 12 296 million at the start of the year. This corresponds to 36.6% of total assets. The increase is mainly a result of a transfer of the power plant activities from Trondheim Energi Kraft AS and allocation of the net profit for the year.

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 AND INTERNAL CONTROL

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. This is followed up in the respective units through risk monitoring procedures and risk mitigation measures. 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 CO₂ prices. In addition, gas power production is directly exposed to both gas, oil and CO₂. Statkraft Energi AS manages this market risk by trading in physical and financial instruments in several markets. Closer integration of the energy markets is of major importance for the company's business models and risk management. Statkraft Energi AS consequently attaches significant importance to seeing the various markets in 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. Limits have also been established for liquidity and counterparty risk. Both market risk and the other financial risk, as well as exposure in relation to the issued mandates, are followed up by independent middle office functions. All processes in the value chain are exposed to operational risk, but the risk is greatest within project execution and operations. The operational risk is mainly handled by means of detailed procedures, emergency preparedness plans and insurance. A comprehensive system for mapping, registering and reporting hazardous conditions, undesirable incidents and injuries has also been established, and these are analysed on an ongoing basis. All projects above a certain size are subjected to continuous risk assessments where the probability and consequences of incidents are evaluated.

Other risk is primarily related to general framework conditions and political decisions. Climate changes can present both threats and opportunities, and are of importance for all the risks described above.

A system has been established for internal control over financial reporting in the Group. This system also covers Statkraft Energi AS. The system will contribute to reliable financial reporting. Statkraft Energi AS has been certified in accordance with ISO 9000.

ENVIRONMENTAL IMPACT

No serious environmental incidents were registered in 2010. However, 18 less serious environmental incidents were registered (19). Most of these were in connection with minor and short-term breaches of the river management regulations and minor chemicals spills, and had little or no environmental impact.

EMPLOYEES

At the end of 2010, Statkraft Energi AS had 921 full-time equivalents (903).

The Statkraft Group strives to attain a diverse working environment and promotes equal treatment in its recruitment and HR policy. Employees and others involved in Statkraft'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 Statkraft Group strives to attain an even gender distribution in the Group, and more women in managerial positions. In 2010, 19% (19%) of Statkraft Energi's employees were women and the percentage of women in managerial positions was 17 (18%). 29% of the board members were women.

The Board of Directors would like to thank the employees for their outstanding efforts in 2010.

HEALTH AND SAFETY

Two (eight) lost-time injuries and seven (ten) injuries without lost time were registered for own employees in 2010. The injuries were relatively minor. One of the lost-time injuries was caused by an employee stepping into a hole and breaking a bone in the sole of the foot. The other injury occurred during a snowmobile ride where the employee sprained his wrist. 13 injuries were reported with contractors in 2010.

The H1 absence indicator was 1.3 in 2010 (5.2), while the H2 injury indicator was 5.6 (11.8). Recent years have seen a positive development as regards health and safety.

Statkraft Energi AS works to increase the understanding for and compliance with safety requirements. The health and safety work is followed up directly in the projects.

During 2010 the Statkraft Group and therefore also Statkraft Energi AS had special emphasis on the work to develop and implement clear guidelines for investigation of serious incidents. In addition, a recently developed noncompliance system was applied to record, analyse and follow up incidents. Learning from recorded incidents is a key aspect of the system.

Absence due to illness in Statkraft Energi AS was 3.0% in 2010 (3.4%). The company has a target of absence due to illness of less than 4%.

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.

ALLOCATION OF THE NET PROFIT FOR THE YEAR

The net profit for the year after tax is NOK 5780 million. The Board of Directors proposes the following allocation of the annual profit for Statkraft Energi AS:

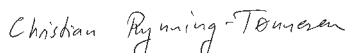
Amounts in NOK million	
Group contribution paid	4 632
Transferred to other equity	1 148
Total allocated	5 780

PROSPECTS

At the beginning of 2011, the resource situation in the Nordic region was relatively tight. The company therefore expects lower hydro-power production in 2011 compared with 2010. Forward prices for 2011 indicate continued relatively high prices in the Nordic region, and the prices in Germany are expected to rise further compared with 2010.

In 2011 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.

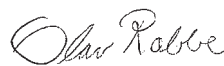
The Board of Statkraft Energi AS
Oslo, 15 March 2011


Christian Rønning-Tønnesen
Chair


Eli Skrøvset
Deputy chair


Kristin Steinfeldt-Foss
Board member


Arne Einungbrekke
Board member


Olav Rabbe
Board member


Øyvind Riber
Board member


Steinar Bysveen
Board member


Asbjørn Grøndt
Chief executive

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Income Statement

STATKRAFT ENERGI AS

NOK million	Note	2010	2009
Sales revenues	3	14 276	11 488
Other operating revenues	5	465	567
Gross operating revenues		14 741	12 055
Energy purchases	6	-1 324	-817
Transmission costs		-1 081	-684
Net operating revenues		12 336	10 554
Salaries and payroll costs	7,8	647	701
Depreciation and impairments	14	721	668
Property tax and licence fees	9	844	768
Other operating expenses	10	1 671	1 404
Operating expenses		3 883	3 541
Operating profit		8 453	7 013
Financial income	12	334	221
Financial expenses	12	-573	-665
Net financial items		-239	-444
Profit before tax		8 214	6 569
Tax expense	13	2 434	3 144
Net profit		5 780	3 425
Allocation of profit for the year			
Group contribution payable		4 632	3 141
Transferred to other equity		1 148	284
Total allocated		5 780	3 425

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STATKRAFT ENERGI AS

NOK million	Note	31.12.10	31.12.09
ASSETS			
Deferred tax asset	13	1 352	464
Property, plant and equipment	14	29 348	23 898
Investments in subsidiaries and associates	15	1 294	771
Other non-current financial assets	16	1 471	1 655
Non-current assets		33 465	26 788
Inventories	17	537	852
Receivables	18	9 357	3 460
Cash and cash equivalents	19	270	136
Current assets		10 164	4 448
Assets		43 629	31 236
EQUITY AND LIABILITIES			
Paid-in capital	20	12 197	10 061
Retained earnings	20	3 767	2 235
Equity		15 964	12 296
Provisions	21	5 872	5 706
Deferred tax	13	587	2
Long-term interest-bearing liabilities	22	7 601	5 928
Long-term liabilities		14 060	11 636
Short-term interest-bearing liabilities	23	740	-
Taxes payable	13	2 182	1 514
Other interest-free liabilities	24	10 683	5 790
Current liabilities		13 605	7 304
Equity and liabilities		43 629	31 236

The Board of Statkraft Energi AS
Oslo, 15 March 2011

Christian Rynning-Tønnesen
Christian Rynning-Tønnesen
Chair

Eli Skrøvet
Eli Skrøvet
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 Byeveen
Steinar Byeveen
Board member

Asbjørn Grundt
Asbjørn Grundt
Chief executive

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Cash Flow Statement

STATKRAFT ENERGI AS

NOK million	2010	2 009
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	8 214	6 569
Profit/loss on sale of non-current assets	-5	-5
Depreciation, amortisation and impairments	721	668
Taxes paid	-2 823	-1 857
Cash flow from operating activities	6 107	5 375
Change in long-term items	233	200
Changes in short-term items	-1 184	-2 670
Dividend from subsidiaries	62	-
Net cash flow from operating activities A	5 218	2 905
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-911	-766
Proceeds from sale of non-current assets	6	9
Business combinations, net liquidity	849	-
Net cash flow from investing activities B	-56	-757
CASH FLOW FROM FINANCING ACTIVITIES		
New interest-bearing debt	-	1 257
Repayment of long-term debt and subordinate loans	-666	-
Dividend and Group contribution paid	-4 362	-3 497
Net cash flow from financing activities C	-5 028	-2 240
Net change in cash and cash equivalents during the year A+B+C	134	-92
Cash and cash equivalents 1 Jan.	136	228
Cash and cash equivalents 31 Dec.*	270	136

* 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 sub-group is consolidated in Statkraft AS' consolidated accounts.

As of 2007, the Statkraft Group has prepared its accounts in accordance with the International Financial Reporting Standards (IFRS). Most of the companies which are part of the Group will continue to prepare their company accounts in accordance with Norwegian GAAP. This also applies to Statkraft Energi AS.

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 optimize future power sales revenues and to reduce risk. Financial instruments in energy trading are financial bilateral contracts, forward contracts (futures and forwards) and options. The contracts are traded on the exchanges, and also towards bilateral counterparties. The contracts are managed and followed up as one portfolio with common requirements for risk and earnings. The portfolio management is recognised in accordance with the lower value principle at a portfolio level. Forward currency exchange contracts are valued at fair value in the portfolio.

Trading and origination The company has separate portfolios for trading and origination that are managed independently of the company's expected power production. The trading portfolios consist of financial power contracts, and the company acts in the market with the aim of making a profit from short-term and long-term changes in the market prices for electrical power. The portfolios consist mainly of products traded on Nord Pool or bilateral standardised products. The portfolios are 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 includes both standard products and structured contracts. As there is no quoted market with satisfactory pricing for such non standard contracts, the 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.

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 pension is normally set as a percentage of the employee's salary. To be able to receive full pension, contributions will normally be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their pension proportionately reduced. 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. The present value of future benefits accrued at the balance sheet date is calculated by discounting estimated future payments at a risk-free interest rate. The pension liability is calculated annually by an independent actuary using linear accruals method.

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.

MAINTENANCE EXPENSES

Periodic maintenance is capitalised and depreciated over the period until the next corresponding maintenance is expected to be carried out. Daily maintenance is expensed continuously.

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

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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 is 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. The income aspect of the property tax is calculated on the same basis as the resource rent taxation, based on the plant's production hour by hour, multiplied by the spot price in the corresponding hour. Actual contract price is used for deliveries of concessionary power. The resource rent tax basis is arrived at by discounting the net operating revenues for the power plant from the previous five years by the stipulated interest rate for all perpetuity, with deduction of the current value of the power plant's estimated costs for replacing operating equipment. 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 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. Resource rent revenue is calculated on the basis of the individual power plant's production hour by hour, multiplied by the spot price for the corresponding hour. The actual contract price is applied for deliveries of concessionary power and power subject to physical contracts with a term exceeding seven years. 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. 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. From 2007 onwards negative resource rent revenues per power plant can be pooled with positive resource rent revenues for other power plants owned by the same tax entity. Negative resource rent revenues per power plant from the 2006 fiscal year or previous years are treated

in accordance with the old rules, and can therefore be carried forward with interest and offset against future positive resource rent revenues from the same power plant. Deferred tax assets linked to loss carryforwards and deferred tax 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 loans.

Non-current assets are recognised at cost and are written down to fair value when any impairment in value is not considered to be temporary in 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. Loan 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.

Costs incurred for own plant investments are recognised in the balance sheet as facilities under construction. The acquisition cost consists solely of directly attributable costs. Indirect administration costs in connection with the recording of own hours worked in the balance sheet are therefore not included.

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. Shares are written down to fair value where the impairment in value is attributable to causes that are not considered transitory and this is deemed necessary in accordance with generally accepted accounting practices. Impairments are reversed when the basis for the impairment no longer exists. Dividend and Group contribution are recognised as income in the same year that the subsidiary makes the provision. If the dividend exceeds the share of the retained earnings after the purchase, the excess share is deemed to represent a repayment of the invested capital and the distributions are deducted from the value of the investment in the balance sheet.

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.

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 terms. 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.

Restructuring provisions When restructuring measures are adopted, a provision is made for the anticipated expenses related to implementation of the measure. The provision is based on a best estimate and is reassessed at the end of each reporting period. Expenses which are incurred during the implementation of the restructuring are recognised against the provision as they are incurred.

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 in effect 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.

CHANGES TO ACCOUNTING POLICIES

Statkraft Energi AS is changing accounting policies as required by new or revised accounting standards. The effect of such changes is recognised against equity. The accounting standard concerning financial instruments has been updated effective 1 January 2010. Consequently, forward currency exchange contracts are valued at fair value in the balance sheet. Additionally, the accounting policy concerning Nordic Hydropower has changed from hedge accounting to the lower value principle. The effect of changes to accounting policies related to accounting assessment of Nordic Hydropower and forward currency exchange contracts, is shown in note 20.

CASH FLOW STATEMENT PRINCIPLES

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

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STATKRAFT ENERGI AS

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IMPORTANT EVENTS

2010

In 2010, Statkraft Energi AS entered into long-term contracts with Elkem, Norske Skog and Finnfjord 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. This will be considered in 2011.

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.

2009

Statkraft Energi AS has achieved stable operations and production. No significant operational interruptions were experienced in 2009.

Two new hydropower plants came online in 2009, Rødberg and Håvardvatn (owned by AS Tyssefaldene). This increased the annual mean production by 27 GWh (Statkraft Energi's share).

The Baltic Cable suffered a breakdown on 16 February, but was back in operation on 30 March 2009.

On 31 December 2008, the Statkraft Group took over significant hydropower, gas power and district heating assets through a swap deal with E.ON AG. Statkraft Energi AS devoted substantial resources in 2009 to integrate the new assets into the operative business. Through this take-over, the operative units in Statkraft Energi AS have had an expanded responsibility for operations.

Statkraft Energi AS assumed responsibility for the employees in Trondheim Energi Kraft AS from 1 January 2009 in preparation for the merger of the companies. In the autumn of 2009, a decision was made to merge Statkraft Energi AS with Statkraft I AS, with Statkraft Energi AS as the acquiring company. This was one of the stages of the merger process. Following the expiry of the creditor period, but prior to the merger becoming effective, a decision was made to cancel the merger. Notification of the cancellation of the merger has been sent to the Register of Business Enterprises. Merging the companies remains an objective.

Statkraft Energi AS and Boliden Odda have entered into a comprehensive agreement that was finalised in the second quarter and became effective as of 1 July. As part of this agreement, Statkraft Energi AS and Boliden Odda signed two long-term industrial power agreements for the period 2009-2030. The power delivery of about 20 TWh was the largest industrial power agreement Statkraft Energi AS has entered into since 1998.

In 2007, Statkraft Energi AS and the Swedish paper producer SCA entered into an agreement which included a ten-year power delivery of 500 GWh per year to the paper mill Ortviken Pappersbruk. This power delivery started in June 2009.

The financial crisis in the autumn of 2008 put the negotiations with the power-intensive industry relating to long-term power agreements on hold. With the exception of the agreement with Boliden Odda, no major long-term power agreements were entered into in 2009. However, the demand to cover the need for short-term trading solutions has been substantial. Statkraft Energi AS offered a solution to the power-intensive industry to cover this need, called energy service. This solution entailed that Statkraft Energi AS handled the companies' deliveries of spot power quoted on Nord Pool, as well as handling of the companies' imbalances vis-à-vis Statnett and the need for short-term financial or physical hedging transactions. In Statkraft Energi AS' total short-term industrial

portfolio, eleven companies in the power-intensive industry, owning a total of 16 plants, have entered into energy service agreements. The total annual consumption of these companies was about 9 TWh. The intra-Group power purchase agreement with Knapsack Power GmbH was terminated on 31 December 2009, with a compensation of NOK 80 million. The termination resulted in streamlining of the operations.

The largest agreement within trading and origination was entered into with Svenska Kraftnät. Statkraft Energi AS will deliver about 2.8 TWh to cover annual grid losses for 2010 and 2011.

02 → SEGMENT INFORMATION

Statkraft Energi AS's business activities lie within the Statkraft Group's Generation and Markets segment.

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 the event that 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. Necessary 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	2010	2009
Net physical spot sales	9 706	5 172
Concessionary sales at statutory prices	233	283
Industrial sales at statutory prices	1 533	1 671
Long-term sales contracts	2 660	2 369
Dynamic hedging	-771	1 654
Trading and origination	915	307
Other	-	32
Total	14 276	11 488

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

Annual delivery volume for industrial and concessionary sales at statutory prices:

TWh	2011	2012–2020	2021–
Industrial power	1.0	0.0	0.0
Concessionary power	2.6	2.6	2.6
Total fixed sales agreements	3.6	2.6	2.6

Price and volume for industrial and concessionary power at statutory prices:

	2010	2009
Industrial power – Volume (TWh)	7.9	8.9
Industrial power – Price (NOK/MWh)	19.3	19.7
Concessionary power – Volume (TWh)	2.4	2.3
Concessionary power – Price (NOK/MWh)	10.9	9.4

Regulatory-priced industrial contracts mostly run until the end of 2011. As the regulatory-priced contracts expire, these will mainly be replaced by long-term agreements.

04 → RESERVOIR LEVELS AND PRODUCTION (UNAUDITED)

TWh	Reservoir levels as of 31 Dec.		Reservoir capacity	Production ¹		
	2010	2009		2010	2009	Mean
Statkraft Energi AS	15.2	23.0	33.8	34.9	33.6	31.7

¹ After loss.

Inflow was lower in 2010 than in a normal year (approx. 89%). Reservoir levels at year-end were lower than normal levels.

05 → OTHER OPERATING REVENUES

NOK million	2010	2009
Power plant leasing revenues	126	135
Other leasing and service revenues	117	285
Other	222	147
Total	465	567

06 → ENERGY PURCHASES

Energy purchases are mainly related to purchase of gas for the gas power activities.

07 → SALARIES AND PAYROLL COSTS

NOK million	2010	2009
Salaries	503	500
Employer's national insurance contributions	79	74
Pension costs	48	111
Other benefits	17	16
Total	647	701

Pension costs are described in further details 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 Group management, with the exception of the chief executive, may qualify for an annual bonus of up to NOK 500 000. The bonus is disbursed on the basis of attainment of individually specified objectives. Group management has not received any remuneration or financial benefits from other companies in the same Group other than those mentioned above. No additional remuneration for special services over and above their normal managerial functions has been provided.

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 2010. Nor were any loans or pledges granted with respect to board members.

On average, the company had the equivalent of 916 full-time employees in 2010. The corresponding figure for 2009 was 831.

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 62-65 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	2010	2009
Current value of accrued pension entitlements for the year	86	75
Interest costs on pension liabilities	75	49
Return from pension assets	-41	-28
Recognised effect of pension plan changes	-90	-
Employer's national insurance contributions	18	15
Net pension costs incl. employer's contribution	48	111

Reconciliation of pension liabilities and pension fund assets

NOK million	2010	2009
Gross pension liabilities	1 887	1 730
Pension assets in the Norwegian Public Service Pension Fund	-1 010	-952
Employer's national insurance contributions	124	110
Net pension liabilities	1 001	888

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

NOK million	2010	2009
Cumulative amount recognised directly in equity before tax as of 1 Jan.	661	524
Recognised in the period	151	137
Cumulative amount recognised directly in equity before tax as of 31 Dec.	812	661
Recognised in equity after tax	585	476
Recognised in deferred tax	227	185

Financial assumptions:	31.12.10	01.01.10	31.12.09	01.01.09
Annual discount rate	3.70%	4.40%	4.40%	3.70%
Salary adjustment	4.00%	4.25%	4.25%	4.00%
Adjustment of current pensions	3.00%	4.00%	4.00%	3.75%
Adjustment of the National Insurance Scheme's basic amount (G)	3.75%	4.00%	4.00%	3.75%
Forecast voluntary exit				
· Up to age 45	3.50%	3.50%	3.50%	2.50%
· 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	3.70%	4.40%	4.40%	3.70%
Rate of inflation	2.00%	2.25%	2.25%	2.00%
Tendency to take early retirement (AFP)	30.00%	30.00%	30.00%	20.00%

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 this year.

09 → PROPERTY TAX AND LICENCE FEES

NOK million	2010	2009
Property tax	609	572
Licence fees	235	196
Total	844	768

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 5875 million and is discounted at an interest rate of 4 per cent in accordance with regulations relating to the adjustment of licence fees.

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10 → OTHER OPERATING EXPENSES

NOK million	2010	2009
Materials	102	96
Purchase of third-party services	390	254
Costs of power plants operated by third parties	663	400
Compensation payments	45	41
Other operating expenses	471	613
Total	1 671	1 404

R&D activities are expensed on an ongoing basis. An amount of NOK 19 million was recognised 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 264 million in 2010, the corresponding figure for 2009 was NOK 317 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.

The total fees paid to the auditor for auditing and other services were as follows:

Amounts in NOK ¹	2010	2009
Statutory auditing	1 409 220	1 573 683
Other certification services	125 869	-
Other services	-	73 015
Total	1 535 089	1 646 698

¹ The amounts are exclusive of VAT.

12 → FINANCIAL ITEMS

Financial income		
NOK million	2010	2009
Interest income from Group companies	45	109
Interest income other	10	3
Dividend	278	109
Other financial income	1	-
Total	334	221

Financial expenses		
NOK million	2010	2009
Interest expenses paid to Group companies	250	325
Currency losses	122	123
Imputed interests long-term energy contracts	208	193
Other financial expenses	10	24
Capitalized borrowing costs	-18	-
Total	573	665

13 → TAXES

The tax expense comprises the following:

NOK million	2010	2009
Income tax	2 325	1 674
Resource rent tax	1 658	1 072
Correction relating to previous years	19	11
Change in deferred tax	-1 568	387
Total tax expense in the income statement	2 434	3 144

Income tax payable:

Income taxes payable on the Group's profit for the year	2 325	1 674
Effect of Group contributions on tax liability	-1 801	-1 221
Income tax payable	524	453

Payable tax in the balance sheet:

Natural resource tax	491	453
Resource rent tax	1 658	1 072
Changes previous years	-	-11
Income tax exceeding natural resource tax	1 834	-
Effect of Group contributions on tax liability	-1 801	-
Tax payable in the balance sheet	2 182	1 514

Reconciliation of nominal tax rate and effective tax rate

NOK million	2010	2009
Profit before tax	8 214	6 569
Expected tax expense at a nominal rate of 28%	2 300	1 839
Effect on taxes of:		
Resource rent tax including change in deferred tax	109	1 299
Tax-free income	-76	-29
Changes relating to previous years	86	11
Other permanent differences, net	15	24
Total tax expense	2 434	3 144
Effective tax rate	30%	48%

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	2010	2009
Current assets/current liabilities	508	216
Property, plant and equipment	-1 375	229
Pension liabilities	280	-247
Total deferred tax asset	-587	198
Applied tax rate	28%	28%
NOK million	2010	2009
Temporary differences, resource rent tax	-1 558	-566
Resource rent carryforwards	2 910	831
Total deferred tax/tax asset	1 352	265
Applied tax rate	30%	30%

14 → PROPERTY, PLANT AND EQUIPMENT

NOK million	Regulation facilities	Turbines, generators etc.	Shares in power plants operated by other	Land, underground facilities, buildings, road, bridge and quay facilities	Facilities under construction	Other ²	Total
Cost 1 Jan. 2010	17 343	7 175	2 554	6 812	1 044	1 242	36 170
Additions merger	2 103	1 849	-	590	7	64	4 613
Additions 2010 ¹	73	55	36	2 534	707	24	3 429
Transferred from facilities under construction	63	116	-	59	-272	34	-
Disposals 2010	-	-	-	-1	-	-4	-5
Cum depr./impairments 31 Dec. 2010	-5 877	-5 086	-1 016	-2 015	-	-865	-14 859
Book value 31 Dec. 2010	13 705	4 109	1 574	7 979	1 486	495	29 348
Ordinary depreciation for the year	-270	-209	-56	-92	-	-94	-721
Impairments during the year	-	-	-	-	-	-	-

Depreciation period	30–75 years	15–40 years	5–50 years	0–75 years	3–40 years
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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 Produksjon	1972	As long as the concession runs	The lessor may after 50 years require the rental fee to be replaced by the capitalized amount
Bardufossen	Bardu	Troms Kraft Produksjon	1950	2010	Statkraft Energi's understanding is that the company has a right to redeem the lessee's assets at technical value at expiry of the rental period. The parties disagree, Statkraft Energi AS has initiated legal proceedings
Sundsfordvassdraget	Gildeskål	SKS Produksjon AS	1959/2006	As long as the concession runs	
Sundsfordvassdraget	Gildeskål	Sjøfossen Energi	2006	As long as the concession runs	
Sundsfordvassdraget	Gildeskål	Sjøfossen Energi	1947	2018	Statkraft has a right to redeem the lessee's assets at technical value of have it removed at expiry of the rental period A sales process is going on.
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	2011	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%	306
Mørkfoss-Solbergfoss	33.33%	10
Røldal-Suldal Kraft AS ¹	8.74%	-
I/S Sira-Kvina kraftselskap	32.10%	1 192
AS Tyssefaldene	60.17%	65
Total		1 573

¹ 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.

E-CO 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 Tysedal 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	Statkraft Energi AS
Operating revenues	61	60.17%	22
Operating expenses	-43	60.17%	-11
Finance	-3	60.17%	-2
Taxes	-4	60.17%	-2
Profit/loss	11		7
Specification of balance sheet items as of 31 Dec. 2010:	AS Tyssefaldene	Shareholding	Statkraft Energi AS
Non-current assets	135	60.17%	82
Current assets	93	60.17%	56
Long-term liabilities	58	60.17%	35
Current liabilities	71	60.17%	43
Equity	99	60.17%	60
Cost price for shares			52
Valuation difference fund (cf. Note 20)			8

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15 → SHARES IN SUBSIDIARIES AND ASSOCIATES

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

Shares in subsidiaries

NOK thousand	Registered office	Shareholding and voting rights	Share capital	Book value	Equity	Profit for 2010
Company name						
Baltic Cable AB	Malmö	66.7%	3 000	771 333	385 088	223 948
Trondheim Energi Kraft AS	Trondheim	100%	219 604	522 297	578 729	574 913
Sum				1 293 630		

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. Statkraft Energi AS has paid until 9 May 2010 a monthly rent for the utilization of the cable. After this date the company EMCC has been responsible for the market coupling of the cable. Trondheim Energi Kraft AS has merged the mainpart of the powerplants into Statkraft Energi AS during 2010. As of 31 December 2010 only a share (48.6%) of the powerplants in Orkla (KVO) remain in the company.

Shares in associates

NOK thousand	Shareholding and voting rights	Book value
Company name		
Aursjøveien AS	33.0%	17

16 → OTHER NON-CURRENT FINANCIAL ASSETS

NOK million	2010	2009
Loans to associates	21	24
Long-term receivables	274	309
Long-term power agreement	1 170	1 316
Other shares and ownership interests	6	6
Total	1 471	1 655

17 → INVENTORIES

NOK million	2010	2009
Spare parts	38	38
CO ₂ quotes held for trading purposes	53	12
Green certificates held for trading purposes	435	783
Gas inventories	11	19
Total	537	852

18 → RECEIVABLES

NOK million	2010	2009
Accounts receivable – external	1 614	1 062
Accounts receivable – Group	1 117	288
Accrued revenues etc.	-	377
Other receivables	693	145
Derivatives	813	150
Current receivables from Group companies	5 120	1 438
Total	9 357	3 460

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 1 Jan. 2009	5 500	3 053	1 508	-	2 029	12 090
Implementation effect upon transition to gross method	-	-	-	18	-	18
Profit for the year	-	-	-	-	3 425	3 425
Share of profit for the year AS Tyssefaldene	-	-	-	-14	14	-
Estimate deviation pensions	-	-	-	-	-98	-98
Recognised directly in equity AS Tyssefaldene	-	-	-	2	-	2
Group contribution paid	-	-	-	-	-3 141	-3 141
Equity as of 31 Dec. 2009	5 500	3 053	1 508	6	2 229	12 296
Implementation effect upon transition to gross method	-	-	-	-	-	-
Profit for the year	-	-	-	-	5 780	5 780
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 connected to the accounting treatment of Nordic Hydropower and forward currency exchange contracts	-	-	-	-	-130	-130
Group contribution paid	-	-	-	-	-4 632	-4 632
Equity as of 31 Dec. 2010	5 500	6 223	473	8	3 760	15 964

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).

Merger of powerplant business in Trondheim Energi Kraft AS

Names of companies merged into Statkraft Energi AS:

Stakraft I AS

Statkraft II AS

The justification for the merger between Statkraft Energi AS and Statkraft I AS and between Statkraft Energi AS and Statkraft II AS is as follows:

It is desirable to merge the power plant business in Trondheim Energi Kraft AS with the power plant business in Statkraft Energi AS in order to make the operation of the Statkraft Group's Norwegian power plants more efficient. It is required in accordance with the merger that Statkraft Energi AS becomes the owner of the power plant business in Trondheim Energi AS. In order to complete the merger in the shortest possible time, three companies have been established; Statkraft I AS, Statkraft II AS and Statkraft III AS.

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21 → PROVISIONS

NOK million	2010	2009
Pension liabilities	1 001	888
Provisions for annual compensation payments	488	374
Provision for losses on contracts	978	714
Other provisions	3 405	3 730
Total	5 872	5 706

Pension liabilities are described in further details in Note 8.

The item Other provisions includes prepayments of NOK 2925 million received in connection with future power sales agreements (NOK 3119 million). The largest of these are the agreement with Elsam and the Rana contract. In addition, liabilities include a gas agreement and a power sales agreement which are amortised until maturity.

22 → LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	2010	2009
Loans from Group companies	7 601	5 890
Other liabilities	-	38
Total	7 601	5 928

Nominal average interest rate NOK	3.44%	3.66%
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The loans are denominated in NOK.

	2011	2012	2013	2014	2015	After 2015
Maturity schedule, long-term liabilities	-	600	400	-	1 219	5 382
Maturity schedule long-term liabilities, short term	740	-	-	-	-	-

23 → SHORT-TERM INTEREST-BEARING LIABILITIES

NOK million	2010	2009
Loans from Group companies	740	-
Total	740	-

24 → OTHER INTEREST-FREE LIABILITIES

NOK million	2010	2009
Accounts payable – external	988	489
Accounts payable – Group	69	90
Indirect taxes payable	1 087	430
Other interest-free liabilities	872	321
Current liabilities to Group companies	6 301	4 460
Forward currency exchange contracts to Group companies	127	-
Provision for unrealized loss in accordance with the lower value principle	1 239	-
Total	10 683	5 790

Of short-term liabilities to Group companies for 2010, NOK 6433 million relate to group contributions paid for 2010. In 2009, the group contributions paid was NOK 4362 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 1199 million. As of 31 December 2010, the book value of the pledged assets in Statkraft Energi AS totalled NOK 4740 million.

Contractual obligations

Statkraft Energi AS has an obligation concerning a financial power transmission (import/export) agreement amounting to NOK 1019 million.

Guarantees

Statkraft Energi AS has total off-balance-sheet guarantees amounting to NOK 3070 million. Of this, NOK 3000 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

	31.12.10		31.12.09	
	Book value	Fair value	Book value	Fair value
Total	-127	-127	-	-12

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

	Fair value	Recognised	Fair value
NOK million	2010	changes in 2010	2009
Trading portfolio (external)	813	663	150

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 2010, fair value was broken down as follows per future time period:

NOK million	
2011	719
2012	93
2013	2
2014	-1
Total fair value 31 Dec. 2010	813

Commodity derivatives 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.

The physical sales obligations include statutory-priced industrial contracts, long-term sales contracts, concessionary power obligations, as well as miscellaneous free power and compensation power contracts. The majority of the statutory-priced industrial contracts will expire in the period leading up to 2011. The long-term contracts have varying terms, but the longest runs until 2030. Concessionary power agreements run in perpetuity. For some of these sales obligations the price is indexed to other market risks such as metals and foreign currency.

The financial contracts are both contracts traded via energy exchanges and bilateral contracts. These generally have terms of less than five years, though some bilateral financial contracts run until 2020. The perpetual concessionary power contracts have to some extent been renegotiated to provide financial settlement for shorter periods of time.

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 financial contracts in the portfolio are forward contracts for power, CO₂, gas, oil products and coal. The price development in the spot market for power, gas, the underlying commodities included in the indexing of the gas contracts and CO₂ therefore affect the gas power plants' earnings. Statkraft Energi AS engages in trading in accordance with the applicable mandates by locking in earnings when power prices are attractive relative to gas prices combined with attractive CO₂ costs. In addition, Statkraft Energi AS also engages in financial trading to maximise the revenues from Baltic Cable.

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.

The trading activities entail buying and selling standardised and liquid products. Power and CO₂ products are traded, as well as green certificates, gas and oil products. The contracts in the trading portfolio have durations ranging from zero to five years.

Origination activities (Origination portfolio and Statkraft Financial Energy portfolio) include both standardised products and structured contracts. Structured products may be energy contracts with a special hourly profile, long-term contracts or power contracts in different currencies. Listed liquid contracts such as system price, area prices and foreign currency are generally used to reduce the risk involved in trading in structured products and contracts. The majority of the contracts in the portfolio have terms of up to five years, though some contracts run until 2018.

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. Both methods calculate the maximum loss a portfolio can incur, with a given probability factor over a given period of time. Credit risk and operational risk are also quantified against the allocated risk capital.

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. Currency risk exposure is followed up continuously by Statkraft AS. Responsibility for entering into and following up positions is subject to division of responsibility and allocated to separate organisational units.

Interest risk The main part of Statkraft Energi's interest rate exposure is related to a long-term floating-rate loan from Group companies. Interest risk exposure is continually followed up by the section for risk management in Statkraft AS' financial department. The responsibility for entering into and following up positions is subject to division of responsibility and allocated to separate organisational units.

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. The counterparties are distributed into different categories. The internal credit rating is based on financial key figures. Bilateral contracts are subject to limits for each counterparty as regards volume, amount and duration. Statkraft Energi AS also has a separate category for counterparties with which the company will not engage for ethical reasons.

In order to reduce credit risk, bank guarantees are used in some cases when entering into agreements. The bank which issues the guarantee must be an internationally rated commercial bank. Parent company guarantees are also used. In such cases, the parent company is assessed and classified in the ordinary manner. Subsidiaries will of course never be rated higher than the parent company. In connection with bank guarantees and parent company guarantees, the counterparty will be classified in the same category as the issuer of the guarantee.

Statkraft Energi AS has netting agreements with several of its energy trading counterparties. In the event of default, the netting agreements give a right to a final settlement where all future contract positions are netted and settled.

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.

Statkraft Energi AS has good follow-up routines for ensuring that outstanding receivables are paid as agreed. Customer lists sorted by age are followed up continuously. If a contractual counterparty experiences payment problems, special procedures apply.

The risk of counterparties not being able to meet their obligations is considered to be limited. Historically, Statkraft Energi AS' losses on receivables have been limited.

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. The responsibility for entering into and following up positions is subject to division of responsibility and allocated to separate organisational units.

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.

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 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 mbH & Co.

Jørgen Kildahl (former Chief executive in Statkraft Energi AS) is a board Member of Multiconsult AS, which has sold services to Statkraft Energi AS.

The agreements have been entered into at market terms.

Auditor's Report

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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, which comprise the balance sheet as at 31 December 2010, and the income statement, showing a net profit of NOK 5,780 millions and 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 entity'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 give a true and fair view of the financial position of Statkraft Energi AS at 31 December 2010, 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 net 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 the company's 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, 15 March 2011
Deloitte AS

Ingebret G. Hisdal (signed)
State Authorised Public Accountant (Norway)

